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Commonwealth of Virginia Office of the State Inspector General

Virginia Racing Commission Performance Audit



COMMONWEALTH OF VIRGINIA
Office of the State Inspector General

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February 12, 2025

The Honorable Glenn Youngkin
Governor of Virginia
P.O. Box 1475
Richmond, VA 23219

Dear Governor Youngkin,

The Office of the State Inspector General contracted with SC&H Attest Services, P.C., a wholly owned affiliate of SC&H Group, Inc. (SC&H), to conduct a performance audit of the Virginia Racing Commission (VRC or the Commission). The final report is below, and the VRC's corrective action plan is attached as Appendix I to the report.

OSIG would like to thank Waqas Ahmed, Executive Secretary, and his staff for their cooperation and assistance during this audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael C. Westfall".

Michael C. Westfall, CPA
State Inspector General

cc: John Littel, Chief of Staff to Governor Youngkin
Justin Vélez-Hagan, Deputy Chief of Staff to Governor Youngkin
Kate Stockhausen, Assistant Deputy Chief of Staff to Governor Youngkin
The Honorable Matthew Lohr, Secretary of Agriculture and Forestry
Beth Green, Deputy Secretary of Agriculture and Forestry
The Honorable David W. Marsden, Chair of the Senate Agriculture, Conservation, and Natural Resources Committee
The Honorable Alfonso H. Lopez, Chair of the House Agriculture, Chesapeake, and Natural Resources Committee
The Honorable Jeremy S. McPike, Chair of the Senate General Laws – Gaming Subcommittee
The Honorable Paul E. Krizek, Chair of the House General Laws – ABC/Gaming Subcommittee
Waqas Ahmed, VRC Executive Secretary

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I. Executive Summary

SC&H Attest Services, P.C., a wholly owned affiliate of SC&H Group, Inc. (SC&H) was engaged by the Virginia Office of the State Inspector General (OSIG) to conduct a performance audit (audit) of the Virginia Racing Commission (VRC or the Commission), collectively, audit. The audit was performed in three phases: planning, fieldwork, and reporting.

The VRC serves the Commonwealth of Virginia (Virginia or the Commonwealth) as the authority in horse racing with pari-mutuel wagering. Established in 1989, the VRC is entrusted with absolute power to prescribe regulations and conditions under which racing and wagering shall be conducted in the Commonwealth, to maintain horse racing free of corrupt, incompetent or dishonest practices to ensure integrity in horse racing.¹ The VRC must also encourage participation by local individuals and businesses in those activities associated with horse racing. Thus, the VRC has a dual mandate of promoting and regulating. Operations for the VRC are funded by license taxes and fees established by laws referenced in the Code of Virginia.

The VRC oversees 12 pari-mutuel wagering facilities and racetracks throughout the Commonwealth, which collected over \$21 million from wagering tax revenues in fiscal year (FY) 2023 (July 1, 2022 – June 30, 2023).² Pari-mutuel wagering is a wagering system on horse races in which those who wager on horses that finish in the position or positions for which wagers are taken share in the total amounts wagered, plus any amounts provided by a licensee, less deductions required or permitted by law and includes pari-mutuel wagering on historical horse racing and simulcast horse racing originating within the Commonwealth or from any other jurisdiction.³

At the commencement of this audit in April 2024, the VRC employed six full-time employees and was overseen by five Commissioners appointed by the Governor of Virginia.

The VRC's activities include the licensing of individuals employed at each of the pari-mutuel wagering facilities and racetracks, individuals and athletes involved with the ownership and care of horses racing at Commission racetracks, and external parties who access facilities on a regular basis. The VRC is also responsible for the financial oversight of horse racing in Virginia including revenue reporting on earnings from pari-mutuel wagering activities, calculation and disbursement of breakage and benevolence funds, and managing the Virginia Breeders Fund. Finally, the VRC ensures compliance and integrity in horse racing and pari-mutuel wagering by performing routine inspections of facilities and racetracks, drug testing and racetrack supervision, and ensuring transparency through FOIA compliance and reporting.

The following provides a summary of the audit objectives, procedures, and results. Additional details surrounding the audit can be found following the Executive Summary.

Audit Objectives

1. Review current licensing and permitting standards, requirements, and exemptions.
2. Evaluate the structure of the Commission including any changes needed to address the Commission's knowledge, experience, and level of training needed to effectively regulate the horse racing industry.

¹ Code of Virginia: § 59.1-364. Control of racing with pari-mutuel wagering.

² Virginia Racing Commission 2023 Annual Report.

³ Code of Virginia: § 59.1-365. Definitions.

3. Review net revenue dedicated to horse racing with pari-mutuel wagering and which types of associated activities are excluded from this calculation.
4. Evaluate the current allocation of breakage funds, the budgeting process for any administrative costs or expenditures, and financial audit procedures conducted by the Commission.
5. Evaluate the adequacy of enforcement and resources dedicated to oversight activities of the Commission.
6. Evaluate the structure of the Commission including any changes needed to minimize or eliminate conflicts of interest.

Performance Audit Summary

SC&H conducted the audit with the following three-phased approach.

1. Phase 1, Planning: Understand processes, evaluate risks/controls, and develop audit program.
2. Phase 2, Fieldwork: Conduct evaluation procedures to achieve performance audit objectives.
3. Phase 3, Reporting: Aggregate and communicate findings and report results.

Summary of Results

The VRC is the regulatory authority responsible for performing multiple operations to oversee and administer pari-mutuel wagering activities across the Commonwealth. The VRC further provides support for the facilities and racetracks operating across the Commonwealth to ensure consistency of operations, the performance of fair betting practices, and performance of secure cash handling practices.

During the audit, the VRC experienced leadership turnover, including the hiring of a new Executive Secretary. The new Executive Secretary began proactively reviewing and revising VRC processes upon hiring and the risks and opportunities identified within this report will assist with a continuation of implementation of change and enhancements to processes. Through the transition, the current Executive Secretary supported the audit and was readily available to assist in its completion. The personnel at the audited locations were also supportive and accommodating during onsite visits and with audit support requests.

SC&H thanks the Commonwealth, the VRC Executive Secretary and employees, facility personnel, and personnel at Colonial Downs and Shenandoah Downs whose assistance and availability were vital during the audit process.

Based on the audit procedures performed, opportunities exist to mitigate risks within licensing, pari-mutuel revenue and breakage reporting, structural, and enforcement processes. Seven reportable observations and associated recommendations are included as a result of this audit, related to:

- a. Development of organizational policies and procedures related to administration, licensing, compliance, and enforcement of pari-mutuel activities.
- b. Enhancement to procedures related to issuance and enforcement of VRC licenses.
- c. Improvement and enhancement of documentation completion and maintenance related to multiple processes.
- d. Enhancement of cash handling procedures to mitigate risk.
- e. Development of procedures related to licensed facility oversight.
- f. Improvement to documentation of breakage and contribution calculations.
- g. Evaluation of current resources and/or organizational structure to enhance performance and oversight of various functions.

II. Performance Audit Summary

Background

Commission Background

The VRC serves the Commonwealth of Virginia (Virginia or the Commonwealth) as its sole horse racing and gambling authority. Established in 1989, the VRC oversees 12 pari-mutuel wagering facilities and racetracks throughout the Commonwealth which collected over \$21 million from wagering tax revenues in fiscal year (FY) 2023 (July 1, 2022 – June 30, 2023).⁴ Pari-mutuel wagering is a wagering system in which the entire amount of money bet on a certain type of wager is placed into a pool separate from the money bet on other types of wagers from which a commission is deducted before the remaining funds are paid out to holders of winning tickets for that wager.

Commission Structure

At the commencement of this audit in April 2024, the VRC employed six full-time employees and was overseen by five Commissioners appointed by the Governor of Virginia. The six full-time, as well as other part-time, temporary, and/or key positions identified within VRC, and a summary of duties and responsibilities relevant to the areas included in the scope of this audit are as follows:⁵

1. Executive Secretary
 - a. Oversees day-to-day administrative operations of VRC.
 - b. Represents VRC before the General Assembly and any of its committees on matters relating to the administration or regulations of VRC when requested to appear.
 - c. Facilitates Commission meetings.
 - d. Develops and maintains communications and relationships with other state agencies, horse industry stakeholders, the news media and the national horse racing industry including other Racing Commissions.
2. Director of Operations
 - a. Coordinates, directs, and plans supportive services for the VRC using a range of administrative and business functions.
 - b. Provides executive level support to the Executive Secretary, Equine Medical Director, Director of Pari-Mutuels and Licensing, and Stewards/Judges.
 - c. Coordinates all aspects of the agency administrative processes.
3. Director of Pari-Mutuels and Licensing
 - a. Regulates all forms of pari-mutuel wagering on live horseracing conducted within the Commonwealth.
 - b. Ensures compliance with all relevant regulations by making the necessary payments to the VRC, Breeders Fund, and localities in accordance with the Code of Virginia.
 - c. Issues licenses to all eligible participants, licensee employees, and vendors after conducting required background investigations.
 - d. Assists in post-race testing processes of horses.
 - e. Serves as the Fiscal Officer for the agency.
4. Pari-Mutuel Wagering and Licensing Coordinator
 - a. Regulates all forms of pari-mutuel wagering on live horseracing conducted within the Commonwealth.

⁴ Virginia Racing Commission 2023 Annual Report.

⁵ VRC Wage Position Descriptions Form.

- b. Ensures compliance with all relevant regulations by making the necessary payments to the VRC, Breeders Fund, and localities in accordance with the Code of Virginia.
 - c. Issues licenses to all eligible participants, licensee employees, and vendors after conducting required background investigations.
- 5. Licensing and Pari-Mutuel Wagering Assistant
 - a. Processes license applications for racing participants and licensee employees.
 - b. Submits fingerprints for background checks of license applicants.
 - c. Assists in tracking of the fulfillment of licensee requirements.
 - d. Inputs the daily pari-mutuel activity from live racing, satellite wagering facilities, and historical horse racing into Excel spreadsheets.
- 6. Commission Investigator
 - a. Enforces laws and regulations pertaining to pari-mutuel wagering in the Commonwealth.
 - b. Provides the necessary expertise to: manage assigned investigations pertaining to racetracks and satellite wagering facilities; participate in background investigations for potential licensees, inspections of facilities, barn, and stable area; conduct authorized searches; perform necessary interviews for violations; and represent the VRC as needed at hearings, meetings, or conferences related to horse racing and wagering.
- 7. Equine Medical Director
 - a. Oversees the development, implementation, and enforcement of regulations and best practices that impact equine health and safety policies; serves as the primary advisor to the state regulatory agency, the racetracks and the horsemen on all matters related to equine health and safety; and has jurisdiction over all veterinarians practicing at the racetracks.
 - b. Is responsible for administrative management, staff supervision, budget, planning, goals and objectives, quality assurance to ensure compliance with AIS laws and regulations, agency policies, and the promotion of economic development in the Commonwealth of Virginia.
- 8. Commission Veterinarian
 - a. Enforces laws and regulations pertaining to pari-mutuel horseracing in the Commonwealth, with an emphasis on the safety, health, and welfare of racehorses.
 - b. Provides the necessary expertise to: advise Stewards on matters relating to safety, medication and drug testing; ensure compliance of racing regulations by attending veterinarians permitted by the VRC; establish that racehorses are fit and ready for racing; oversee safety and integrity on the racetrack during live racing; assure honesty and impartiality in the day-to-day operation of the test barn; and represent the VRC as needed at hearings, meetings, or conferences related to horse racing.
- 9. Historical Horse Racing Compliance Specialist
 - a. Assists the Director of Pari-Mutuels and Licensing in reviewing facility license applications and procedures.
 - b. Responsible for ensuring compliance with facility licensing requirements specified by the Code of Virginia and the VRC.
- 10. Licensing Compliance Technician
 - a. Assists the Director of Pari Mutuels and Licensing with licensing procedures.
 - b. Ensures compliance with licensing requirements specified by the Code of Virginia and the VRC.

The VRC is overseen by five Commissioners who report to the Governor of Virginia. The Commission has supervisory power over the VRC and all pari-mutuel horse racing in the Commonwealth. Among its responsibilities, the Commission is responsible for approving appropriations, appointing the Executive Secretary and ensuring those employed by the agency comply with statutory requirements, oversee

hearings relating to licensure actions when appropriate, enact administrative regulations, and approve budgets and other financial information.

The Commission meets four times a year. These meetings serve to update stakeholders on changes, such as the VRC's new hires/terminations and changes in regulatory action, which the Commission is considering. These meetings also serve as the official forum for committee members to vote to approve items such as racetracks, wagering facilities, licenses, racing officials, and expenditures. A Notice of Meeting is provided to participants by the VRC prior to each commission meeting with information such as the meeting time, date, and location.

The VRC operates from a central office located in New Kent, Virginia and has additional offices to oversee harness and steeplechase racing in Shenandoah and Fauquier County, respectively. The racetracks and pari-mutuel wagering facilities which report to VRC are comprised of racetracks, satellite wagering/historical horse racing (HHR) betting locations, and off-track betting locations (OTB's). They include the following:

Racetracks

1. Great Meadow Racecourse
2. Shenandoah Downs
3. Colonial Downs

Satellite Wagering/HHR Betting Locations

1. Rosie's Vinton
2. Rosie's Richmond
3. Rosie's Hampton
4. Rosie's Collinsville
5. Rosie's Dumfries
6. Rosie's Hampton
7. Rosie's Emporia
8. Rosie's New Kent

Off-Track Betting Locations

1. Breakers Sports Grille, Richmond, VA
2. Buckets Bar and Grill, Chesapeake, VA

Licensing and Permitting

The VRC is the Commonwealth's single authority for licensing and permitting racetracks, wagering facilities, and individuals for horse racing in the Commonwealth. The processes for licensing and permitting each individual or entity are based on the individual or entity applying. All applications are tracked in an internal spreadsheet maintained by the Director of Pari-Mutuels and Licensing, which includes information such as: in-process applications, deadlines, paid and outstanding fees, etc.

Permitting Individuals

Application Submission

All employees who work at a racetrack or wagering facility are required to be permitted according to the Virginia Administrative Code.⁶ These individuals seeking a license are required to submit an application to the VRC, which is located on their website.⁷ Specific types of applications are dependent upon the license

⁶ Virginia Administrative Code, Title 11. Gaming (11VAC10-60-10).

⁷ Link to licenses: <https://vrc.virginia.gov/racinglicenses.shtml>

for which the applicant is applying. Applications may vary based on the individual who will obtain the license, such as owners, but not limited to, vendors, trainers, agents, and veterinarians. The VRC only accepts applications sent to them by mail, delivered in person at the VRC's New Kent office, or delivered in-person at a temporary office during race days to maintain security, ensure accuracy, and comply with statutory requirements. Before submitting an application for a permit as a participant, the applicant shall consult the fee schedule⁸ of the VRC to ascertain the applicable fee, make out a check or money order payable to the VRC or pay in cash or with a credit card the full amount of the fee, and submit the fee with the application.⁹

Application Review

The Director of Pari-Mutuels and Licensing reviews the license application to ensure there are no outstanding issues which may deem the applicant ineligible from obtaining the license. This review includes reviewing the ARCI, Pathway database, and United States Trotting Association (USTA) systems for any misdemeanors or disciplinary actions from other states. The United States Trotting Association (USTA) systems is the source for complete and official data on Standardbred racing, breeding, and data on the individuals who train, ride, own, and breed Standardbred horses. License holders must not have any criminal offenses or outstanding fines on their record which contradict the integrity of the license-holder. Individuals can be deemed ineligible if they have any of the following in their record:¹⁰

1. Larceny or theft offenses, including robbery, embezzlement, and credit card theft
2. Fraud offenses, including forgery uttering, and credit card fraud
3. Arson offenses
4. Serious violent offenses, including murder, rape, forcible sodomy, crimes against nature, and aggravated assault or maiming

Special Requirements for Individual Licenses¹¹

Some parties may need to take additional steps to be licensed by the VRC depending on the type of license for which they are applying. For example, licensee employers or horse owners may need to submit compensation insurance information and proof of ownership of the horse(s) to obtain a license.¹² All applicants, however, must go through the same initial process of application, fingerprinting, and background check..

Licensing Pari-Mutuel Gambling Centers & Racetracks

The VRC licenses two different methods of wagering in addition to wagering conducted at racetracks for live and historical horse racing: Satellite Wagering Facilities (SWF) and Advanced Deposit Wagering (ADW).

1. SWF: SWF refers to all property at which simulcast horse racing is received for the purposes of pari-mutuel wagering, and any additional areas designated by the Commission.¹³ These facilities receive annual licenses that must be renewed each year.
2. ADW: ADW provide a means of pari-mutuel wagering in which an individual may establish an account with an entity, who is licensed by the VRC, to place pari-mutuel wagers electronically through a mobile application.

⁸ Virginia Administrative Code (11VAC10-60-15).

⁹ Virginia Administrative Code (11VAC10-60-10-B).

¹⁰ Virginia Administrative Code, Title 11. Gaming Chapter 60 Participants.

¹¹ Virginia Administrative Code, Title 11. Gaming Chapter 60 Participants.

¹² Virginia Administrative Code, Title 11. Gaming Chapter 60-40 Horse Owner.

¹³ 11VAC10-40-10. Definitions.

The VRC is also responsible for licensing racetrack facilities. The license must be submitted according to the Code 59.1 Chapter 29 Article 2 and facilities are required to pay a set fee that changes yearly while racetracks are required to pay a standard \$100 fee per race day.

Once the facility application is submitted, the Director of Pari-Mutuels and Licensing reviews the application and processes any fees owed. All payments from wagering facilities and racetracks are paid to the VRC electronically via automated clearing house (ACH). Once received, the Director of Pari-Mutuels and Licensing confirms the payment is correct before notifying the Department of Accounts (DOA) of the proper account to record the funds.

The Historic Horse Racing (HHR) Specialist, a part-time wage employee, and the Director of Pari-Mutuel Wagering and Licensing then review the application, facility's standard operating procedures (SOP), security plans, minimum internal controls (MICs), etc. If there are any concerns with the application, the Historic Horse Racing (HHR) Specialist and the Director of Pari-Mutuel Wagering and Licensing work with the facility or racetrack to resolve them. Once the Historic Horse Racing Specialist and the Director of Pari-Mutuel Wagering and Licensing feel the application has met the minimum requirements, they notify the Executive Secretary, who reviews and stamps the application for approval and writes a memo notifying the Commissioners.

The Executive Secretary returns both the memo and the application to the Director of Pari-Mutuels and Licensing. The Director of Pari-Mutuels and Licensing then prepares the application for an upcoming meeting vote by the Commissioners. The meeting agenda and any materials, such as the proposed application, are prepared by the Director of Operations who provides them to the Commissioners prior to the meeting, allowing them time to review. During the meeting, the Commissioners then vote to approve or reject the license. An application is approved or rejected based on a simple majority vote. If the Commission votes to approve, the facility will receive a notification and certificate of licensure from the VRC. This license allows the facility to conduct racing and pari-mutuel wagering activities at the applicable location for a year. Gambling centers and racetracks must submit a renewal application every year in order to remain licensed.

Pari-Mutuel Wagering and Racetrack Revenue Reporting

A component of the VRC's business operations is receiving and reviewing revenue reporting from wagering facilities, both in-person and online through SWF and ADW, and individual racetracks. All wagering done in-person, whether at a gambling center or at a racetrack, is usually paid in cash, but could also be in the form of freeplays or credits.

Revenue Reporting – Pari-Mutuel Gambling Sites

Totalisator (Tote) is a pool betting system utilized by the VRC where the weight of money for a selection of a horse in a race determines the returns. Every day, all pari-mutuel sites have their tote recorded by a tote report system. These systems are licensed under all racing facilities in the country and adhere to reporting standards. There are two reports in total: one report for traditional wagering, titled Community Liability Reports, and one report for HHR, titled Pool Change Summary by Location. The tote reports and the spreadsheet allow the Director of Pari-Mutuels and Licensing to understand what is owed to the Commonwealth as revenue from gambling that day. The tote reports are received by the VRC and entered into the "Pari-Mutuel Wagering by Source" spreadsheet that is maintained by the Director of Pari-Mutuels and Licensing. This spreadsheet tracks the amounts gambled, amounts won, amounts received by gambling facilities, and the amounts in breakage.

Payments are made via check or electronic ACH payment from the sites to the VRC. The Director of Pari-Mutuels and Licensing reconciles the tote reports to the payment information. The DOA is then notified regarding the amount incoming and how to record the payment.

Every week, the Director of Pari-Mutuels and Licensing obtains an ACH Transfer Report and payment by the gambling centers and racetracks. The ACH Transfer Report is generated by the gambling centers and racetracks and emailed to the VRC and computes the pari-mutuel taxes paid to the Commonwealth and each locality where wagering takes place. The data from this report is entered into a spreadsheet tracking wagering by location by the Director of Pari-Mutuels and Licensing, before totaling the amounts in the bettor win/loss column and comparing the total to the settlements from the tote reports to ensure there were no mathematical errors in what was won/lost. The Director of Pari-Mutuels and Licensing performs similar reconciliations with the Tote reports to ensure the total handle matches the net sales from each location. If any discrepancies in the amount owed/paid are found, the Director of Pari-Mutuels and Licensing reviews to ensure the amounts entered are correct and reports any discrepancies to the gambling center or racetrack, along with the DOA. These discrepancies are corrected by instructing the wagering center or racetrack to debit or credit the payment for the following week.¹⁴

Calculation of Breakage Funds

Breakage represents the rounding down of payouts to the nearest permissible increment as part of standard pari-mutuel wagering practices. Each wagering site rounds down to the nearest penny for the return from winning pari-mutuel racing wagers; the accumulation of this breakage creates the Breakage Fund. For example, where the winning dividend is \$10.7601, the payout is rounded down to \$10.70 for every \$1 agency wager. The \$0.0601 is the retained breakage. 70% of the Breakage Fund goes to the racetrack. This funding is separate from the commission the racetrack receives and can go towards expenses such as racetrack improvements. The remaining 30% of the Breakage Fund goes towards the Benevolence Fund.

Inspections and Enforcement Activities

Site Inspections

All facilities (racetracks, satellite wagering facilities, and advanced deposit wagering facilities) that are licensed by the VRC are subject to receive unannounced inspections at least twice a month to ensure they are adequate for safe and secure wagering. The inspection is done by the HHR Specialist, Director of Pari-Mutuels and Licensing, or Commission Investigator. During the inspection, the inspector completes and signs a VRC HHR Facility Inspection Report C which includes any part of the facility that does not comply with the VRC standards (examples include count room security, parking lot surveillance, and HHR IT room security). Before the next inspection, the Investigator reviews the previous report to confirm if the facility has fixed any problem that was found in the prior inspection. If the investigator finds that the facility did not fix the issue, they will be fined until the issue is resolved.

Oversight/Enforcement of Licenses

The VRC, as the regulatory authority, is responsible for oversight and enforcement, while licensees are required to carry out activities in order to comply with the rules and laws set forth by the VRC and the Commonwealth. For any individual incident(s), a Compliance Director or equivalent from a wagering center or racetrack sends an incident report to the Director of Pari-Mutuels and Licensing. This incident report will include what the individual did and any legal ramifications of the incident. The VRC reviews the incident(s) and determines the level of enforcement, if necessary. The punishment for infractions can range from issuing a warning, to fines, to suspending or revoking a license. Additionally, the VRC has discretion when

¹⁴ Procedures for the Weekly Reconciliation of Pari-Mutuel Taxes.

considering suspensions imposed by racing commissions in other states. While it often upholds such suspensions, this is not automatic. If the suspension is based on a law or regulation that differs from Virginia's legal framework, the VRC evaluates whether the disqualification aligns with its own statutes and has the authority to decide accordingly. If an individual owes fines in another state, that state suspends their license until the fine is paid. Regarding Horsemen suspension, stewards receive notifications when a suspension occurs in their jurisdiction. Stewards throughout the U.S. connect with one another via email, Horseracing Integrity and Safety Authority (HISA), and the Association of Racing Commissioners International (ARCI) Website to remain up to date with suspensions. The HISA and ARCI website are checked before every racing day and are primary sources of information regarding the current standing of licensees in neighboring jurisdictions. If the license holder commits a crime, it must be submitted to the VRC within 10 days. The VRC reviews the crime committed to determine whether or not it warrants termination of their license. Failure to disclose any crimes results in the risk of immediate termination of their license once identified by the VRC.

Colonial Downs Group

Background

Churchill Downs, Inc. is a nationwide gaming company headquartered in Louisville, Kentucky. Churchill Downs Inc. acquired the previous owners of Colonial Downs Group (CDG) track and satellite wagering facilities, the Rosie's Gaming Emporium Franchise, and Buckets Bar and Grill and Breakers Sports Grille.¹⁵ Colonial Downs Racetrack, the off-track betting facilities, and all Rosie's Gaming Emporium locations are subject to oversight by the VRC. The VRC's oversight includes all licensing, revenue reporting and inspections performed for these sites.

Colonial Downs Racetrack is the largest racetrack in the Commonwealth with over 13,000 seats and a 1.25-mile track. The track itself is owned by Churchill Downs, Inc. Colonial Downs was opened in 1997 and has conducted more than 25 races per year since its acquisition by Churchill Downs, Inc in 2022.

Rosie's Gaming Emporium is a chain of satellite wagering facilities located across the Commonwealth. There are currently eight satellite wagering facilities: Rosie's locations (New Kent, Vinton, Richmond, Hampton, Dumfries, Emporia, and Collinsville), and The Rose, in Dumfries, VA that finished construction and was subsequently approved in October 2024. CDG owns all Rosie's locations across the Commonwealth and oversees their operations entirely. The Rosies facilities operate as both an OTB location and HHR location.

The two SFWs, Buckets Bar and Grill and Breakers Sports Grille, are licensed in the Commonwealth as well. Buckets Bar and Grill and Breakers Sports Grille are two restaurants that serve as simulcasting outlets for off-track betting for the Colonial Downs Group (CDG). Each facility leases out the space for these off-track betting facilities to CDG for a monthly fee based on the agreed upon contract between the facility and CDG. These facilities were previously under the management of the Virginia Equine Alliance (VEA) who sold the assets and operations in a five-year installment sale to CDG. The final payment and full transfer took place in Q1 of 2024.

Licensing and Permitting

The Colonial Downs Racetrack and the Rosie's satellite wagering facilities go through a separate licensing process for their racetrack, satellite wagering facilities, and employees.

¹⁵ <https://ir.churchilldownsincorporated.com/news-releases/news-release-details/churchill-downs-incorporated-completes-acquisition-substantially>

Racetrack/Satellite Wagering Facilities/Off-Track Locations Licenses and Fees

The Colonial Downs Group (CDG) submits two facility applications to the VRC on an annual basis, one for the Colonial Downs Racetrack and one combined for all the Rosie's satellite wagering facilities and the off-track betting locations. CDG's Director of Compliance is responsible for preparing and submitting the application to the VRC, along with a check for all application fees. These application fees are \$1,000 to submit the application, \$100 per proposed race day, and \$500 for each satellite wagering facility. Once submitted to the VRC, the application is reviewed by the Director of Pari-Mutuels and Licensing and the HHR Compliance Specialist who works with CDG to address or revise any questions or concerns related to the application. Once the application has been reviewed by the VRC staff, representatives from CDG will attend the Commission meeting, where Commissioners discuss and vote on whether to approve or reject the application. CDG representatives are in attendance to address any questions the Commissioners may have. The licensing process for Colonial Downs Racetrack and SWF takes approximately three to six months from application submission to acceptance.

Individual Licenses

CDG requires, as part of the onboarding process, all employees who are hired to work at a racetrack, off-track betting location or satellite wagering facility to fill out an application with the VRC as well as schedule and conduct fingerprinting. If any issues arise during the background check, the individual's license may be revoked or suspended. In such a case, the VRC Director of Pari-Mutuels and Licensing would notify CDG, who are responsible for terminating or reassigning the employee, if possible. Off-track betting location employees who are involved with wagering operations are required to be licensed. These positions include Tellers, and the Wagering Coordinators. These employees receive their own CDG identification and are paid as CDG employees. The employees handling wagers are separate from the restaurant employees (e.g., waiters, chef, restaurant manager etc.). Restaurant employees are not able to access the wagering systems.

Pari-Mutuel Wagering Revenue

All revenue reported to the CDG comes in the form of a handle. The handle is the total amount gambled in a period (e.g., day, week, month, etc.). Per Commonwealth requirements, all bets are made with cash. Each Rosie's location and the Colonial Downs Racetrack utilize the Exakta and Ainsworth Gaming Technology (AGT) systems to record the total handle and generate the tote report at the end of the day. Churchill Downs, Inc. also uses an internal system called Aristocrat which tracks all amounts wagered through HHR machines. At the close of gambling for the day, the Tote reports are reconciled to the tote reporting systems (AGT, Exakta, United Tote) for each location to ensure the amounts agree by the Game Floor Manager.

Churchill Downs, Inc., as a publicly traded company, has an internal audit department and contracts with an external audit firm (Price Waterhouse-Coopers (PWC)) to conduct external financial audits in compliance with SEC regulations. The internal audit team conducts quarterly inspections of the racetrack and satellite wagering facilities to ensure compliance with all regulations and company standards of the sites. For their awareness, Churchill Downs provides a copy of the final external audit report to the VRC.

Calculation of Breakage Funds

On an annual basis, the VRC calculates the amount owed by CDG to the Benevolence Fund based on their annual breakage and notifies Churchill Downs of their owed amount via a calculation spreadsheet. Once received, CDG pays the amounts owed directly to the Virginia Horsemen's Benevolent & Protective Association (VHBPA). The VRC does not receive any of the funds.

Inspections & Enforcement Activities

The VRC conducts random, bi-weekly inspections of the Colonial Downs and Rosie's facilities to ensure the safety and security of the facilities. The inspection includes the parking lot, entrance, ID checks, security and more. Once complete, the VRC provides Churchill Downs with copies of the final inspection documentation. If there were any issues reported within the documentation, Churchill Downs works with the applicable site to remediate.

On race days, Colonial Downs employs a security team to ensure:

1. All race day participants have licenses.
2. Patrons who are not of gambling age cannot enter gambling sites or consume alcohol.
3. Monitoring of the teller(s) and making sure no cash is stolen, either by patrons or the teller at the end of the race day.

The VRC does not conduct specific checks of controls or facilities at OTBs. However, Colonial Downs Group employs basic controls to ensure the safety and security of wagering at the locations such as surveillance equipment and password protected wagering systems that only employees of CDG can access.

Virginia Equine Alliance at Shenandoah Downs

Background

The Virginia Equine Alliance (VEA) is a 501(c)(6) organization recognized by the VRC as the non-profit stakeholder to represent the interest of horsemen at the VRC meetings. The VEA consists of the Virginia Harness Horse Association (VHHA), the Virginia Horsemen's Benevolent & Protective Association (VHBPA), the Virginia Gold Cup Association, and the Virginia Thoroughbred Association. The VEA previously owned and operated two Off-Track betting locations - Buckets Bar and Grill and Breakers Sports Bar. These assets were sold to CDG which officially transferred ownership in Q1 of 2024 as mentioned above in the Background section of this report.

Shenandoah Downs is a half-mile oval track located at the Shenandoah County Fairgrounds in Woodstock, Virginia. The racetrack is leased by the VEA who conducts and operates live harness racing with pari-mutuel wagering during two seasons – Spring Harness Racing Season (April – May) and Fall Harness Racing Season (September – October).

The VEA, through live harness racing, is licensed and regulated by the VRC, which oversees all licenses, pari-mutuel activities, revenue reporting and inspections.

Licensing and Permitting

Racetrack/Race Day Licenses and Fees

The VEA receives a license from the VRC to conduct a 14-day meet for both the spring and fall seasons. The VEA applies for a limited license each season, which involves an application including personal information of board members, job descriptions, vendor contracts, current horse contracts for harness associations, race date and times, and lease agreements. The VEA sends the initial draft of the application electronically to the VRC for review a month ahead of the Commission meeting. The Director of Pari-Mutuels and Licensing and the HHR Compliance Specialist at the VRC receives and reviews the application and checks for inconsistencies and completeness. The VRC works with the VEA to address or revise any questions or concerns related to the application during the VRC's review. Once the application has passed the initial round of reviews, the VEA sends a hard copy of the final application and a check for \$1,400 (\$100 per race each season) to the VRC. The Executive Secretary of the VRC reviews and approves, then writes a memo to the Commissioners, requesting the approval of the limited license application. The Executive Secretary at the VRC presents the application at the Commission meeting for the Commissioners to vote on. A

representative from the VEA attends the Commission meeting to answer any questions relating to the application. If the application is approved, the VEA receives the notification and certificate of license from the VRC.

Individual Licenses

All racing personnel must be licensed and regulated through the VRC. The VEA is in communication with the Director of Pari-Mutuels and Licensing ahead of the race season to ensure that all staff are licensed. If licenses are not obtained prior to race days, the VRC operates a mobile unit at Shenandoah Downs to allow for on-site licensing. The individual is fingerprinted and handed the license within 30 minutes of completing the application. If any issues arise during the background check, the individual's license may be revoked or suspended. The Director of Pari-Mutuels and Licensing or a representative from the VRC is present at the racecourse on race days to assist with this process.

The VRC provides jurisdictional oversight to the racing conducted at Shenandoah Downs and consent for race days is also provided by the Virginia Harness Horse Association (VHHA). The VRC employs Judges and officials to oversee the races and perform responsibilities assigned to them per the VRC's requirements.

Pari-Mutuel Wagering Revenue

All revenue reported to the VEA comes in the form of a handle. The handle is the total amount gambled in a period (e.g., day, week, month, etc.). At the end of the racing day, AMTOTE provides a report which shows the pool distributions and payout made that day.

The VRC receives tote reports daily through the AMTOTE portal. The Director of Pari-Mutuels and Licensing and the Executive Secretary from the VRC have access to view the tote reports with their own unique login. At the end of the week, the Director of Pari-Mutuels and Licensing at the VRC calculates the states taxes, purse money, and other fees based on the AMTOTE report and sends an electronic copy of the Handle Report to the VEA for payment.

The CFO and Finance team at the VEA reconciles the fees to their tote reports to ensure that the correct amount is being requested. After the reconciliation, the VEA submits an ACH transaction for taxes to the VRC and a separate transaction for the purse distributions according to Code of Virginia¹⁶ 59.1 Chapter 29 Article 5.

Calculation of Breakage Funds

The VEA receives a monthly report from the VRC that shows the calculation of breakage based on the daily AMTOTE reports. Twice a year, the Executive Secretary of the VRC calculates their portion for the Benevolence Fund (30% of the total breakage) and requests payment from the VEA. The CFO and the finance team at the VEA reconcile the amount requested to their tote reports and send a check to the VRC.

Inspections & Enforcement Activities

The VRC's Commission Investigator conducts random inspections throughout the race. If the investigator finds that a portion of the inspection is not compliant, the VRC notifies the racetrack and requests they rectify the issue before the next inspection. After each inspection, the VRC issues a report to VEA.

On race days, the VEA has several checkpoints guarded by security that ensures all individuals are properly licensed. Additionally, the tellers and Shenandoah Downs employees check IDs to ensure that customers are of legal gambling age (18 years or older) and legal drinking age (21 years or older).

¹⁶ Virginia Administrative Code 59.1 Chapter 29 Article 5.

Virginia Gold Cup Association at Great Meadow Racecourse

Background

Great Meadow is a 374-acre equestrian event park located in The Plains, VA.¹⁷ The park was opened in 1984 as a 501(c)(3) non-profit¹⁸ foundation with the goal to “preserve open space in service to the community and advance equestrian sport.” Arthur “Nick” Arundel founded Great Meadow as a permanent location for the Virginia Gold Cup steeplechase races. Today, Great Meadow hosts numerous events that bring in over 200,000 attendees each year such as steeple chasing, polo, show jumpers, foot races, rocketry, cultural fairs, and Independence Day. The National Steeplechase Association and the Virginia Gold Cup Association oversee two races per year for Great Meadow, one race in the spring and one in the fall. The racecourse site is rented from the Great Meadow Foundation. The Great Meadow Racecourse runs under the office of the National Steeplechase Association.

The live steeplechase racing at Great Meadow Racecourse is licensed and regulated by the VRC. The VRC provides jurisdictional oversight to the racing conducted at Great Meadow in conjunction with the National Steeplechase Association, who employs Stewards and officials to oversee the races and perform responsibilities assigned to them per the VRC’s requirements.

Licensing and Permitting

Racetrack/Race Day Licenses and Fees

The license for the Great Meadow Racecourse itself is held by the Virginia Gold Cup Association. Great Meadow Racecourse hosts two races per year, one race in the spring and one in the fall. Annually, the Event Director completes a race day application for both races. The race day application includes items such as employee directory, maps of the racecourse, information about safety and security plan, and lease agreement between Great Meadow Foundation and the Virginia Gold Cup Association etc. The Virginia Gold Cup sends the initial draft of the application electronically to the VRC for review a month ahead of the Commission meeting. The Director of Pari-Mutuels and Licensing and the Historical Horse Racing (HHR) Compliance Specialist at the VRC receives and reviews the application and checks for inconsistencies and completeness. The VRC works with the Virginia Gold Cup group to address or revise any questions or concerns related to the application during the VRC’s review. Once the application has passed the initial round of reviews, the Event Director mails the final application and a check for \$200 (\$100 per race) to the VRC for review. The Executive Secretary of the VRC reviews and approves the application, then writes a memo to the Commissioners, requesting the approval of the limited license application. Race day applications are approved during the VRC’s meetings prior to the race. The Executive Secretary presents the application to the Commissioners and the Event Director and Co-Chair/Director of Racing attends the commission meetings to answer questions relating to race day applications. If the race day is approved, Great Meadow Racecourse receives a notification and certificate of licensure from the VRC.

Individual Licenses

All racing personnel must be licensed and regulated through the VRC. The Event Director for Great Meadow Racecourse communicates with the Director of Pari-Mutuels and Licensing up to three weeks before each race day to ensure they are notified of any new or terminated employees and that all participants are properly licensed. If licenses are not obtained prior to race day, the VRC operates a mobile headquarters at the Great Meadow Racecourse to allow for on-site licensing. An individual applicant may be fingerprinted and can receive an approved license on the same day if no disqualifying factors are noted at the time of fingerprinting. If any issues arise during the background check, the individual’s license may be revoked or

¹⁷ Great Meadow Org About Page

suspended. The Director of Pari-Mutuels and Licensing or a representative from the VRC is present at the racecourse on race days to assist with this process.

Pari-Mutuel Wagering Revenue

All revenue reported to the Virginia Gold Cup comes in the form of a handle. The handle is the total amount gambled in a period of time (e.g., day, week, month, etc.). A portion of every dollar wagered goes towards various funds, including the purse account, breeders fund, Great Meadow, the VRC, and localities throughout the state. Great Meadow uses United Tote machines on the grounds for wagering reporting. Tellers receive bets through a window and provide the customers with a ticket.

Once received, the Event Director at Great Meadow reconciles the tote service interface with the cash collected to ensure that the correct amounts are requested. The tote services interface shows all parts of the bet/race and includes every refund and voided ticket. After confirmation, the Event Director submits a check to the appropriate groups/organizations (e.g., State tax, local tax, Breeders Fund, Benevolence Fund, etc.).

Calculation of Breakage Funds

The Great Meadow Racecourse receives a monthly report from the VRC that shows the calculation of breakage based on the daily United Tote reports. Annually the VRC calculates their portion for the Benevolence Fund (30% of the total breakage) and requests payment from Great Meadow. The Event Director reviews the payment request for reasonableness and then sends a check to the Virginia Horsemen's Benevolent & Protective Association (VHBPA); a copy of the check is sent to the VRC for their awareness and records.

Enforcement Activities

The Great Meadow Racecourse employs a security team to ensure all participants have licenses that are present and visible on race days. These licenses need to be shown to access different areas of the racecourse such as the steward areas, jockey areas, and the barns. There is signage throughout the racecourse to indicate licensed controlled areas. In addition to monitoring licenses, the security team works to protect the teller machines. Tellers are never left alone with their cash boxes; an officer is always with them and gives them an escort at night to their car to ensure their safety.

Stewards oversee adjudication when it comes to race matters such as issues with riders, fouls, and race day eligibility, and have the final say in racing decisions. Stewards complete continued education and training to remain current with racing policies and procedures.

Objectives

The audit's objectives prescribed by OSIG were:

1. Review current licensing and permitting standards, requirements, and exemptions.
2. Evaluate the structure of the Commission including any changes needed to address the Commission's knowledge, experience, and level of training needed to effectively regulate the horse racing industry.
3. Review net revenue dedicated to horse racing with pari-mutuel wagering and which types of associated activities are excluded from this calculation.
4. Evaluate the current allocation of breakage funds, the budgeting process for any administrative costs or expenditures, and financial audit procedures conducted by the Commission.
5. Evaluate the adequacy of enforcement and resources dedicated to oversight activities of the Commission.

6. Evaluate the structure of the Commission including any changes needed to minimize or eliminate conflicts of interest.

Scope

The audit was initiated in March 2024 and focused on procedures performed and overseen by the VRC. This included review of policies and procedures, documentation regarding licensing and permitting, documentation of net revenues and budgetary information, calculations related to breakage and benevolence funds, and inspections performed by the Commission. It further included site visits at multiple off-track and HHR betting locations and racetracks with events during the audit period.

The period in scope included processes, operations, etc. and support for audit areas for the period from July 1, 2022, through August 31, 2024. The following provides additional details related to scope areas:

1. Transactions and supporting documentation for audit steps were reviewed for the period July 1, 2022, through August 31, 2024.
2. On-site visits and inspections were performed from September 4, 2024, through October 27, 2024, at the following VRC facilities and racetracks:
 - a. VRC headquarters in New Kent, VA
 - b. Colonial Downs Racetrack
 - c. Shenandoah Downs Racetrack
 - d. Rosie's New Kent
 - e. Rosie's Richmond
 - f. Rosie's Hampton
 - g. Rosie's Collinsville
 - h. Rosie's Dumfries
 - i. Rosie's Hampton
 - j. Breakers Sports Grille, Richmond, VA
 - k. Buckets Bar and Grill, Chesapeake, VA
3. An on-site inspection was not performed at Virginia Gold Cup Association at Great Meadow Racecourse. VGCA's license was revoked after an in-person inspection and multiple fact-finding meetings between associated parties and could not run a pari-mutuel event, thus VRC did not have jurisdiction over the event and further testing was not required.

Methodology and Approach

SC&H conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

In order to obtain the necessary documentation to appropriately perform and conclude upon the objectives of this audit, SC&H conducted the following procedures.

Creation of Audit Program

Based on procedures performed during the planning phase, SC&H developed an audit program to achieve the objectives, which was reviewed and approved by OSIG prior to execution. This program included steps to address each objective during fieldwork.

Execution of Audit Program

The following summarizes steps that were performed to achieve the six prescribed audit objectives. Refer to “III. Detailed Observations and Recommendations” section of this report for results.

Objective 1	
Review current licensing and permitting standards, requirements, and exemptions.	
Step	Summary Procedures
1.1	Reviewed licensing and permitting standards, requirements, and exemptions for current license and permit holders to: <ol style="list-style-type: none">1. Aggregate standards, requirements, and exemptions pertaining to pari-mutuel wagering and licensing within the Commonwealth.2. Evaluate Commission and facility compliance with laws, regulations, and other requirements.3. Verify that Commission and facility procedures align with the requirements.
1.2	Reviewed licensing and permitting standards, requirements, and exemptions for individual license holders and: <ol style="list-style-type: none">1. Obtained and analyzed a population of license holders for the period in scope to identify the number of license holders by facility and the types of licenses issued to evaluate compliance with laws, regulations, and VRC (Virginia Racing Commission) requirements.2. Selected a sample of licenses and reviewed the licensee applications and supporting documentation and evidence of the license within applicable databases to confirm the following:<ol style="list-style-type: none">a. The application was completed and approved in accordance with applicable regulatory requirements.b. A license was established within ARCI.c. Payment was received timely and subsequently paid to the State Police.d. Identified incidents/issues were appropriately investigated and resolved prior to issuance of a license.
1.3	Reviewed licensing and permitting standards, requirements, and exemptions for racetracks and wagering facilities and: <ol style="list-style-type: none">1. Reviewed the most recent facility application for all racetracks to confirm the following:<ol style="list-style-type: none">a. The application was completed and approved in accordance with applicable regulatory requirements.b. The application was provided to the Commission and approved.2. Selected a sample of licensed vendors and reviewed the licensee applications and supporting documentation and evidence of the license within applicable databases to confirm the following:<ol style="list-style-type: none">a. The application was completed and approved in accordance with applicable regulatory requirements.b. A license was established within ARCI.c. Payment was received timely and subsequently paid to the State Police.d. Any identified incidents/issues were appropriately investigated and resolved prior to issuance of a license.
1.4	Reviewed licensing and permitting standards, requirements, and exemptions for HHR and selected a sample of licensed HHR machines and reviewed the machine application and approval documentation to confirm the following: <ol style="list-style-type: none">a. The application was completed and approved in accordance with applicable regulatory requirements.b. Games installed on the HHR machine were properly reviewed and approved by Gaming Labs International (GLI) prior to installation.

Objective 2	
Evaluate the structure of the Commission including any changes needed to address the Commission's knowledge, experience, and level of training needed to effectively regulate the horse racing industry.	
Step	Summary Procedures
2.1	<p>Evaluated the Commission's structure to determine if employees appear to be properly resourced to effectively regulate the horse racing industry and:</p> <ol style="list-style-type: none"> 1. Performed research and jurisdictional benchmarking to identify best practices related to the management of pari-mutuel wagering and historical horse racing activities. 2. Met with Spectrum Gaming Group to inquire about their ongoing review of the VRC and provide a summary of the audit's objectives.

Objective 3	
Review net revenue dedicated to horse racing with pari-mutuel wagering and which types of associated activities are excluded from this calculation.	
Step	Summary Procedures
3.1	<p>Evaluated gross and net revenue to determine if calculations appeared consistent and accurate and selected a sample of reporting periods and reviewed associated tote reports and supporting recalculation spreadsheets to confirm calculations were in accordance with VRC policies and procedures and requirements set forth in regulatory requirements.</p>
3.2	<p>Evaluated cash handling procedures at VRC to determine if cash deposits appeared properly authorized, accurate, and recorded timely; and:</p> <ol style="list-style-type: none"> 1. Observed and inspected the cash handling process performed at VRC to determine practices align with documented policies and procedures. 2. Selected a sample of cash deposits made during the period in scope and reviewed supporting documentation to confirm: <ol style="list-style-type: none"> a. Deposit slips were properly reviewed and approved. b. Deposit support reconciled to bank records for the period.
3.3	<p>Evaluated cash handling procedures at a sample of licensed facilities to determine cash deposits are properly authorized, accurate and recorded timely.</p> <ol style="list-style-type: none"> 1. Observed and inspected the cash handling process performed at VRC to determine practices aligned with documented policies and procedures. 2. Selected a sample of cash deposits made during the period in scope and reviewed supporting documentation to confirm: <ol style="list-style-type: none"> a. Deposit slips were properly reviewed and approved. b. Deposit support reconciled to bank records for the period.

Objective 4	
Evaluate the current allocation of breakage funds, the budgeting process for any administrative costs or expenditures, and financial audit procedures conducted by the Commission.	
Step	Summary Procedures
4.1	<p>Determined if the allocation of breakage funds appeared to be accurate for the period in scope and selected a sample of reporting periods and reviewed associated breakage reports and supporting recalculation spreadsheets to confirm calculations were in accordance with VRC policies and procedures and requirements set forth in regulatory requirements.</p>
4.2	<p>Determined if the allocation of Benevolence Fund contributions appeared reasonable and were appropriately disbursed, per requirements present in applicable regulatory requirements and selected a sample of reporting years and reviewed contribution calculation spreadsheets and supporting payment documentation to confirm:</p> <ol style="list-style-type: none"> a. Benevolence fund calculations were accurate by recalculating the amounts owed.

Objective 4	
Evaluate the current allocation of breakage funds, the budgeting process for any administrative costs or expenditures, and financial audit procedures conducted by the Commission.	
Step	Summary Procedures
	b. Payment was properly received and remitted to the appropriate parties.
4.3	Determined if the Benevolence Fund appeared to be utilized appropriately, per requirements present in applicable regulatory requirements and selected a sample of reporting years and reviewed budget information, Commission meeting minutes, and bank documentation to confirm: <ul style="list-style-type: none"> a. The use of funds appeared properly approved by the VRC. b. Funds were utilized for approved activities per regulatory requirements. c. Budget-to-actual variances appeared reasonable and included adequate support and/or justification.
4.4	Reviewed administrative costs and expenditures incurred by VRC during the period in scope and selected a sample of expenses and reviewed supporting documentation to confirm the purchase was for business use and was properly reviewed and approved.
4.5	Reviewed budgeted administrative costs and expenditures and: <ul style="list-style-type: none"> 1. Reviewed budget-to-actual support for administrative costs and expenditures for FY23 and FY24. 2. Identified and documented variances between the budgeted and actual expenditures and inquired about the cause of the variances.
4.6	Reviewed documentation to related to other audits performed related to Commission processed.

Objective 5	
Evaluate the adequacy of enforcement and resources dedicated to oversight activities of the Commission.	
Step	Summary Procedures
5.1	Verified incidents requiring oversight and enforcement appeared to be resolved in accordance with VRC policies and procedures and selected a sample of incidents reviewed supporting documentation to confirm: <ul style="list-style-type: none"> a. The incident was reported and reviewed timely by members of the VRC. b. The incident was properly documented within ARCI and appropriate disciplinary action was taken to resolve the incident.
5.2	Observed facility inspections to determine if VRC appeared to be conducting inspections effectively and timely and: <ul style="list-style-type: none"> 1. Performed a walkthrough with the Commission Investigator at a sample of licensed facilities. 2. Obtained and reviewed a copy of the most recent facilities inspection checklist to ensure it was completed and reviewed timely, noting the identification and communication of any issues/areas of non-compliance identified.

Objective 6	
Evaluate the structure of the Commission including any changes needed to minimize or eliminate conflicts of interest.	
Step	Summary Procedures
6.1	Evaluated Commission policy and procedures related to addressing conflicts of interest to determine if requirements appeared to be sufficient and operating effectively.

Summary of Work

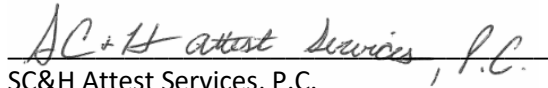
Based on the audit procedures performed, opportunities exist to mitigate risks within licensing, pari-mutuel revenue and breakage reporting, structural, and enforcement processes. These opportunities are represented by seven observations and associated recommendations, which are outlined below.

1. Development of internal policies and procedures related to administration, licensing, compliance, and enforcement of pari-mutuel activities.
2. Enhancement to procedures related to issuance and enforcement of VRC licenses.
3. Improvement and enhancement of documentation completion and maintenance related to multiple processes.
4. Enhancement of cash handling procedures to mitigate risk.
5. Development of procedures related to licensed facility oversight.
6. Improvement to documentation of breakage and contribution calculations.
7. Evaluation of current resources and/or organizational structure to enhance performance and oversight of various functions.

The following section provides detailed observations and recommendations to help mitigate associated risks.

Observation details including sensitive information (e.g., cash handling, onsite inspection results) were not included in the public report, and were provided separately to the VRC.

SC&H thanks the Commonwealth, the VRC and its employees, and facility and racetrack employees whose assistance and availability were vital during the audit process. Please contact us if you have any questions or comments regarding any of the information contained in the performance audit report.



SC&H Attest Services, P.C.

Sparks, Maryland

February 11, 2025

III. Detailed Observations and Recommendations

Observation 1

VRC does not have written policies or procedural information to document and govern its processes including administration, licensing, compliance, and enforcement.

Background and Criteria

For the purposes of this report, the following terms are used to define specific types of policies, procedures, and related documented rules, laws, criteria to be conformed with, etc.

1. Statutes and Regulations: A Statute is defined as a law enacted by a legislative or governing body to control customs, practices, or rules. Regulations are rules created by agencies or organizations to supplement and enforce the law. The Code of Virginia (Code) contains the laws passed by the General Assembly and signed by the Governor for the Commonwealth of Virginia. Similarly, the Virginia Administrative Code contains the regulations adopted by state agencies in the Commonwealth of Virginia. There are 24 titles, each representing a subject category with agencies assigned to the appropriate title. The VRC is assigned to Title 11. Gaming.¹⁹

During the audit, the following statutes and regulations were reviewed:

- a. Virginia Administrative Code 11VAC10-30: Limited
 - b. Virginia Administrative Code 11VAC10-40: Satellite Facilities
 - c. Virginia Administrative Code 11VAC10-45: Advance Deposit Account Wagering
 - d. Virginia Administrative Code 11VAC10-47: Historical Horse Racing
 - e. Virginia Administrative Code 11VAC10-60: Participants
 - f. Virginia Administrative Code 11VAC10-130: Virginia Breeders Fund
 - g. Code of Virginia Chapter 29: Horse Racing and Pari-Mutuel Wagering
2. Internal policies and procedures: Internal policy and procedures are synonymous with references to “internal” materials such as desktop manuals, step-by-step guides, or other forms of instructional documentation to supplement performance, requirements, and exceptions established by the statutes and regulations. Such policies and procedures present the opportunity to specifically define requirements, guidance, and expectations for the organization and its employees to conduct their responsibilities in a systematic, standardized, and consistent manner.

The statutes and regulations present requirements for both internal and external organizations based on a set of criteria. However, there are supplemental criteria organizations are expected to build into their own processes and operations, to support those requirements. These criteria, which may be in the form of internal policies and procedural documentation and/or internal controls, offer organizations operational flexibility, while maintaining compliance and mitigating related risks.

In effect, organizations should align their operations in a manner that complies with the statutes and regulations by establishing and implementing internal policies and procedures.

¹⁹ <https://law.lis.virginia.gov/>

Detail

VRC personnel, including, but not limited to, the previous Executive Secretary, Director of Pari-Mutuels and Licensing, and Commission Investigator, communicated their operations and functions during the performance audit. The VRC does have certain procedures its staff know to perform in order to complete tasks. However, the organization does not have formalized, standardized, and documented internal policies, procedures, and related operational material to guide consistent, controlled, and compliant procedures that align with operations and Code requirements.

The following was identified related to the VRC.

1. The VRC does not have internal policies and procedures related to conflicts of interest to disclose, track, or eliminate potential conflicts of interest to ensure fairness and equity in their pari-mutuel wagering operations.
2. The VRC does not have internal policies and procedures around the handling and control of cash on hand.
3. The VRC does not have internal policies and procedures, training courses or support for the following processes or regulations identified:
 - a. Licensing and Permitting standards for individuals and facilities
 - b. Calculation of Net revenue
 - c. Allocation of Breakage
 - d. Benevolent Fund management, including budget-to-actual analysis and approving use of funds
 - e. Financial Audit Procedures
4. The VRC does not have internal policies and procedures to conduct inspections and record any issues at the facilities which they oversee. These processes include:
 - a. On-site inspection procedures, roles, and responsibilities
 - b. Maintenance and completion of inspection documentation
 - c. Corrective actions to be taken when issues are identified
 - d. Notification of results to facilities and organizations
 - e. Tracking inspection results and issues
5. The VRC has not developed internal policies or procedures to train, track, or review employees in order to ensure they are qualified and knowledgeable in topics (e.g., trends, laws, regulations, etc.) related to the responsibilities of both their position, at the VRC, and the Commonwealth.

The following was identified related to licensed facilities (i.e., CDG/Rosies, VEA, and VGC).

The Virginia Equine Alliance, operating at Shenandoah Downs confirmed via inquiry that they have not established an internal conflicts of interest policy requiring the organization and employees to identify, disclose, remediate, or define disciplinary actions regarding any potential conflicts.

Risks

A lack of formally established internal policies and procedures could result in:

1. Inconsistent performance of key process steps which could further result in regulatory non-compliance and operational inefficiencies/inconsistencies.
2. Biased decision-making and unfair practices due to undisclosed and treated conflicts.
3. Inadequate cash handling, which could further result in incorrect financial information and/or misappropriation of assets.

Recommendation 1.1

The VRC should consider establishing and implementing internal policies and procedures including, but not limited to, the following. When updating and developing policy and procedural documentation, the VRC should address the applicable Codes, operations, risks mitigation, etc., as referenced above.

1. Conflicts of interest: These should include, at a minimum, protocols for VRC employees, individual license holders, and licensed facilities to disclose, track, and eliminate potential conflicts (e.g., financial, familial, professional, etc.). This policy should also address disciplinary actions to be taken in the event an undisclosed conflict is identified.
2. Cash handling: These should include, at a minimum, guidelines for cash handling, reconciliation, and security measures to prevent financial mismanagement and fraud.
3. Individual licensing: These should include, at a minimum, processes for receiving, reviewing, and processing applications as well as fingerprinting, fee collection, and background check handling activities.
4. Facility licensing: These should include, at a minimum, procedures for receiving, reviewing, and processing applications, submitting them for Commissioner approval, and fee collection.
5. Handle, revenue, and contribution calculation and verification: These should include, at a minimum, sources and the use of pari-mutuel wagering data, such as tote reports, detailed contribution calculations, reporting responsibilities of facilities, fee collection, and payment verification.
6. Breakage calculation and allocation: These should include, at a minimum, sources and the use of pari-mutuel wagering data, such as tote reports, detailed breakage calculations, reporting responsibilities of facilities, fee collection, and payment verification.
7. Benevolence Fund management, calculations, and contributions: These should include, at a minimum, sources and the use of pari-mutuel wagering data, such as tote reports, detailed benevolence calculations, reporting responsibilities of facilities, fee collection, payment verification, and fund management oversight.
8. Administrative and financial audit procedures: These should include, at a minimum, protocols for administrative tasks, such as expenditure approval and reimbursement, budget monitoring, client service responsibilities, and roles and responsibilities in financial audit procedures.
9. Conducting inspections and recording issues at facilities: These should include, at a minimum, on-site inspection procedures, roles and responsibilities, maintenance and completion of inspection documentation, corrective actions, notification of results, and tracking of inspection results and issues.

Once established, the VRC should monitor policies and procedures and update them on a regular basis in order to reflect current processes, standards, and regulations. At a minimum, policies should be reviewed and updated at least annually based on current practices (or whenever changes occur based on Codes, regulations, laws, operations, etc.). Policies should include job specific details related to the various sub-process areas. Evidence of review of the policies should be documented, and any substantial changes should be immediately communicated and distributed to impacted staff to access and review.

Corrective Action Plan and Implementation Date

In reference to #9, the VRC evaluated the effectiveness of its internal controls for Fiscal Year 2024. This assessment was completed on October 31, 2024. The new management of the VRC observed a lack of formal policies and procedures and concurs with many of the points raised in this recommendation. As such, it began taking proactive steps to create and implement the following procedures:

1. Conflicts of Interest Act Policy and Procedures for Appointed Officials
2. Conflicts of Interest Procedure for Racing Officials and Permit Holders

3. Accounting Policies and Procedures (i.e., Cash Handling and Safeguarding, Disbursements and Expenditures, Procurement, Revenue Collection, ACH Reconciliation, and Credit Card Purchase Reconciliation)
4. Individual and Entity (Including Vendors) Permit Manual for Licensing Division
5. Limited License, HHR, and ADW Licensing Review Procedures
6. Handle Reporting and Tax Reconciliation Procedures
7. Administrative audit procedures using ARMICS

In reference to #6 and #7, these processes related to the handle reconciliation and disbursement procedures that have been implemented by the VRC. The funds are managed pursuant to the General Assembly's policy set forth in the Code of Virginia.

The VRC currently performs procedures for facility inspections, backside investigations, sample collections, etc. The procedures for these are outlined in regulations as is the industry practice for racing regulators. However, the VRC is currently drafting an internal procedure manual to streamline the performance of these procedures and track them within SharePoint.

In implementing the foregoing, the VRC will ensure that proper review of the procedures is retained to ensure compliance with its regulations.

The VRC will perform quality control on these procedures through the completion date.

Partially complete, estimated completion date of July 1, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Recommendation 1.2

Comprehensive training on updated and newly implemented policies and procedures may be necessary and should be conducted for all impacted employees. The training should include the reasoning behind the updates to the policies and procedures, detailed explanation of the new policies and procedures, and practical applications to ensure understanding. For new hires, these trainings may be incorporated into the onboarding process to ensure compliance from the start.

The VRC should consider developing formal policies and procedures for initial and ongoing trainings, tracking employee compliance with trainings, and reviewing employee qualifications to ensure they are knowledgeable about relevant topics, including trends, laws, and regulations in order to perform their roles and responsibilities as defined by the VRC.

Corrective Action Plan and Implementation Date

The VRC will develop and implement formal policies and procedures for initial and ongoing training programs, ensuring all impacted employees receive comprehensive education on updated and new policies. The training will include the rationale behind updates, detailed explanations, and practical applications. New hire training will be integrated into the onboarding process to ensure compliance from the outset.

Estimated completion date of July 1, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Recommendation 1.3

The VRC should consider evaluating policies and procedures for key activities at each licensed facility in order to determine if they are consistent with the expectations established by statutes and regulations. For example, key activities include, but are not limited to:

1. License application and enforcement
2. Cash handling
3. Pari-mutuel wagering and revenue reporting
4. Calculation and payment of taxes and other contributions
5. Acquisition and maintenance of HHR machines

If internal policies and procedures do not properly address the current and established expectations or requirements within statutes and regulations, the VRC should work with the licensed facility to address until remediated. After an initial review, the VRC should consider implementing regular reviews of internally developed policies and procedures on an ongoing basis (e.g., annually, biannually, etc.) to enforce compliance with existing controls among licensed facilities. For additional details regarding the development of licensed facility guidance, refer to **Observation 5** and associated recommendations.

Corrective Action Plan and Implementation Date

The VRC will evaluate the current regulations and evaluate areas for minimum internal control standards as they apply to each different license type.

Estimated completion date of December 31, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Recommendation 1.4

The VRC should assess the cost/benefit (e.g., risk mitigation impact) of increasing its resources and evaluate its current structure of roles/responsibilities when addressing this observation. Refer to **Observation 7** for additional details.

Corrective Action Plan and Implementation Date

The VRC has evaluated its resources and has filed requests to increase its resources.

Completed as of October 8, 2024.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Observation 2

VRC's current operating procedures to mitigate risks of regulatory noncompliance regarding the issuance and enforcement of individual licenses are limited.

Background and Criteria

Virginia has enacted various statutes and regulations, to govern horse racing and licensing operations throughout the Commonwealth. During the audit, the following statutes and regulations were evaluated:

1. Virginia Administrative Code 11VAC10-60-10 (summary criteria below):
 - a. States that no person shall participate in any horse racing subject to the jurisdiction of the VRC unless they possess a license and comply with the provisions of the Act and the regulations of the VRC. A person desiring to obtain a license to participate in horse racing with pari-mutuel wagering should submit an application to the VRC, accompanied by the cost of fingerprinting.
 - b. Requires a license application to be fingerprinted upon making their initial application in the Commonwealth and the VRC, in its discretion, may require fingerprints from any applicant or holder of a permit at any time.
 - c. Establishes criteria for qualification or disqualification of a license. Disqualifications include felonies or misdemeanors identified on a background check that would be detrimental to horse racing in the commonwealth and not listed in §59.1-389 C.
 - d. Allows the VRC to grant reciprocity to a license applicant if they are licensed in a comparable jurisdiction with similar regulations.
2. Virginia Administrative Code 11VAC10-60-270: Other applicants for participation in horse racing as employee of permit holder, vendor, or licensee. Establishes the requirement for an employee of another licensee or vendor, unless stated elsewhere, to submit an application to participate in horse racing and notification be provided by their employer to the stewards.
3. Code of Virginia §59.1-371. Fingerprints and Background Investigations; Investigations From Other States.
 - a. Primarily establishes the requirements for fingerprinting and background investigations for the following individuals:
 - i. Every person licensed to hold race meetings within the Commonwealth of Virginia.
 - ii. Every person who is an officer or director or principal stockholder of a corporation which holds such a license, and every employee of the holder of any such license whose duties relate to the horse racing business in Virginia.
 - iii. All security personnel of any license holder.
 - iv. Members and employees of the Virginia Racing Commission.
 - v. All permit holders, owners, trainers, jockeys, apprentices, stable employees, managers, agents, blacksmiths, veterinarians, employees of any license or permit holder.
 - vi. Any person who actively participates in the racing activities of any license or permit holder.
 - b. Additionally, statutes and regulations allow for the VRC to establish procedures to waive requirements for individuals licensed in similarly regulated jurisdictions, individuals participating in horse racing in nonsecure areas, and individuals participating in nonracing activities.

Abiding by these statutes and regulations helps the VRC, licensed facilities, and licensed individuals to maintain compliance and mitigate related risks.

Detail

The following was identified related to the VRC.

1. For same-day licensing, the VRC does not wait for the completion of a background check before awarding an individual applicant a license. On race days, unlicensed individuals may complete a license application and be licensed that day without awaiting the results of a proper background check. An applicant may be awarded a license as quickly as 30 minutes from the time of applicant submission, and the VRC may go days without receiving a disqualifying background check and may be forced to retroactively revoke the individual's license after the race has concluded.
2. Per the VRC, VEA, VGC, and CDG, the VRC does not consistently enforce vendor licenses due to the complex logistical and time-consuming nature of licensing every applicable employee for every vendor present at each facility, possibly resulting in non-compliance with regulations present within the Code of Virginia 11VAC10-60. For example:

The VRC and licensed facilities are not reviewing or enforcing vendor licenses for all applicable personnel on-site, such as beverage delivery drivers who could potentially access sensitive areas through their unique access to the facility as a vendor.

Risks

1. Unlicensed or improperly licensed individuals and/or vendors accessing VRC and/or licensed facilities and/or events could result in regulatory non-compliance, inefficient operations, reputational damage, and financial liability.
2. Unauthorized access to sensitive areas by unauthorized personnel could result in regulatory non-compliance, equipment tampering, misappropriation of assets, and theft.
3. A lack of formally established internal policies and procedures related to licensing could result in inconsistent performance of key process steps which could further result in regulatory non-compliance and operational inefficiencies/inconsistencies.

Recommendation 2.1

The VRC should consider reviewing and revising current processes that require the completion of background checks before issuing a license, whether present in legislative regulation, administrative code, or exist as an internally established requirement.

There are different types of licenses required based on the individual and the work they perform. The position and level of risk associated with the individual's access to facilities may not require a background check prior to the issuance of a license. For example, a VRC employee should be required to obtain a passing background check before issuance of a license. However, a groom registering on race day may be issued a license without the results of the background check and their status can be re-evaluated if an issue arises.

Any revisions should include a clear process for handling applications and a timeline that ensures all necessary checks are completed before granting a license. For additional details regarding policies and procedures, refer to **Observation 1** and associated recommendations.

For the definition of internal policies and procedures when compared to regulations and statutes, refer to *Background and Criteria* in **Observation 1**.

Corrective Action Plan and Implementation Date

The VRC will review background check requirements in existing regulations and statutes and request updates as needed to ensure alignment with risk levels and operational needs.

Estimated completion date of July 1, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Recommendation 2.2

The VRC should consider developing, implementing, and enforcing an internal vendor licensing policy for internal use that includes all personnel who have access to sensitive areas. This policy should outline the requirements for vendor licenses and the process for verifying compliance that VRC employees must follow and refer to. Additionally, this policy may clarify or redefine who qualifies as a vendor and vendor employee and, thus, is required to be issued and present a license. For example, a food and beverage delivery driver may not require the same restrictions as an armored car driver who accesses secure cash storage areas to collect deposits. For additional details regarding policies and procedures, refer to **Observation 1** and associated recommendations.

For the definition of internal policies and procedures when compared to regulations and statutes, refer to *Background and Criteria* in **Observation 1**.

Corrective Action Plan and Implementation Date

The VRC will review existing regulations to determine if a tiered approach to vendor licensure, based on access to sensitive areas, can be established and implemented at the regulatory level.

Estimated completion date of July 1, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Recommendation 2.3

The VRC should assess the cost/benefit (e.g., risk mitigation impact) of increasing its resources when addressing this observation. For instance, the Director of Pari-mutuels and Licensing plays an important role to determine if applicants, both facilities and individuals, adhere to the regulatory requirements present in the statutes and regulations and an accurate determination is given whether a license is awarded or not. Given the travel requirements and the nature of this role, the VRC may consider increasing its resource count. Refer to **Observation 7** for additional details.

Corrective Action Plan and Implementation Date

The VRC will implement changes based on the findings of a recent review of the VRC to enhance compliance, efficiency, and alignment with statutory and regulatory requirements.

Estimated completion date of July 1, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Observation 3

Documentation related to licensee applications and records within systems, receipt and processing of payments, performance of inspections, performance of revenue and breakage calculations, and tracking of equipment such as HHR machines is not consistently completed or maintained.

Background and Criteria

Virginia has enacted various statutes and regulations, to govern overall pari-mutuel wagering and historical horse racing (HHR) operations throughout the Commonwealth. During the audit, the following statutes and regulations were reviewed:

1. 11VAC10-30: Limited Licenses.
2. 11VAC10-47: Historical Horse Racing.
3. 11VAC10-60: Participants.
4. Code of Virginia § 59.1-369. Powers and duties of the Commission.
5. Code of Virginia §59.1-371. Fingerprints and Background Investigations; Investigations From Other States.
6. Code of Virginia § 59.1-392. Percentage Retained; Tax.

SC&H met with management and representatives of the VRC, VEA, VGC, and CDG to understand their procedures, roles, and responsibilities regarding: licensing and permitting; net revenue calculation and reporting; breakage calculation and reporting; administrative budgeting; oversight and enforcement; and conflicts of interest management. These discussions included an understanding of documentation and evidence utilized and retained for each.

While the statutes and regulations don't provide specificity regarding maintenance of documentation, they do provide regulations on what is required of individuals. However, in order to confirm alignment with statutes and regulations, there is an expectation that certain documentation, information, data, etc. is maintained to serve as evidence.

Detail

The following was identified related to the VRC.

Documentation Not Provided

The following are instances where documentation was requested but not provided:

1. For 5 of 85 samples, the application form was not provided to verify the completeness, according to the requirement identified in 11VAC10-60 Participants. The applications identified were missing insurance information, horse ownership documentation, and evidence of approval by VRC personnel.
2. For 1 of 85 samples, evidence of the license within the ARCI database or payment confirmation was not provided to verify the employee was added to the ARCI license database payment.
3. For 6 of 85 samples, the application form was not provided to verify if incidents or challenges were identified.
4. For 5 of 85 samples, payment receipt was not provided for the licensee application to verify that the payment was properly collected, reconciled, and paid.
5. For 15 of 85 samples, no documentation was provided for fingerprint payments made before 7/1/22 or after 6/30/24 to verify the payment was sent to the proper place.
6. For 1 of 25 samples, a deposit receipt of \$1,200 was not provided to verify if the deposit amount was consistent with the deposit slip or bank statements.

7. For 1 of 60 samples, supporting documentation was not provided for the expense transaction to verify whether the expense was coded appropriately and if there was a justified business use.
8. For 1 of 6 samples, evidence was not provided to verify that an applicable inspection report was provided to the licensed facility for possible remediation of issues.
9. For 14 of 60 samples, no supporting documentation was provided to evidence GLI assessed and approved the latest game as being compliant with 11VAC10-47.

Incomplete Documentation

The following are instances where documentation provided based on requests was incomplete, such as missing applicable signatures, fields, data, etc.:

1. For 40 of 85 samples, the application did not have evidence of a signature and/or approval by either the Director of Pari-Mutuel Gambling, Executive Secretary, Commission Investigator or Compliance Technician.
2. For 2 of 4 samples, documentation provided did not include evidence of signature(s) by the Director of Pari-Mutuels & Licensing, HHR Specialist, or Agency Head/Executive Secretary to verify VRC approval prior to being presented to Commissioners.
3. For 9 of 60 samples, documentation provided did not include evidence of VRC approval to either install a new HHR machine, update the latest game, or rearrange to a new location.
4. For 2 of 6 samples, the inspection report documentation was incomplete and missing signoffs from the Commission Investigator to verify the inspection was completed by a trained and qualified individual.
5. For 2 of 60 samples, the incorrect per diem rates were used to calculate reimbursements.
 - a. Richmond, VA - January 2024 and July 2024.
 - i. The employee used the per diem rate of \$44.25 for travel day meals. Per inspection of the GSA website for the expense date and location, the correct per diem rate was \$48; the difference between the rate is \$3.75. Each expense reimbursement had two travel day meals noted, making the January and July 2024 expense reimbursements for \$7.50 less than they should have been.
 - ii. Additionally, the employee used the per diem rate of \$59 for meals during the trip. Per the GSA website for the expense date and location, the correct per diem rate was \$64; the difference between the rate is \$5. Each expense reimbursement had two travel meals noted, making the January and July 2024 expense reimbursements for the employee \$10 less than they should have been.
 - iii. The Employee Travel and Expense Reimbursement Form lists out all expenses and includes columns such as mileage, per diem amount, lodging, etc. Within the Employee Travel and Expense Reimbursement Form, there is a "Business Purpose" and "Default Location." S&CH used the "Business Purpose" on the form and the expense supporting documentation to determine if the expenditure appeared reasonable and justified for business use. SC&H also used the "Default Location" and date of the expenditure to look up the GSA rate for that date on the GSA website.

Documentation Not Maintained

The following are instances where organizations verified that documentation requested could not be provided because a process is not in place to retain them:

1. The VRC does not document issues in the limited license application process for facilities, meaning those where applications need to be returned, revised, and resubmitted in order to obtain approval by the VRC. Issues are communicated verbally or in meetings with each applicable organization and wagering locations.

2. Payment receipts could not be traced to the Cardinal financial system report. The system only shows bulk amounts paid to the Virginia State Police, making it difficult to trace back to individual licensees.
3. The VRC does not currently request or keep track of the personnel which the vendors at Colonial Downs and the VEA employ. All personnel who work at a racetrack during a race day and participate in pari-mutuel activity must be licensed by the VRC, including all vendor employees per the Code of Virginia 11VAC10-60. While reviewing the documentation, vendors and their respective employees were not tracked in the VRC ARCI licensing database or other system/application. Vendors are documented and recorded by the licensed facilities, while individuals are documented and recorded within VRC's ARCI database. Because of this, it could not be determined which vendor employees within the ARCI licensing database are associated with which vendors.
4. The VRC did not maintain records on racetrack inspections. As a result, documentation to determine if inspections were conducted was not provided for Colonial Downs Racecourse; Great Meadow Racecourse; and Shenandoah Downs Racecourse.
5. The VRC did not maintain inspection documentation prior to January 2023. As a result, no documentation for September 2022 could be provided to verify inspections were performed.
6. The VRC did not maintain documentation to track or verify issues or findings were resolved in subsequent facility inspections. Per inquiry, the Commission Investigator inquires with Colonial Downs Group if there is an issue, such as a terminal not working, that remains outstanding. However, these inquiries are not documented or maintained for future reference.
7. Tracking of HHR machines from the VRC was limited and not formally documented and updates to machines changed or added are not updated timely, resulting in inconsistencies between VRC records, licensed facility records, and physical results. While the VRC is notified of new HHR machine placements by CDG, SC&H observed instances at CDG locations inspected where the locations and asset numbers of HHR machines did not match the Commission Investigator's HHR Terminal Location and Asset number spreadsheet while observing their inspections, requiring additional time and effort on-site to confirm the machine being inspected. In the case of a disqualifying game or ongoing issue with a terminal, the VRC may not be able to track or know the affected machine for follow-up procedures. These locations were: New Kent; Dumfries; Collinsville; Hampton; and Richmond.
8. The VRC did not track responses in relation to criminal background check history in any capacity. The application form asks several questions about the applicant's criminal history and other challenges that can affect the awarding of licenses. The applicant has indicated an issue on the application, however, based on discussions with VRC, it was found that steps taken to rectify incidents and challenges are not documented in the ARCI database or the application.

The following was identified related to licensed facilities (i.e., CDG/Rosies, VEA, and VGC).

Documentation Not Provided

1. For 1 of 25 samples, documentation was not provided to determine if deposit slips were prepared and reviewed by independent employees or if the deposit slip amount was consistent with the bank statement or cash receipts.
2. For 43 of 53 samples, no documentation was provided to support proper evidence of deposit calculation, preparation, reconciliation, or approval. The sum of all deposits was \$665,472.53.
3. For 1 of 8 samples, Shenandoah Downs tote reports for Oct 2023 were not provided to verify the breakage calculation for that location.
4. For 1 of 6 samples, evidence was not provided to verify May 2023 Benevolent Fund contributions were paid into the relevant accounts, and not paid to VRC.

Incomplete Documentation

1. For 11 of 53 samples, the deposit slip was not properly approved with a second signer's signature to verify independent reconciliation. The sum of all unsigned deposit slips total \$1,227,452.
2. For 5 of 53 samples, the VGC deposit slip was not properly signed by a preparer. Per inquiry with the Gold Cup Event Director, they are the only person in charge of depositing money to the bank. The sum of all unsigned deposit slips total \$1,162,698.

Risks

1. A lack of supporting documentation could result in the following:
 - a. Regulatory non-compliance due to a lack of evidence to verify performance or completion.
 - b. Inefficiencies in operations, as employees may spend excessive time searching for information that should be readily available.
 - c. Prevention of employees from verifying the accuracy, legitimacy, or existence of transactions, resulting in financial misstatement.
 - d. Loss of valuable institutional knowledge, making it difficult for new employees to understand past decisions and actions.
2. Incomplete documentation, such as missing signatures and approvals on application forms and inspection reports, could result in the following:
 - a. Regulatory non-compliance due to a lack of evidence to verify performance or completion.
 - b. Inefficiencies or redundancies in operations, as employees may spend excessive time verifying or processing information that that has already been completed.
3. A lack of proper records retention procedures and awareness by employees could result in sensitive information improperly maintained or protected, such as improper access to or distribution of personal background checks by employees.
4. A lack of evidence to support reviews and approvals could result in opportunities for incomplete, inaccurate, mishandled, and or inappropriate/unauthorized transactions, reporting, etc. This could further result in opportunities to commit fraud.

Recommendation 3.1

The VRC should consider establishing internal records retention policies and procedures for tracking and maintaining records regarding, but not limited to, incidents, payments, inspections, and other key activities. These should include defined intervals for all applicable types of documentation and align with any applicable requirements established by the Commonwealth. For additional details regarding internal policies and procedures, refer to **Observation 1** and associated recommendations.

Additionally, internal policies and procedures should define a standard process for saving documents to a shared drive on the network or a centralized, organized location. Currently, many documents are saved in individual email accounts, which could lead to availability and accessibility challenges when employees leave the organization. To prevent such occurrences, all employees should be required to save key documentation (the VRC should define what is key) in a centralized location. The VRC may also consider evaluating costs and benefits to improving or implementing a new centralized documentation management system to store, track, and manage all documents. These solutions could allow for proper retrieval, version control, and secure access to ensure that all necessary documentation is maintained and up to date.

For the definition of internal policies and procedures when compared to regulations and statutes, refer to *Background and Criteria* in **Observation 1**.

Corrective Action Plan and Implementation Date

The VRC has migrated the key activities to SharePoint as of November 1, 2024 and currently saves pertinent documentation on this cloud platform. The VRC will establish internal records retention policies and procedures to track and maintain documentation for incidents, payments, inspections, and other key activities. These policies will define retention intervals for each document type and ensure alignment with applicable Commonwealth requirements.

Partially complete, estimated completion date of July 1, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Recommendation 3.2

The VRC should consider conducting regular training sessions for employees on proper documentation practices and the importance of maintaining accurate records. Additionally, the VRC should consider implementing periodic reviews to ensure compliance with documentation standards and identify areas for improvement. For additional details regarding training, refer to **Observation 1** and associated recommendations.

Corrective Action Plan and Implementation Date

The VRC will conduct regular training sessions for employees on proper documentation practices and the importance of maintaining accurate records. Additionally, periodic reviews will be implemented to ensure compliance with documentation standards.

Estimated completion date of July 1, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Recommendation 3.3

The VRC should consider reviewing internal documentation in order to identify opportunities to revise or create templates and forms that ensure consistency and completeness throughout processes and the organization. This includes, but is not limited to, application forms, inspection reports and communications, payment receipts and expenditure reports, checklists, and other critical documents.

Corrective Action Plan and Implementation Date

The VRC has created several templates to ensure consistent processes such as invoicing, receipts reconciliation, etc. Many of the VRC's templates are in the form of Microsoft Lists which constrain the user to follow a specific format when using the List.

The VRC will review and revise internal documentation, develop standardized templates and forms, implement staff training, and establish a periodic review process to ensure consistency, completeness, and alignment with organizational standards.

Partially complete, estimated completion date of July 1, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Recommendation 3.4

The VRC should consider evaluating documentation utilized, maintained, and shared across each licensed facility in order to determine if they are consistent with established statutes and regulations. For additional details regarding internal policies and procedures, refer to **Observation 1** and associated recommendations. For example, these may include, but are not limited to:

1. HHR machine tracking mechanisms
2. Daily pari-mutuel wagering reports
3. Daily HHR revenue reports
4. Calculation and payment of taxes and other contributions
5. Cash reconciliation and deposit evidence

If procedures do not properly address the expectations or requirements of the VRC or the Code of Virginia, the VRC should work with the licensed facility to address until remediated. After an initial review, the VRC should consider implementing regular reviews of processes on an ongoing basis (e.g., annually, biannually, etc.). For additional details regarding internal policies and procedures, refer to **Observation 1** and associated recommendations.

For the definition of internal policies and procedures when compared to regulations and statutes, refer to *Background and Criteria* in **Observation 1**.

Corrective Action Plan and Implementation Date

The VRC currently reviews the standard operation procedures and system of internal controls submitted by each licensee.

The VRC has drafted a checklist of requirements for licenses related to limited racing, historical horse racing, advance deposit account wagering and permits. The VRC will assess each applicant's compliance with statutory and regulatory requirements, determining appropriate corrective actions such as enforcement measures or, if evaluations reveal inefficiencies in the standards, proposing amendments to the regulations.

The VRC will continue drafting the formal procedures for the remaining licenses or evaluate consolidating the regulations to assign uniform standards across similar licenses.

Partially complete, estimated completion date of December 31, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Recommendation 3.5

The VRC should assess the cost/benefit (e.g., risk mitigation impact) of increasing its resources and evaluate its current structure of roles/responsibilities when addressing this observation. Refer to **Observation 7** for additional details.

Corrective Action Plan and Implementation Date

Refer to 2.3.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Observation 4

VRC's current cash handling procedures do not effectively mitigate risks including segregation of duties, collection of, and security of cash.

Background and Criteria

SC&H met with management and representatives of the VRC, VEA, VGC, and CDG to understand their procedures, roles, and responsibilities regarding the following cash handling processes:

1. Petty cash and register handling and balances.
2. Receipt and storage of cash.
3. Calculation of change and return of cash.
4. Identification of counterfeit money.
5. Deposit preparation and approval.
6. Daily/Deposit reconciliation and approval.
7. Calculation, preparation, approval, and processing of expenses, taxes, revenues, and contributions.

There are procedures organizations are expected to implement into their own processes and operations in order to properly mitigate risk-based criteria surrounding cash handling. These criteria, sometimes in the form of approval workflows, segregation of duties, regular reconciliations, and surveillance, allow an organization to achieve compliance and mitigate related risks. These criteria were identified and considered throughout the audit, including fieldwork testing procedures.

In effect, organizations should align their operations in a manner that mitigate risks associated with cash handling by establishing and implementing certain internal policies, procedures, controls, etc.

Detail

The following was identified related to the VRC.

1. The VRC's operations do not include consistent segregation of duties to mitigate related risks over cash handling processes. For instance, multiple employees, specifically the Executive Secretary, Director of Pari-Mutuels & Licensing, and Director of Operations/General Admin Supervisor/Coordinator II are performing conflicting duties in their multiple job responsibilities, such as cash handling, reconciliations, deposits, and process approvals. Specifically, the Director of Pari-Mutuels & Licensing is responsible for collecting the cash, recording the transaction in the ARCI database, preparing, signing the deposit, and depositing the cash collected.

2. Cash handling procedures were observed while on-site at the VRC's New Kent office on 9/5/2024.

The following was identified:

The VRC does not have internal policies and procedures regarding cash handling process.

Risks

1. A lack of proper cash handling, reconciliation, and segregation of duties, resulting in conflicting roles, financial misstatement, collusion, fraud, theft, asset misappropriation, and regulatory non-compliance.
2. Discrepancies in cash handling performed at licensed facilities may result in financial misstatement, creating inaccuracies in calculation of contributions and taxes as determined by the Code of Virginia. This could further result in the organization not exercising effective oversight and enforcement of pari-mutuel activities.

Recommendation 4.1

The VRC should review current roles and responsibilities, both within the VRC and at licensed facilities, to identify areas in which segregation of duties is required and update internal policies and procedures to require that different employees complete tasks related to cash handling, reconciliations, deposits, and process approvals. For example, an employee responsible for preparing a deposit should not be responsible for delivering the deposit or recording the transaction. If effective segregation of duties are not obtainable, the VRC should assess the cost/benefit (e.g., risk mitigation impact) of increasing its resources and evaluate its current structure of roles/responsibilities when addressing this observation. Refer to **Observation 7** for additional details.

Corrective Action Plan and Implementation Date

The VRC will review roles and responsibilities within the organization and at licensed facilities to identify areas requiring segregation of duties, update internal policies to ensure proper task separation, and assess the cost/benefit of increasing resources or restructuring roles if segregation is not feasible.

Estimated completion date of July 1, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Recommendation 4.2

The VRC should implement additional cash handling processes, both within the VRC and at licensed facilities, to ensure the safe custodianship of cash and related documentation. For example, the storage of cash and checks is to be in a secure location, such as a safe with a changing combination, rather than in easily accessible locations like desks.

Corrective Action Plan and Implementation Date

In addition to the VRC's formalized cash handling procedures within the agency, the VRC will continue to enhance these processes and issue memorandums to licensees to strengthen their cash handling practices.

Partially complete, estimated completion date of July 1, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Recommendation 4.3

The VRC should consider implementing processes for employees to detect counterfeit bills and identify other fraudulent activities regarding cash handling. For additional details regarding internal policies and procedures, refer to **Observation 1** and related recommendations.

Corrective Action Plan and Implementation Date

The VRC has trained all employees who handle cash to detect counterfeit bills. The VRC will also procure detection tools so that the staff have the resources to detect counterfeit bills.

Partially complete, estimated completion date of March 1, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Recommendation 4.4

The VRC should review current internal processes to determine if proper reconciliations of cash deposits are being conducted to confirm accuracy and ensure that all transactions are properly recorded.

Corrective Action Plan and Implementation Date

On October 31, 2024, the VRC finalized an internal control assessment to ensure that proper reconciliations of cash deposits are being conducted in accordance with the CAPP manual. This assessment reflected on the activities performed in FY 2024, which is also covered by this audit. It revealed several areas of improvement which resulted in a corrective action plan. Since then, the VRC has been prioritizing the implementation of formal procedures that align with the regulations. It has been advocating to increase its resources. The steps that the VRC has taken thus far are explained in Recommendation 1.1. The VRC will conduct another assessment by 2025 to ensure proper controls.

Estimated completion date of October 31, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Recommendation 4.5

The VRC should consider evaluating cash handling processes for each licensed facility in order to determine if they are consistent with the expectations within statutes and regulations. For additional details regarding the evaluation of licensed facility processes, refer to **Observation 1** and related recommendations.

If procedures do not properly address the expectations or requirements of the VRC, the VRC should work with the licensed facility to address until remediated. After an initial review, the VRC should consider implementing regular reviews of processes on an ongoing basis (e.g., annually, biannually, etc.). Further, the VRC may pursue enacting legislation or administrative regulation through statutes and regulations in order to enforce any criteria not currently in effect. For additional details regarding the development of licensed facility guidance, refer to **Observation 5** and related recommendations.

For the definition of internal policies and procedures when compared to regulations and statutes, refer to *Background and Criteria* in **Observation 1**.

Corrective Action Plan and Implementation Date

The VRC will evaluate cash handling processes for each licensed facility through audits against existing regulatory requirements. If the audits reveal that current requirements are insufficient, the VRC will pursue regulatory updates to establish and enforce the necessary criteria.

Estimated completion date of October 31, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Observation 5

Current oversight of licensed facilities and associated organizations does not include comprehensive procedures to reduce the risk of regulatory noncompliance.

Background and Criteria

Virginia has enacted various statutes and regulations, to govern overall licensed facility compliance and operations throughout the Commonwealth. During the audit, the following statutes and regulations were reviewed:

Virginia Administrative Code 11VAC10-47: Historical Horse Racing.

- a. Establishes the powers of the VRC and actions license holders are required to abide by, specifically regarding, but not limited to:
 - i. Requirements for wagering on HHR
 - ii. Locations and hours of operation for HHR terminals
 - iii. HHR pools and payouts for pari-mutuel wagering
 - iv. Approval of HHR games and displays
 - v. Equipment required pari-mutuel wagering on HHR
 - vi. Ticket/Voucher requirements used in HHR
 - vii. Accounting and occurrence meter requirements
 - viii. HHR specification and selection requirements
 - ix. Wagering terminal display
 - x. Required reporting, audits, and inspections
 - xi. Permitting, licensing, applications, and fees of HHR pari-mutuel wagering
 - xii. Simulcasting operations and wagering
 - xiii. Responsible gaming disclosures
- b. Virginia Administrative Code 11VAC10-47-30: Observance of Regulations.
- c. Requires license holders to be charged with observance and compliance with the act and regulations of the VRC.

SC&H met with management and representatives of the VRC, VEA, VGC, and CDG to understand their procedures, roles, and responsibilities regarding the following oversight, enforcement, and inspection processes:

1. Regular VRC oversight activities, during and outside of races.
2. Notification of incidents at licensed facilities or races to the VRC.
3. VRC review and rulings on documented incidents.
4. Identification of counterfeit money.
5. Deposit preparation and approval.
6. Daily/Deposit reconciliation and approval.
7. Calculation, preparation, approval, and processing of expenses, taxes, revenues, and contributions.

There are procedures organizations are expected to implement into their own processes and operations in order to properly mitigate risk-based criteria surrounding the protection of assets, including equipment and cash. These criteria, sometimes in the form of regular maintenance, restrictive access (physical or electronic), additional security (e.g., locks, alarms, etc.), and surveillance, allow an organization to achieve compliance and mitigate related risks. These criteria were identified and considered throughout the audit, including fieldwork testing procedures.

Detail

The following was identified related to the VRC.

1. The VRC does not perform a budget-to-actual analysis on the benevolence fund revenue or expenditures incurred by the VHBP or VHHA in order to ensure the associations are aligned with their budget.
2. Although the VRC does perform inspections for racetracks and wagering facilities, those do not include the off-track betting facilities (Buckets Bar and Grill and Breakers Sports Grille).
3. VRC performs a formalized inspection process for the individual facilities. The associated procedures are documented in an HHR Facility Inspection Report and include inspection of parking lots, entrances, ID checks, cash handling rooms, IT rooms, HHR machines, food and beverage areas, and overall cleanliness. A VRC inspector performs the prescribed procedures and documents results.
 - a. During the inspection process, the inspector performs additional procedures including testing certain controls to verify they are working as intended. Examples include checking GLI numbers to ensure the machines are still compliant with GLI standards, and checking locks on doors to ensure patrons cannot access locked/secure areas. However, these additional procedures are not formally prescribed in the HHR Facility Inspection Report.
 - b. There is one Commission Investigator responsible for all investigatory functions at the VRC. This includes all races, HHR inspections and travel between them. Race days take upwards of 12 hours of which the Investigator must be working to ensure the races are operating appropriately. From these procedures we have found that the Commission Investigator has too many responsibilities and the VRC does not have adequate procedures/documentation to record any issues at the facilities which they oversee.
4. Tracking of HHR machines from the VRC is limited and not formally documented, resulting in inconsistencies between VRC records, licensed facility records, and physical results. The VRC's documentation is not catalogued in a central location and easily accessible in the event a VRC employee, such as the Commission Investigator, requires it. The VRC is notified of new HHR machine placements, however, in further testing and observations noted in test procedure 5.2, the locations and asset numbers of HHR machines do not match the Commission Investigator's HHR Terminal Location and Asset number spreadsheet.
5. Results documented in observations #1, 2, 3, 4, and 6 are also indicative of a lack of oversight and enforcement by the VRC.

The following was identified related to licensed facilities (i.e., CDG/Rosies, VEA, and VGC):

At each facility inspected where HHR machines were present, instances where machines were not closed properly, allowing public access to a machine's internal mechanisms, were identified.

Risks

1. A lack of budget-to-actual analyses may result in inaccurate monitoring of over/underspending across expense categories, which can further lead to an inability to make informed/strategic decisions regarding allocation of future funding.
2. A lack of facility inspections may result in regulatory non-compliance or reputational damage.
3. Inadequate tracking and documentation of HHR machines may result in operational inefficiencies and regulatory non-compliance.
4. Inadequate maintenance or presentation of HHR machines may result in patron tampering, theft, regulatory non-compliance, financial liability, or reputational damage.

Recommendation 5.1

The VRC should consider developing comprehensive guidance, manuals, and other informative tools for use by individual license holders and facilities. This involves, but is not limited to, creating clear and detailed documentation that outlines expected performance standards, procedures, and best practices to ensure users have a thorough understanding of processes and expectations from both the VRC and applicable regulations.

Corrective Action Plan and Implementation Date

The VRC's guidance for licensees are incorporated into its regulations. The VRC will review these regulations with dedicated counsel to ensure they are up-to-date, clear, and easy to understand, facilitating compliance and streamlining processes.

Estimated completion date of December 31, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Recommendation 5.2

The VRC should consider reviewing internal inspection processes and applicable regulatory requirements to determine if Off-Track Betting (OTB) facilities, namely Buckets and Breakers, which do not include HHR machines but are under the scope of the VRC's responsibilities and subject to inspection. For additional details regarding internal policies and procedures, refer to **Observation 1** and associated recommendations.

Corrective Action Plan and Implementation Date

The VRC will incorporate the review of Buckets and Breakers in its regular inspection and update inspection forms to reflect the unique aspects of both locations.

Estimated completion date of April 1, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Recommendation 5.3

The VRC should consider developing and implementing internal records retention policies and procedures detailing proper retention of key documentation utilized in the tracking of HHR assets and other equipment. For additional details regarding internal policies and procedures on records retention, associated trainings, and standardization, refer to **Observation 3** and associated recommendations.

Corrective Action Plan and Implementation Date

The VRC will adopt a retention policy, similar to observation 3.

Estimated completion date of July 1, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Recommendation 5.4

The VRC should assess the cost/benefit (e.g., risk mitigation impact) of increasing its resources and evaluate its current structure of roles/responsibilities when addressing this observation. For instance, the Investigator plays an important role to determine if licensed facilities adhere to the certain regulations/requirement. Given the travel requirements and the nature of this role, the VRC may consider increasing its resource count. Refer to **Observation 7** for additional details.

Corrective Action Plan and Implementation Date

The VRC will hire additional personnel and seek an amendment to the maximum position count to address resource needs and enhance its ability to ensure compliance with regulatory requirements.

Estimated completion date of December 31, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Observation 6

Calculations of handle, breakage, and contributions are inconsistent and lack proper supporting documentation.

Background and Criteria

Virginia has enacted various statutes and regulations to govern overall calculation and reporting of handle, breakage, and contributions operations throughout the Commonwealth. During the audit, the following statutes and regulations were reviewed:

1. Code of Virginia §59.1-392. Percentage Retained; Tax.
 - a. Establishes the proper percentages of breakage and pari-mutuel wagering pools to be either retained by the facility or paid to each applicable organization or jurisdiction based on a mix the following criteria:
 - i. Live or simulcasted race
 - ii. Race held within or outside of Virginia
 - iii. If the location is a racetrack or satellite facility
 - iv. If the race is Win/Place/Show or Exotic (non-Win/Place/Show)
 - b. Designates industry third-parties as recipients to a portion of the breakage. These include, but are not limited to:
 - i. Virginia Breeders Fund
 - ii. Virginia-Maryland Regional College of Veterinary Medicine
 - iii. Virginia Horse Center Foundation
 - iv. Virginia Horse Industry Board
2. Virginia Administrative Code 11VAC10-47-130: Observance of Regulations.
 - a. Requires all systems used for pari-mutuel wagering on historical horse races to provide financial reports for individual approved wager model configurations and total pool amounts for each pool at the end of the wagering day, or upon request by the VRC. The reports shall include, but are not limited to:
 - i. Pari-mutuel wagering pools
 - ii. Total amounts wagered
 - iii. Total amounts won
 - iv. Total commission
 - v. Total breakage
 - vi. Total amount cashed out
 - vii. Taxable win events
 - b. Establishes the power for the VRC to conduct a financial audit for license holders, when needed.

SC&H met with management and representatives of the VRC, VEA, VGC, and CDG to understand their procedures, roles, and responsibilities regarding the following revenue reporting, calculation, and payment processes:

1. Regular reporting of pari-mutuel wagering or HHR revenues.
2. Calculation and verification of wagering or HHR handle and breakage by the licensed facility and VRC.
3. Processing and verification of payment of taxes and other contributions from licensed facilities by the VRC.
4. Calculation, notification, and verification of benevolence fund contributions by the VRC for licensed facilities.

Detail

The following was identified related to the VRC.

1. The VRC's calculation spreadsheet used to recalculate and verify tax amounts and owed contributions was used as a point-in-time tool that was updated week-over-week. Because of this, no historical records exist for further verification that VRC's initial calculation was correct. Further, the documentation does not differentiate between the following distinctions established by the Code of Virginia §59.1-392:
 - a. Subsection B: Racetrack live horse racing in VA (Win/Place/Show)
 - b. Subsection C: Satellite facility live horse racing in VA (Win/Place/Show)
 - c. Subsection E: Racetrack live horse racing in VA (non-Win/Place/Show)
 - d. Subsection F: Satellite facility live horse racing in VA (non-Win/Place/Show)
 - e. Subsection I: Racetrack Simulcast horse racing outside of VA (Win/Place/Show)
 - f. Subsection J: Satellite facility live horse racing in VA (Win/Place/Show)
 - g. Subsection L: Racetrack Simulcast horse racing outside of VA (non-Win/Place/Show)
 - h. Subsection M: Satellite simulcast horse racing outside of VA (non-Win/Place/Show)
2. SC&H compared total handle amounts reported on VRC's Pari-Mutuel - Wagering by Source 2022 and 2023 spreadsheets to the amounts recorded on the Tote reports. Per inspection, the amounts for the Richmond HHR handles did not tie. The following variances were found between the total breakage per the tote reports and the total handle per the Pari-Mutuel Wagering by Source spreadsheet(s):
 - i. 5/2/2023 - 5/8/2023: \$2,028.31 (1.13%)
 - ii. 12/25/2023 - 12/31/2023: \$9,205.70 (4.39%)
3. The total breakage within the "Pari-Mutuel Wagering by Source" did not agree to the total breakage per the tote reports for the selected period. As a result, true amounts in the calculation of breakage could not be verified. The following variances were found between the total breakage per the tote reports and the total breakage per the Pari-Mutuel Wagering by Source spreadsheet(s):
 - i. Oct 2022 (OTB): \$45.80
 - ii. April 2023 (CD Racetrack): \$0.07
 - iii. April 2023 (HHR): \$3.32
 - iv. April 2023 (OTB): \$0.27
 - v. December 2023 (OTB): \$2.06

The following was identified related to licensed facilities (i.e., CDG/Rosies, VEA, and VGC).

1. Rosie's HHR facilities were acquired by Colonial Downs Group in November 2022. Because of this, no data prior to November 2022 was provided. VRC oversaw the facilities before Colonial Downs Group purchased the facilities and did not maintain documentation of revenue, or reporting at the facilities.
2. When recalculating breakage totals, the Thoroughbred Breakage and Harness Breakages totals within the calculation spreadsheet provided by CDG included Emporia HHR. However, the Total Breakage Calculation within the spreadsheet improperly excluded the Emporia HHR totals. The total Thoroughbred Breakage and Harness Breakage totals appeared to be calculated improperly, resulting in an error in the calculation of Benevolent Fund contributions. It further appears that due to the error in the calculation of the Benevolent Fund contributions, amounts paid to VHBPA and VHHA may have been under- and/or overstated.

Risks

1. A lack of supporting documentation may result in undetected and unsupported errors, incorrect reporting of breakage and contribution amounts, and regulatory non-compliance.

2. Incomplete documentation, such as missing signatures and approvals on application forms and inspection reports, may result in operational inefficiencies, and regulatory non-compliance.

Recommendation 6.1

The VRC should consider reviewing and revising internal processes involving the receipt of revenue reports, calculation of handle, breakage, benevolence, and contributions, and verification of payments consistent with the calculations. For additional details regarding internal policies and procedures, refer to **Observation 1** and associated recommendations.

For the definition of internal policies and procedures when compared to regulations and statutes, refer to *Background and Criteria* in **Observation 1**.

Corrective Action Plan and Implementation Date

Similar to observation 1, the VRC will continue to improve its internal processes to ensure that proper documentation is maintained for payments that are verified.

Estimated completion date of July 1, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Recommendation 6.2

The VRC should consider developing and implementing records retention policies and procedures detailing proper retention of key documentation utilized in the calculation of breakage and contributions to various funds. For additional details regarding policies and procedures on internal records retention, associated trainings, and standardization, refer to **Observation 3** and associated recommendations.

For the definition of internal policies and procedures when compared to regulations and statutes, refer to *Background and Criteria* in **Observation 1**.

Corrective Action Plan and Implementation Date

The VRC will develop and implement records retention policies and procedures to ensure the proper retention of key documentation related to the calculation of breakage and contributions to various funds.

Estimated completion date of July 1, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Recommendation 6.3

The VRC should consider evaluating revenue calculation and required payment (e.g., contributions and taxes) procedures for each licensed facility in order to determine if they are consistent with the expectations and regulations established by the VRC and the Code of Virginia. For additional details regarding the evaluation of licensed facility processes, refer to **Observation 1** and associated recommendations.

If procedures do not properly address the expectations or requirements of the VRC or the Code of Virginia, the VRC should work with the licensed facility to address until remediated. After an initial review, the VRC should consider implementing regular reviews of processes on an ongoing basis (e.g., annually, biannually,

etc.). For additional details regarding the development of licensed facility guidance, refer to **Observation 5** and associated recommendations.

Corrective Action Plan and Implementation Date

As discussed in recommendation 1.1, the VRC has implemented procedures to reconcile revenues and will collaborate with the facility to remediate any discrepancies in the future.

The VRC conducts a monthly reconciliation of revenues and expenditures. These have been retained on the VRC's SharePoint since November 2024. The VRC will continue to perform this reconciliation on a monthly basis pursuant to the CAPP manual.

Complete as of November 2024.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Observation 7

The VRC's current organizational structure and resource configuration could impact its ability to effectively address operational improvements and internal process formalization efforts.

Background and Criteria

Virginia has enacted various statutes and regulations to govern the overall structure and organization of the VRC. During the audit, the following statutes and regulations were reviewed:

1. Code of Virginia §59.1-366. The Virginia Racing Commission created; members.
 - a. Establishes the VRC and its five members, appointed by the Governor and confirmed by a General Assembly majority, to serve as Commissioners.
 - b. Establishes Commissioner requirements, such as residency, appointment terms, compensation, and business meetings.
2. Code of Virginia §59.1-367. Legal representation.

Establishes the powers and requirements of legal representation by a general counsel, solely for the VRC.
3. Code of Virginia §59.1-370. Commission; Executive Secretary; staff; stewards.
 - a. Establishes the role and requirements of an Executive Secretary to perform the duties of the VRC, as well as delegate or prescribe duties to employees which may include, but are not limited to, the following:
 - i. Stewards
 - ii. Chemists
 - iii. Veterinarians
 - iv. Inspectors
 - v. Accountants
 - vi. Guards
 - b. Establishes the authority and responsibilities of stewards appointed by the VRC.
4. Virginia Administrative Code 11VAC10-70: Stewards
 - a. Defines the appointment, roles, responsibilities, and authority of VRC stewards.
5. Virginia Administrative Code 11VAC10-80: Commission Veterinarian
 - a. Defines the appointment, roles, responsibilities, and authority of VRC Commission Veterinarian.

This audit report's observations and related recommendations include actions to formally establish and/or revise internal organizational procedures that could help 1) mitigate certain risks and 2) enhance organizational processes.

Detail

The audit included procedures to evaluate the VRC's structure/resources based on prescribed audit objectives. During the audit, the following was identified.

Staff/Resource Count and Activity

The VRC employed approximately six - eight staff members who were responsible for performing the tasks/duties/functions included in the scope of this audit.

There was also turnover in two positions within the VRC during the audit period. These positions included the Executive Secretary (twice, which includes one interim Executive Secretary) and Director of Pari-Mutuels and Licensing who performs important duties as related to the scope of this audit.

The audit’s observations include multiple recommendations that present opportunities to help enhance current operations, formalize and implement internal policies and procedures, and incorporate risk mitigation processes. Based on the information learned and procedures conducted during the audit, and from the information/data presented below, the VRC’s ability to address report observations and their recommendations, and implement positive change, may be limited with the current organizational structure and resource configuration.

Metrics

The following provides data on VRC inspections, individual licenses issued, number of races staffed by VRC personnel, and HHR terminal count during the scope of the audit.

1. VRC Inspections: The VRC conducts inspections of all licensed HHR facilities twice a month. During the audit’s scope period, two additional facilities opened, Rosie’s Emporia and The Rose in Dumfries, VA. These new facilities add to the number of inspections to be completed per month, resulting in a total of 192 inspections per year across 8 locations and a route range of approximately 485 miles. Additionally, various inspections of racing facilities are required for each approved race date. In 2024, races were ran for a total of 57 days across three racetracks and a route range of approximately 171 miles.
2. Individual Licenses Issued: The VRC processes approximately 3,300 to 4,300 licenses for individuals each year. A consistent team of three VRC employees are responsible for reviewing each application, fingerprinting each licensee, performing a background check, and updating and monitoring applicable systems of record. Further, license requirements may vary depending on the position and relationships of the applicant. A total of 29 application types are specified in licensing regulations and statutes established by the Code of Virginia and Virginia Administrative Code. Refer to **Figure 1** below for an illustration.²⁰

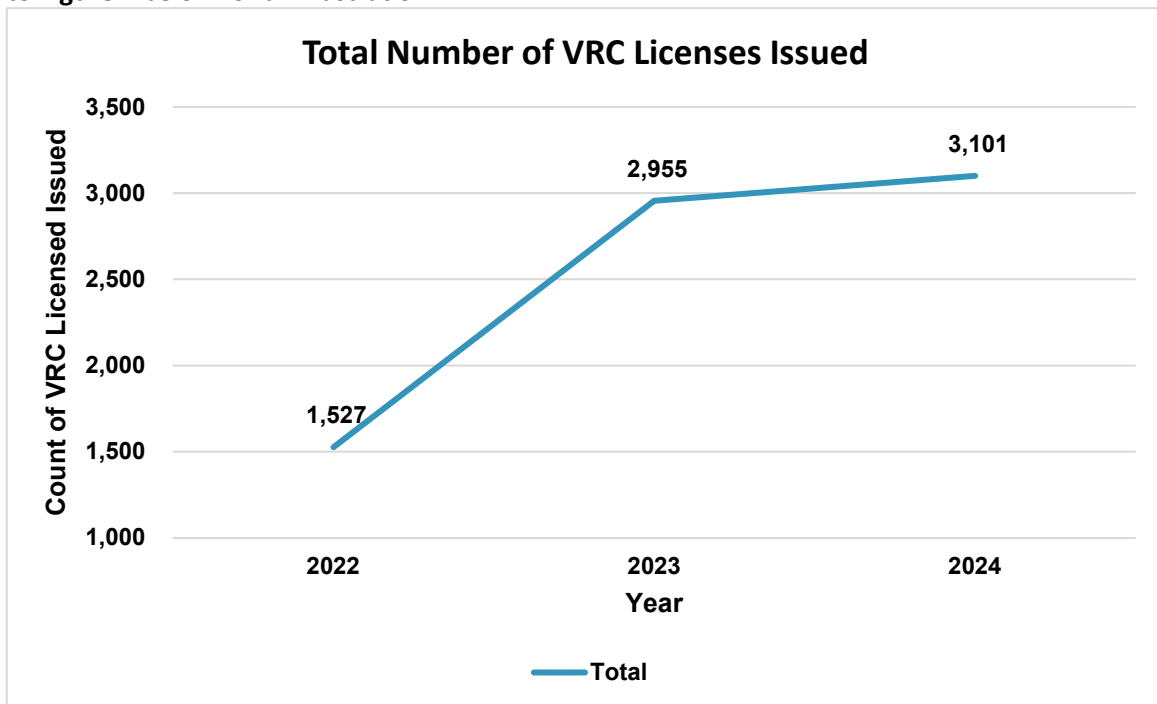


Figure 1: Individual Licenses Issued

²⁰ Data to conduct these analyses was obtained by the VRC staff during the audit and was sourced from the ARCI database and internal tracking documentation.

3. HHR Terminal Count: Colonial Downs Group added 123 new HHR terminals during the scope period. However, with the opening of The Rose in October of 2024, 1,650 new HHR terminals were added bringing the total number of HHR facilities under the supervision of the VRC to 4,440 across eight locations. Refer to **Figure 2** below for an illustration.

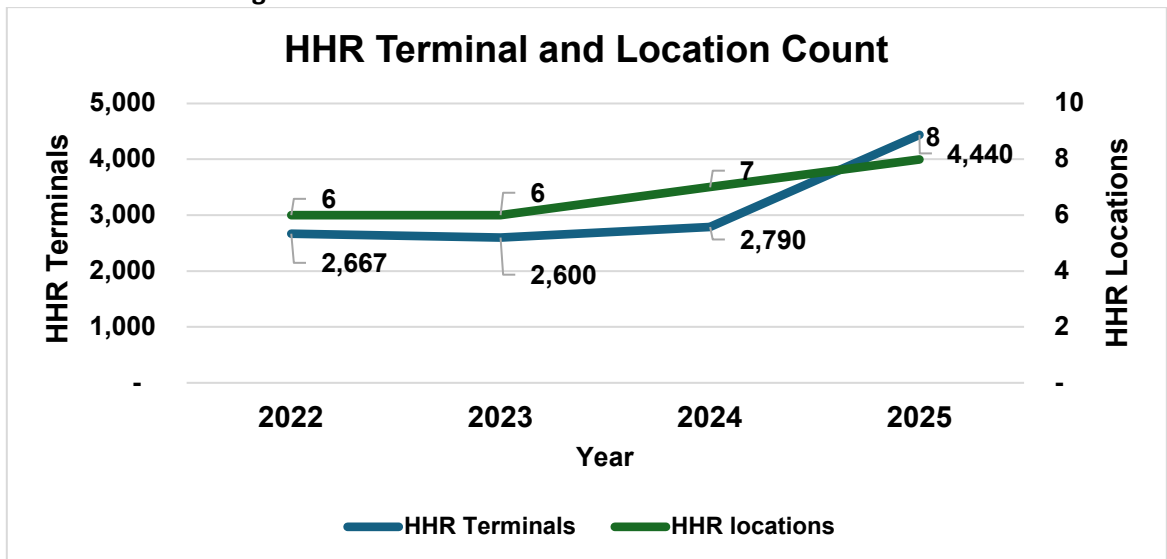


Figure 2: HHR Terminals and Location Count

4. Race Days: As part of their responsibility to ensure the integrity in horseracing, the VRC oversees all races in their jurisdiction. In 2024, the VRC planned to oversee 57 race days across three racing organizations (VGC: 2, VEA: 28, CDG: 27). For every 100 additional terminals authorized pursuant to subdivision 8 of 11VAC10-47-180, the total number of live horse racing days held shall be increased by one day.²¹ With the addition of The Rose and the new HHR machines that come with it, a total of 17 additional race days are scheduled for 2025. Refer to **Figure 3** below for an illustration of this data. It should be noted that 2025 numbers are based on projections of the additional number of races which should be added based on adherence to the code of Virginia described earlier.

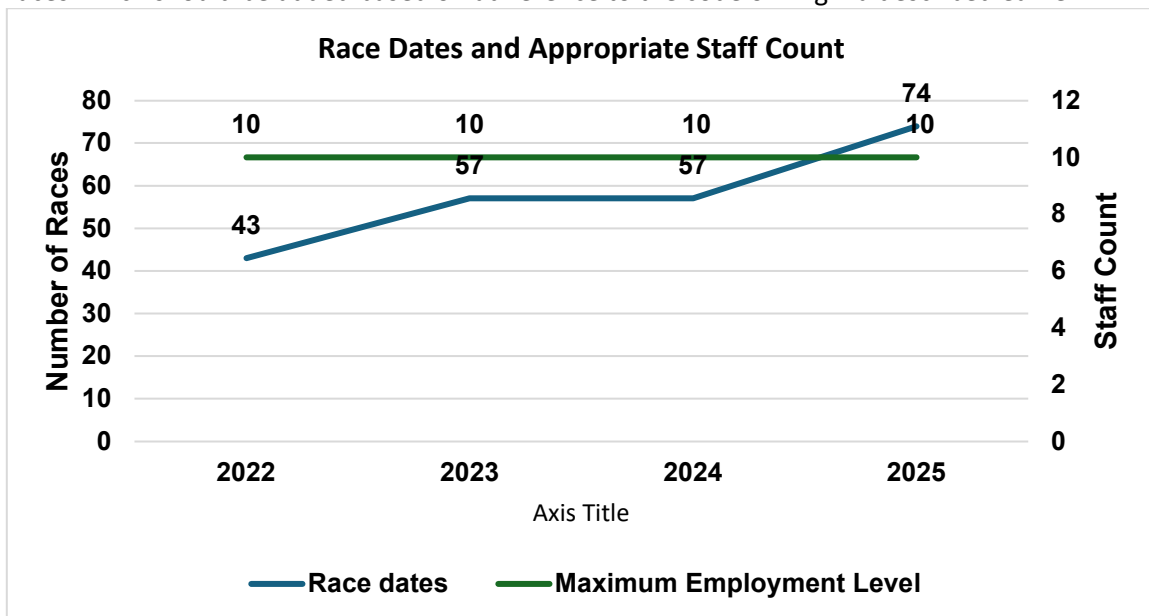


Figure 3: Race Dates and Appropriate Staff Count

²¹ 11VAC10-47-190. Significant infrastructure limited licensee operations.

Risks

A lack of resources and/or an organizational structure (e.g., roles, responsibility, etc.) that is not conducive to performing and overseeing the various functions performed by the VRC could present the following risks:

1. Inconsistent performance of key process steps due to a lack of documented internal policies and procedures.
2. Inability to sufficiently perform oversight and inspection procedures related to individual licensees, licensed facilities, and procedures performed at satellite wagering facilities and racetracks.
3. Inability to sufficiently track and maintain supporting documentation related to licensing, cash handling, inspections, etc.
4. Improper segregation of duties in key process areas such as cash handling.
5. Inability to perform various proactive strategic planning efforts and analyses, including budget-to-actual trend analysis, reviews and enhancements to agency processes and procedures, etc.

Recommendation 7.1

When addressing observations and recommendations from this audit (e.g., management action plans), and potential other changes outside of this audit's scope, the VRC should evaluate the current structure of its organization including resource counts, roles, responsibilities, positions, etc. who would be impacted as a result of action plans. Evaluation criteria may include, however are not required to be and/or are not limited to, the following:

1. Prepare draft material to document what the new, existing, and revised processes, tasks, procedures, etc. will be (e.g., commensurate with internal policy and procedure recommendations and other recommendations) (collectively referred to here in this recommendation as "revised operations").
2. Evaluate current roles, responsibilities, positions, etc. and align/link them to the revised operations.
3. Determine if the current resource numbers and/or structure of roles would impact the VRC's ability to achieve revised operations.
4. Identify methods to mitigate challenges to achieve revised operations, which may include:
 - a. Providing training opportunities to resources (which is also referenced above in Observation 1).
 - b. Revising certain positions, responsibilities, roles, etc. to:
 - i. align with the revised operations.
 - ii. offer risk mitigation opportunities (e.g., effectively designed and operational controls, effective segregation of duties, etc.).
5. Determine if the VRC can achieve its desired results based on the current number of resources. Refer to **Recommendation 7.2** for additional details related to resource numbers.
6. If the VRC determines changes are warranted, seek approval, and implement.

Corrective Action Plan and Implementation Date

The VRC has already evaluated its operations and roles, filing an amendment to the budget to address resource needs. If funding is not approved this year, the VRC will file another amendment next year and, in the interim, adapt its operations to function effectively with the current lean resources.

Estimated completion date of July 1, 2025.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Recommendation 7.2

The VRC should assess its current resources relative to current and future anticipated organizational changes and workloads and determine if there are adequate resources available to effectively perform functions in a formalized, consistent, and controlled manner. If there are insufficient resources available to address recommendations, the VRC should consider additional actions (e.g., reallocate and/or reassign duties, and/or seek additional resources through the budget process).

Corrective Action Plan and Implementation Date

The VRC has assessed its current resources relative to anticipated organizational changes and workloads and determined that additional resources are needed to perform functions in a formalized, consistent, and controlled manner.

Complete as of October 8, 2024.

Refer to **Appendix II: VRC Corrective Action Plan** for additional details.

Recommendations 7.1 and 7.2 also consider recommendations to address **Observations 1, 2, 3, 4, and 5**. Instances where the current resource structure/count could be an issue are provided within those recommendations, and reference back to **Recommendation 7.1 and 7.2's** overall position to consider and address organizational structure and resource numbers.*

*Opportunities to address organizational structure and resource numbers should be evaluated and determined by the VRC. The VRC may agree or disagree with these opportunities and/or there may be other constraints outside of the scope of this audit. Recommendations are not requirements, and it is the VRC's responsibility to address them and decide what actions to take or not take.

Appendix I: VRC Management Response Letter

Stephanie B. Nixon, *Chair*
John F. Tanner, Jr., *Vice Chair*
Bette Brand
Gillian Gordon-Moore
Stuart C. Siegel



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New Kent, Virginia 23124
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Waqas Ahmed
Executive Secretary

Sent via Electronic Mail

January 29, 2025

The Honorable Michael C. Westfall
State Inspector General
Office of the State Inspector General (OSIG)
P.O. Box 1151
Richmond, VA 23218

RE: Management Response to Findings

Dear State Inspector General Westfall,

On behalf of the Virginia Racing Commission (VRC) members and staff, I want to thank OSIG and the SC&H team for providing a review of our operations. We are happy to report the significant strides the VRC has made since the audit's inception, and a corrective action plan to mitigate any risks in the future.

As you know, horse racing is a tradition deeply rooted in the Commonwealth's history. When pari-mutuel wagering on horse racing was legalized, the Commonwealth entrusted the VRC with the coupled responsibility of promoting and regulating this native industry. As an agency under the Commonwealth's Executive Branch, the VRC carries out its duties by:

- Developing industry-specific rules and protocols that promote and control the horse racing industry in a symbiotic manner.
- Adhering to statewide policies and procedures, such as:
 - Department of Human Resource Management (DHRM) policies, which govern staffing, training, code of conduct, and performance evaluations.
 - The Commonwealth Accounting Policies and Procedures (CAPP) Manual, in conjunction with an agreement with the Department of Accounts (DOA) for transactional-level accounting services.
 - An Agency Risk Management and Internal Control Standards (ARMICS) assessment, conducted annually to certify our internal controls.

This framework provides a vital structure and accountability to the VRC. For the period under review, the VRC faced significant challenges that eventually led to turnover in management. The Commissioners saw an opportunity to launch a thorough review of the critical processes by hiring a new Executive Secretary in August 2024. Over the last five months, the Commissioners and I have worked together to continue oversight of racing and pari-mutuel wagering, while also performing an evaluation of the resource limitations and key controls. As a result, the VRC certified an assessment of its internal controls in October 2024. In reviewing the report, we find many of the same observations as our assessment and we concur with the recommendations that the VRC needs consistent internal control.

RE: Management Response to Findings

To date, the VRC has made significant progress in mitigating risks due to the gaps identified. These include the adoption of:

1. Conflicts of Interest Act Procedures for Appointed Officials
2. Conflicts of Interest Procedures for Racing Officials and Permit Holders
3. Accounting Policies and Procedures (i.e., Cash Handling, Disbursements, Procurement, and Revenue Reconciliation)
4. Individual and Entity Permit Manual for Licensing Staff
5. Handle Reporting and Tax Reconciliation Procedures
6. Formal Review Procedures for Limited Licenses, Advance Deposit Wagering (ADW), and Historical Horse Racing (HHR).

We recognize that simply drafting and implementing these procedures is not the goal. The VRC has and will continue to implement these procedures. In October 2025, the VRC will perform an internal assessment surrounding the effectiveness of these controls for fiscal year 2025.

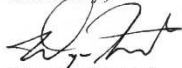
Some audit findings may require amendments to statutory language. Balancing best practices within our current statutory framework will be an ongoing process. We recognize, for example, that certain vendors involved in sensitive operations must meet licensing requirements, while others (e.g., beverage distributors) may not require as much scrutiny. The VRC will draft regulatory amendments concerning this aspect and others that fall within the statutory framework designed by the General Assembly.

In response to the recommendations to evaluate resources, the VRC concurs and has undertaken the following steps:

1. Budget Request- We have submitted a request to increase our staff by ten full-time employees, reflecting the increased demands of overseeing the racing industry.
2. Request for a General Counsel Position - Pursuant to *Va. Code Ann. § 59.1-367*, this position will work closely with the Executive Secretary and the Attorney General's office to navigate the daily challenges that the agency encounters while regulating the racing industry.

As we continue to advocate for these resources, the VRC will maximize efficiency within its existing environment. We have, for instance, transitioned all licensing, pari-mutuel, and fiscal operations onto a SharePoint site. This simple step allows us to track licensing processes, manage change requests, and document investigative issues - thereby eliminating many of the outdated processes mentioned in the audit report. We believe that this new direction, combined with the oversight provided by the state protocols, will ensure the VRC continues to achieve its mission.

Sincerely,



Waqas Ahmed
Executive Secretary

cc: Commissioners, VRC
Adam Tagert, Deputy Inspector General
Matt Simmons, SC&H



Appendix II: VRC Corrective Action Plan

**Office of the State Inspector General
Virginia Racing Commission (VRC) Performance Audit
Corrective Action Plan
July 1, 2022 through August 31, 2024**

REC. NO.	RECOMMENDATION	CORRECTIVE ACTION	DELIVERABLE	ESTIMATED COMPLETION DATE	RESPONSIBLE POSITION
1.1	<p>The VRC should consider establishing and implementing formal policies and procedures including, but not limited to, the following. When updating and developing policy and procedural documentation, the VRC should address the applicable Codes, operations, risks mitigation, etc., as referenced above.</p> <ol style="list-style-type: none"> Conflicts of interest: These should include, at a minimum, protocols for VRC employees, individual license holders, and licensed facilities to disclose, track, and eliminate potential conflicts (e.g., financial, familial, professional, etc.). This policy should also address disciplinary actions to be taken in the event an undisclosed conflict is identified. Cash handling: These should include, at a minimum, guidelines for cash handling, reconciliation, and security measures to prevent financial mismanagement and fraud. Individual licensing: These should include, at a minimum, processes for receiving, reviewing, and processing applications as well as fingerprinting, fee collection, and background check handling activities. 	<p>In reference to #9, the VRC evaluated the effectiveness of its internal controls for Fiscal Year 2024. This assessment was completed on October 31, 2024. The new management of the VRC observed a lack of formal policies and procedures and concurs with many of the points raised in this recommendation. As such, it began taking proactive steps to create and implement the following procedures:</p> <ol style="list-style-type: none"> Conflicts of Interest Act Policy and Procedures for Appointed Officials Conflicts of Interest Procedure for Racing Officials and Permit Holders Accounting Policies and Procedures (i.e., Cash Handling and Safeguarding, Disbursements and Expenditures, 	<p>Policies and Procedures for Major Process Identified.</p>	<p>Partially complete July 1, 2025</p>	<p>Agency Head Compliance Officer Fiscal Officer</p>

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	<p>4. Facility licensing: These should include, at a minimum, procedures for receiving, reviewing, and processing applications, submitting them for Commissioner approval, and fee collection.</p> <p>5. Handle, revenue, and contribution calculation and verification: These should include, at a minimum, sources and the use of pari-mutuel wagering data, such as tote reports, detailed contribution calculations, reporting responsibilities of facilities, fee collection, and payment verification.</p> <p>6. Breakage calculation and allocation: These should include, at a minimum, sources and the use of pari-mutuel wagering data, such as tote reports, detailed breakage calculations, reporting responsibilities of facilities, fee collection, and payment verification.</p> <p>7. Benevolence Fund management, calculations, and contributions: These should include, at a minimum, sources and the use of pari-mutuel wagering data, such as tote reports, detailed benevolence calculations, reporting responsibilities of facilities, fee collection, payment verification, and fund management oversight.</p>	<p>Procurement, Revenue Collection, ACH Reconciliation, and Credit Card Purchase Reconciliation)</p> <p>4. Individual and Entity (Including Vendors) Permit Manual for Licensing Division</p> <p>5. Limited License, HHR, and ADW Licensing Review Procedures</p> <p>6. Handle Reporting and Tax Reconciliation Procedures</p> <p>7. Administrative audit procedures using ARMICS</p> <p>In reference to #6 and #7, these processes related to the handle reconciliation and disbursement procedures that have been implemented by the VRC. The funds are managed pursuant to the General Assembly's policy set forth in</p>			

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	<p>8. Administrative and financial audit procedures: These should include, at a minimum, protocols for administrative tasks, such as expenditure approval and reimbursement, budget monitoring, client service responsibilities, and roles and responsibilities in financial audit procedures.</p> <p>9. Conducting inspections and recording issues at facilities: These should include, at a minimum, on-site inspection procedures, roles and responsibilities, maintenance and completion of inspection documentation, corrective actions, notification of results, and tracking of inspection results and issues.</p> <p>Once established, the VRC should monitor policies and procedures and update them on a regular basis in order to reflect current processes, standards, and regulations. At a minimum, policies should be reviewed and updated at least annually based on current practices (or whenever changes occur based on Codes, regulations, laws, operations, etc.). Policies should include job specific details related to the various sub-process areas.</p>	<p>the Code of Virginia.</p> <p>The VRC currently performs procedures for facility inspections, backside investigations, sample collections, etc. The procedures for these are outlined in regulations as is the industry practice for racing regulators. However, the VRC is currently drafting an internal procedure manual to streamline the performance of these procedures and track them within SharePoint.</p> <p>In implementing the foregoing, the VRC will ensure that proper review of the procedures is retained to ensure compliance with its regulations.</p> <p>The VRC will perform quality control on these procedures</p>			

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	Evidence of review of the policies should be documented, and any substantial changes should be immediately communicated and distributed to impacted staff to access and review.	through the completion date.			
1.2	<p>Comprehensive training on updated and newly implemented policies and procedures may be necessary and should be conducted for all impacted employees. The training should include the reasoning behind the updates to the policies and procedures, detailed explanation of the new policies and procedures, and practical applications to ensure understanding. For new hires, these trainings may be implemented into the onboarding process to ensure compliance from the start.</p> <p>The VRC should consider developing formal policies and procedures for initial and ongoing trainings, tracking employee compliance with trainings, and reviewing employee qualifications to ensure they are knowledgeable about relevant topics, including trends, laws, and regulations in</p>	The VRC will develop and implement formal policies and procedures for initial and ongoing training programs, ensuring all impacted employees receive comprehensive education on updated and new policies. The training will include the rationale behind updates, detailed explanations, and practical applications. New hire training will be integrated into the onboarding process to ensure compliance from the outset.	Training program for policies and procedures.	July 1, 2025	Director of Operations

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	order to perform their roles and responsibilities as defined by the VRC				
1.3	<p>The VRC should consider evaluating policies and procedures for key activities at each licensed facility in order to determine if they are consistent with the expectations established by statutes and regulations. For example, key activities include, but are not limited to:</p> <ol style="list-style-type: none"> 1. License application and enforcement 2. Cash handling 3. Pari-mutuel wagering and revenue reporting 4. Calculation and payment of taxes and other contributions 5. Acquisition and maintenance of HHR machines <p>If internal policies and procedures do not properly address the current and established expectations or requirements within statutes and regulations, the VRC should work with the licensed facility to address until remediated. After an initial review, the VRC should</p>	The VRC will evaluate the current regulations and evaluate areas for minimum internal control standards as they apply to each different license type.	Minimum Internal Control Standards drafted for review by the Commission.	December 31, 2025	Agency Head General Counsel

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	consider implementing regular reviews of internally developed policies and procedures on an ongoing basis (e.g., annually, biannually, etc.) to enforce compliance with existing controls among licensed facilities. For additional details regarding the development of licensed facility guidance, refer to Observation 5 and associated recommendations.				
1.4	The VRC should assess the cost/benefit (e.g., risk mitigation impact) of increasing its resources and evaluate its current structure of roles/responsibilities when addressing this observation. Refer to Observation 7 for additional details.	The VRC has evaluated its resources and has filed requests to increase its resources.	Budget Amendment, Request to Hire General Counsel pursuant to Code.	October 8, 2024	Agency Head
2.1	The VRC should consider reviewing and revising current processes that require the completion of background checks before issuing a license, whether present in legislative regulation, administrative code, or exist as an internally established requirement. There are different types of licenses required based on the individual and the work they	The VRC will review background check requirements in existing regulations and statutes and request updates as needed to ensure alignment with risk levels and operational needs.	Amendment to statutes and regulations.	July 1, 2025	General Counsel Compliance Officer Agency Head

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	<p>perform. The position and level of risk associated with the individual's access to facilities may not require a background check prior to the issuance of a license. For example, a VRC employee should be required to obtain a passing background check before issuance of a license. However, a groom registering on race day may be issued a license without the results of the background check and their status can be re-evaluated if an issue arises.</p> <p>Any revisions should include a clear process for handling applications and a timeline that ensures all necessary checks are completed before granting a license. For additional details regarding policies and procedures, refer to Observation 1 and associated recommendations.</p> <p>For the definition of internal policies and procedures when compared to regulations and statutes, refer to <i>Background and Criteria</i> in Observation 1.</p>				
2.2	The VRC should consider developing, implementing, and enforcing an internal	The VRC will review existing regulations to determine if a tiered approach to vendor	Proposed amendment to	July 1, 2025	Agency Head Compliance Officer

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	<p>vendor licensing policy for internal use that includes all personnel who have access to sensitive areas. This policy should outline the requirements for vendor licenses and the process for verifying compliance that VRC employees must follow and refer to. Additionally, this policy may clarify or redefine who qualifies as a vendor and vendor employee and, thus, is required to be issued and present a license. For example, a food and beverage delivery driver may not require the same restrictions as an armored car driver who accesses secure cash storage areas to collect deposits. For additional details regarding policies and procedures, refer to Observation 1 and associated recommendations.</p> <p>For the definition of internal policies and procedures when compared to regulations and statutes, refer to <i>Background and Criteria</i> in Observation 1.</p>	licensure, based on access to sensitive areas, can be established and implemented at the regulatory level.	regulations.		General Counsel
2.3	The VRC should assess the cost/benefit (e.g., risk mitigation impact) of increasing its resources when addressing this observation.	The VRC will implement changes based on the findings of a recent review of the VRC to	Changes to organizational structure.	July 1, 2025	Agency Head

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	For instance, the Director of Pari-mutuels and Licensing plays an important role to determine if applicants, both facilities and individuals, adhere to the regulatory requirements present in the statutes and regulations and an accurate determination is given whether a license is awarded or not. Given the travel requirements and the nature of this role, the VRC may consider increasing its resource count. Refer to Observation 7 for additional details.	enhance compliance, efficiency, and alignment with statutory and regulatory requirements.			
3.1	The VRC should consider establishing internal records retention policies and procedures for tracking and maintaining records regarding, but not limited to, incidents, payments, inspections, and other key activities. These should include defined intervals for all applicable types of documentation and align with any applicable requirements established by the Commonwealth. For additional details regarding internal policies and procedures, refer to Observation 1 and associated recommendations.	The VRC has migrated the key activities to SharePoint as of November 1, 2024 and currently saves pertinent documentation on this cloud platform. The VRC will establish internal records retention policies and procedures to track and maintain documentation for incidents, payments, inspections, and other key activities. These policies will define retention intervals for each document type and ensure alignment with applicable Commonwealth	Procedure adopting retention schedule established by the Library of Virginia for records retention.	Partially Complete July 1, 2025	Director of Operations Fiscal Officer

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	<p>Additionally, internal policies and procedures should define a standard process for saving documents to a shared drive on the network or a centralized, organized location. Currently, many documents are saved in individual email accounts, which could lead to availability and accessibility challenges when employees leave the organization. To prevent such occurrences, all employees should be required to save key documentation (the VRC should define what is key) in a centralized location. The VRC may also consider evaluating costs and benefits to improving or implementing a new centralized documentation management system to store, track, and manage all documents. These solutions could allow for proper retrieval, version control, and secure access to ensure that all necessary documentation is maintained and up to date.</p> <p>For the definition of internal policies and procedures when compared to regulations and statutes, refer to <i>Background and Criteria</i> in Observation 1.</p>	requirements.			

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3.2	The VRC should consider conducting regular training sessions for employees on proper documentation practices and the importance of maintaining accurate records. Additionally, the VRC should consider implementing periodic reviews to ensure compliance with documentation standards and identify areas for improvement. For additional details regarding training, refer to Observation 1 and associated recommendations.	The VRC will conduct regular training sessions for employees on proper documentation practices and the importance of maintaining accurate records. Additionally, periodic reviews will be implemented to ensure compliance with documentation standards.	Completing training modules.	July 1, 2025	Director of Operations
3.3	The VRC should consider reviewing internal documentation in order to identify opportunities to revise or create templates and forms that ensure consistency and completeness throughout processes and the organization. This includes, but is not limited to, application forms, inspection reports and communications, payment receipts and expenditure reports, checklists, and other critical documents.	The VRC has created several templates to ensure consistent processes such as invoicing, receipts reconciliation, etc. Many of the VRC's templates are in the form of Microsoft Lists which constrain the user to follow a specific format when using the List. The VRC will review and revise internal documentation, develop standardized templates and forms, implement staff training, and establish a periodic review process to ensure consistency, completeness, and alignment	Templates housed in a central location to maximize use.	Partially complete. July 1, 2025	Fiscal Officer Compliance Officer

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		with organizational standards.			
3.4	<p>The VRC should consider evaluating documentation utilized, maintained, and shared across each licensed facility in order to determine if they are consistent with established statutes and regulations. For additional details regarding internal policies and procedures, refer to Observation 1 and associated recommendations. For example, these may include, but are not limited to:</p> <ol style="list-style-type: none"> 1. HHR machine tracking mechanisms 2. Daily pari-mutuel wagering reports 3. Daily HHR revenue reports 4. Calculation and payment of taxes and other contributions 5. Cash reconciliation and deposit evidence <p>If procedures do not properly address the expectations or requirements of the VRC or the Code of Virginia, the VRC should work with the licensed facility to address until remediated. After an initial review, the VRC should consider implementing regular reviews of processes on an ongoing basis (e.g., annually, biannually, etc.). For additional</p>	<p>The VRC currently reviews the standard operation procedures and system of internal controls submitted by each licensee.</p> <p>The VRC has drafted a checklist of requirements for licenses related to limited racing, historical horse racing, advance deposit account wagering and permits. The VRC will assess each applicant's compliance with statutory and regulatory requirements, determining appropriate corrective actions such as enforcement measures or, if evaluations reveal inefficiencies in the standards, proposing amendments to the regulations.</p> <p>The VRC will continue drafting the formal procedures for the remaining licenses or evaluate consolidating the regulations to assign uniform standards across similar licenses.</p>	Audit Walkthrough of Regulatory Requirements for Each Type of Licensee	Partially complete. December 31, 2025	Compliance Officer General Counsel

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	<p>details regarding internal policies and procedures, refer to Observation 1 and associated recommendations.</p> <p>For the definition of internal policies and procedures when compared to regulations and statutes, refer to <i>Background and Criteria</i> in Observation 1.</p>				
3.5	The VRC should assess the cost/benefit (e.g., risk mitigation impact) of increasing its resources and evaluate its current structure of roles/responsibilities when addressing this observation. Refer to Observation 7 for additional details.	Refer to 2.3.	Refer to 2.3.	Refer to 2.3	Refer to 2.3
4.1	The VRC should review current roles and responsibilities, both within the VRC and at licensed facilities, to identify areas in which segregation of duties is required and update internal policies and procedures to require that different employees complete tasks related to cash handling, reconciliations, deposits, and process approvals. For example, an employee responsible for preparing a deposit should not be responsible for	The VRC will review roles and responsibilities within the organization and at licensed facilities to identify areas requiring segregation of duties, update internal policies to ensure proper task separation, and assess the cost/benefit of increasing resources or restructuring roles if segregation is not feasible.	Update to employee work profiles to reflect segregation of duties.	July 1, 2025	Fiscal Officer Agency Head

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	delivering the deposit or recording the transaction. If effective segregation of duties are not obtainable, the VRC should assess the cost/benefit (e.g., risk mitigation impact) of increasing its resources and evaluate its current structure of roles/responsibilities when addressing this observation. Refer to Observation 7 for additional details.				
4.2	The VRC should implement additional cash handling processes, both within the VRC and at licensed facilities, to ensure the safe custodianship of cash and related documentation. For example, the storage of cash and checks is to be in a secure location, such as a safe with a changing combination, rather than in easily accessible locations like desks.	In addition to the VRC's formalized cash handling procedures within the agency, the VRC will continue to enhance these processes and issue memorandums to licensees to strengthen their cash handling practices.	Updated cash handling procedures and notices issued to licensee.	Partially complete. July 1, 2025	Fiscal Officer Agency Head
4.3	The VRC should consider implementing processes for employees to detect counterfeit bills and identify other fraudulent activities regarding cash handling. For additional details regarding internal policies and procedures,	The VRC has trained all employees who handle cash to detect counterfeit bills. The VRC will also procure detection tools so that the staff have the resources to detect counterfeit bills.	Annual training and tools to detect counterfeit bills.	Partially complete. March 1, 2025	Fiscal Officer

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	refer to Observation 1 and related recommendations.				
4.4	The VRC should review current internal processes to determine if proper reconciliations of cash deposits are being conducted to confirm accuracy and ensure that all transactions are properly recorded.	On October 31, 2024, the VRC finalized an internal control assessment to ensure that proper reconciliations of cash deposits are being conducted in accordance with the CAPP manual. This assessment reflected on the activities performed in FY 2024, which is also covered by this audit. It revealed several areas of improvement which resulted in a corrective action plan. Since then, the VRC has been prioritizing the implementation of formal procedures that align with the regulations. It has been advocating to increase its resources. The steps that the VRC has taken thus far are explained in Recommendation 1.1. The VRC will conduct another assessment by 2025 to ensure proper controls.	2025 ARMICS assessment.	October 31, 2025	Agency Head Fiscal Officer

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4.5	<p>The VRC should consider evaluating cash handling processes for each licensed facility in order to determine if they are consistent with the expectations within statutes and regulations. For additional details regarding the evaluation of licensed facility processes, refer to Observation 1 and related recommendations.</p> <p>If procedures do not properly address the expectations or requirements of the VRC, the VRC should work with the licensed facility to address until remediated. After an initial review, the VRC should consider implementing regular reviews of processes on an ongoing basis (e.g., annually, biannually, etc.). Further, the VRC may pursue enacting legislation or administrative regulation through statutes and regulations in order to enforce any criteria not currently in effect. For additional details regarding the development of licensed facility guidance, refer to Observation 5 and related recommendations.</p> <p>For the definition of internal policies and procedures when compared to regulations</p>	<p>The VRC will evaluate cash handling processes for each licensed facility through audits against existing regulatory requirements. If the audits reveal that current requirements are insufficient, the VRC will pursue regulatory updates to establish and enforce the necessary criteria.</p>	<p>Exception requests submitted by the licensee. Amendments to regulations.</p>	October 31, 2025	General Counsel Compliance Officer Agency Head

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	and statutes, refer to <i>Background and Criteria</i> in Observation 1 .				
5.1	The VRC should consider developing comprehensive guidance, manuals, and other informative tools for use by individual license holders and facilities. This involves, but is not limited to, creating clear and detailed documentation that outlines expected performance standards, procedures, and best practices to ensure users have a thorough understanding of processes and expectations from both the VRC and applicable regulations.	The VRC's guidance for licensees are incorporated into its regulations. The VRC will review these regulations with dedicated counsel to ensure they are up-to-date, clear, and easy to understand, facilitating compliance and streamlining processes.	Amendments to regulations.	December 31, 2025	General Counsel
5.2	The VRC should consider reviewing internal inspection processes and applicable regulatory requirements to determine if Off-Track Betting (OTB) facilities, namely Buckets and Breakers, which do not include HHR machines but are under the scope of the VRC's responsibilities and subject to inspection. For additional details regarding internal policies and procedures, refer to Observation 1 and associated recommendations.	The VRC will incorporate the review of Buckets and Breakers in its regular inspection and update inspection forms to reflect the unique aspects of both locations.	Inspections of Buckets and Breakers.	April 1, 2025	Compliance Officer

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5.3	The VRC should consider developing and implementing internal records retention policies and procedures detailing proper retention of key documentation utilized in the tracking of HHR assets and other equipment. For additional details regarding internal policies and procedures on records retention, associated trainings, and standardization, refer to Observation 3 and associated recommendations.	The VRC will adopt a retention policy, similar to observation 3.	Procedure adopting retention schedule established by the Library of Virginia for records retention.	July 1, 2025	Director of Operations
5.4	The VRC should assess the cost/benefit (e.g., risk mitigation impact) of increasing its resources and evaluate its current structure of roles/responsibilities when addressing this observation. For instance, the Investigator plays an important role to determine if licensed facilities adhere to the certain regulations/requirement. Given the travel requirements and the nature of this role, the VRC may consider increasing its resource count. Refer to Observation 7 for additional details.	The VRC will hire additional personnel and seek an amendment to the maximum position count to address resource needs and enhance its ability to ensure compliance with regulatory requirements.	Additional staff to insure investigative responsibilities	December 31, 2025	Agency Head
6.1	The VRC should consider reviewing and revising internal processes involving the	Similar to observation 1, the VRC will continue to improve its	Templates for revenue reporting,	July 1, 2025	Fiscal Officer

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	<p>receipt of revenue reports, calculation of handle, breakage, benevolence, and contributions, and verification of payments consistent with the calculations. For additional details regarding internal policies and procedures, refer to Observation 1 and associated recommendations.</p> <p>For the definition of internal policies and procedures when compared to regulations and statutes, refer to <i>Background and Criteria</i> in Observation 1.</p>	internal processes to ensure that proper documentation is maintained for payments that are verified.	payment verification, and calculation worksheets to ensure consistency and accuracy.		
6.2	<p>The VRC should consider developing and implementing records retention policies and procedures detailing proper retention of key documentation utilized in the calculation of breakage and contributions to various funds. For additional details regarding policies and procedures on internal records retention, associated trainings, and standardization, refer to Observation 3 and associated recommendations.</p> <p>For the definition of internal policies and procedures when compared to regulations</p>	The VRC will develop and implement records retention policies and procedures to ensure the proper retention of key documentation related to the calculation of breakage and contributions to various funds.	Adopt LVA policies related to records retention.	July 1, 2025	Director of Operations

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	and statutes, refer to <i>Background and Criteria</i> in Observation 1 .				
6.3	<p>The VRC should consider evaluating revenue calculation and required payment (e.g., contributions and taxes) procedures for each licensed facility in order to determine if they are consistent with the expectations and regulations established by the VRC and the Code of Virginia. For additional details regarding the evaluation of licensed facility processes, refer to Observation 1 and associated recommendations.</p> <p>If procedures do not properly address the expectations or requirements of the VRC or the Code of Virginia, the VRC should work with the licensed facility to address until remediated. After an initial review, the VRC should consider implementing regular reviews of processes on an ongoing basis (e.g., annually, biannually, etc.). For additional details regarding the development of licensed facility guidance, refer to Observation 5 and associated recommendations.</p>	<p>As discussed in recommendation 1.1, the VRC has implemented procedures to reconcile revenues and will collaborate with the facility to remediate any discrepancies in the future.</p> <p>The VRC conducts a monthly reconciliation of revenues and expenditures. These have been retained on the VRC's SharePoint since November 2024. The VRC will continue to perform this reconciliation on a monthly basis pursuant to the CAPP manual.</p>	Reconciliation reports for each month.	Complete	Agency Head Fiscal Officer

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7.1	<p>When addressing observations and recommendations from this audit (e.g., management action plans), and potential other changes outside of this audit's scope, the VRC should evaluate the current structure of its organization including resource counts, roles, responsibilities, positions, etc. who would be impacted as a result of action plans. Evaluation criteria may include, however are not required to be and/or are not limited to, the following:</p> <ol style="list-style-type: none"> 1. Prepare draft material to document what the new, existing, and revised processes, tasks, procedures, etc. will be (e.g., commensurate with internal policy and procedure recommendations and other recommendations) (collectively referred to here in this recommendation as "revised operations"). 2. Evaluate current roles, responsibilities, positions, etc. and align/link them to the revised operations. 3. Determine if the current resource numbers and/or structure of roles would impact the VRC's ability to achieve revised operations. 	<p>The VRC has already evaluated its operations and roles, filing an amendment to the budget to address resource needs. If funding is not approved this year, the VRC will file another amendment next year and, in the interim, adapt its operations to function effectively with the current lean resources.</p>	<p>Strategy for lean resources if additional resources are not available. Follow-up budget amendment.</p>	July 1, 2025	Agency Head

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	<p>4. Identify methods to mitigate challenges to achieve revised operations, which may include:</p> <p>5. Providing training opportunities to resources (which is also referenced above in Observation 1).</p> <p>6. Revising certain positions, responsibilities, roles, etc. to</p> <ul style="list-style-type: none"> a. align with the revised operations. b. offer risk mitigation opportunities (e.g., effectively designed and operational controls, effective segregation of duties, etc.). <p>7. Determine if the VRC can achieve its desired results based on the current number of resources. Refer to Recommendation 7.2 for additional details related to resource numbers.</p> <p>8. If the VRC determines changes are warranted, seek approval, and implement.</p>				
7.2	The VRC should assess its current resources relative to current and future anticipated organizational changes and workloads and determine if there are adequate resources available to effectively perform functions in a formalized, consistent, and controlled manner. If there are insufficient resources available to address recommendations, the	The VRC has assessed its current resources relative to anticipated organizational changes and workloads and determined that additional resources are needed to perform functions in a formalized, consistent, and controlled manner.	Reorganized structure.	Complete	Agency Head

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July 1, 2022 through August 31, 2024**

REC. NO.	RECOMMENDATION	CORRECTIVE ACTION	DELIVERABLE	ESTIMATED COMPLETION DATE	RESPONSIBLE POSITION
	VRC should consider additional actions (e.g., reallocate and/or reassign duties, and/or seek additional resources through the budget process).				