

# AUDIT REPORT



CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER  
BUREAU OF FINANCIAL AUDIT  
**WILLIAM C. THOMPSON, JR., COMPTROLLER**

## **Audit Report on Off-Track Betting Corporation Controls over General Expenses and Reimbursements July 1, 2001–June 30, 2002**

*FN03-121A*

**June 27, 2003**



THE CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER  
1 CENTRE STREET  
NEW YORK, N.Y. 10007-2341

-----  
WILLIAM C. THOMPSON, JR.  
COMPTROLLER

**To the Citizens of the City of New York**

Ladies and Gentlemen:

Pursuant to the terms of the lease between the City of New York and the New York Yankees, we have examined the rental credits claimed by the Yankees for the maintenance of City-owned Yankee Stadium for the third quarter of 2002 (July 1–September 30, 2002). The Yankees are responsible for the care and upkeep of Yankee Stadium, and the costs incurred by the Yankees for maintaining the stadium are offset against any rental income due the City from the Yankees. Thus, every approved dollar spent and accounted for as a rental credit for the maintenance of the stadium results in a dollar-for-dollar decrease in the rent due the City.

The results of our audit, which are presented in this report, have been discussed with officials from the New York Yankees and the Department of Parks and Recreation, and their comments have been considered in preparing this report.

These audits provide a means of ensuring that the Yankees take credit against rent only for eligible expenses.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please contact my audit bureau at 212-669-3747 or e-mail us at [audit@Comptroller.nyc.gov](mailto:audit@Comptroller.nyc.gov).

Very truly yours,

A handwritten signature in cursive script that reads 'William C. Thompson, Jr.'.

William C. Thompson, Jr.

WCT/GR

Report: **FN03-121A**  
Filed: **June 27, 2003**

## *Table of Contents*

AUDIT REPORT IN BRIEF	1
Audit Findings and Conclusions	1
Audit Recommendations	2
INTRODUCTION	2
Background	2
Objectives	2
Scope and Methodology	2
Discussion of Audit Results	3
FINDINGS AND RECOMMENDATIONS	4
Inadequate Documentation	5
Recommendations	5
New York City Off-Track Betting Corporation Response	5
ADDENDUM – New York City Off-Track Betting Corporation Response	

*The City of New York  
Office of the Comptroller  
Bureau of Financial Audit*

**Audit Report on  
Off-Track Betting Corporation Controls over  
General Expenses and Reimbursements  
July 1, 2001–June 30, 2002**

**FN03-121A**

---

**AUDIT REPORT IN BRIEF**

In 1970, a New York State law established the New York City Off-Track Betting Corporation (OTB) as a public benefit corporation to operate a pari-mutuel horseracing betting system within the City. OTB generates revenues from wagers, surcharges, and “breakage,” which result from the rounding of winning payoffs. OTB distributes portions of its revenue to the State and the racing industry. OTB also retains a portion of its revenue for capital acquisitions. After paying its administrative expenses, OTB’s remaining net revenue is deposited in the City General Fund. According to OTB financial statements, its expenses for Fiscal Year 2002 totaled \$124,068,000.

This audit determined whether OTB had sufficient internal controls in place to ensure that employee personal expense reimbursements and its General Expenses are reasonable, justified, and properly recorded. We also determined whether OTB adhered to applicable OTB and City procurement guidelines.

**Audit Findings and Conclusions**

Apart from the minor exceptions noted in this report, we found that OTB had adequate internal controls in place to ensure that employee personal expense reimbursements and charges for General Expenses were reasonable and justified. OTB generally complied with its Corporate Guidelines for Expense Accounts and its Corporate Procedures for Expense Reports when processing employee personal expense reimbursements. Furthermore, our review of General Expenses found that OTB generally complied with its requisitioning procedures, purchasing matrix, and applicable City procurement guidelines.

However, OTB did not provide adequate documentation to support \$14,198 in expenses, as follows:

- Reimbursements totaling \$9,879 were made to employees in 33 instances, without sufficient documentation, without detailed travel information, or without having obtained advance approval for travel.
- Five employee expense reimbursements totaling \$1,807 that could not be found.

- Purchases totaling \$1,778 were made for items that were unrelated to day-to-day OTB operations. These purchases included flowers and fruit baskets.
- Six instances for meal purchases totaling \$734 for which there was no documentation that indicated the meals were business-related.

### **Audit Recommendations**

We recommend that OTB: ensure that all reimbursements to employees are for appropriate business-related expenses; obtain appropriate documentation before processing reimbursements to employees; and maintain all voucher packages on file.

OTB officials responded that they generally agreed with the audit recommendations and described the process in place to ensure that employee reimbursements are appropriately documented.

## **INTRODUCTION**

### **Background**

A 1970 New York State law established the New York City Off-Track Betting Corporation (OTB) as a public benefit corporation to operate a pari-mutuel horseracing betting system within the City. OTB generates revenues from wagers, surcharges, and “breakage,” which results from the rounding of winning payoffs.

Pursuant to State law, OTB distributes portions of its revenue to the State and the racing industry. In addition, OTB retains a portion of its revenue for capital acquisitions. After paying its administrative expenses, OTB’s remaining net revenue is deposited in the City General Fund. According to OTB financial statements, its expenses for Fiscal Year 2002 totaled \$124,068,000.

### **Objectives**

Our audit objective was to determine whether OTB has sufficient internal controls in place to ensure that employee personal expense reimbursements and its General Expenses are reasonable, justified, and properly recorded. We also determined whether OTB adhered to applicable OTB and City procurement guidelines.

### **Scope and Methodology**

This audit covered the period July 1, 2001 through June 30, 2002 (Fiscal Year 2002). We obtained OTB’s current organizational chart to familiarize ourselves with lines of key personnel and reviewed the “Account Segments Listing by Segment Code” (Chart of Accounts). We interviewed the OTB Controller, Associate Director of Accounts Payable, and Senior Director of Internal Audit/Accounts Payable, and conducted a walk-through of its expense operations to gain an understanding of the procedures for processing and recording expenses. We documented our understanding of OTB procedures in memoranda and a flowchart.

We judgmentally selected 10 of 18 expense categories in the OTB General Ledger and traced recorded amounts to corresponding vouchers and supporting documents (i.e., expense reports, vendor invoices, and purchase orders). We also traced expense totals to amounts recorded in the General Ledger and the Trial Balance, and to the OTB June 30, 2002 Financial Report.

We judgmentally sampled expenses (based on dollar amount) from the Travel and Dinner accounts. Specifically, we sampled 111 expenses that individually exceeded \$100. For each transaction, we reviewed supporting documentation that included receipts, invoices, and expense reports.

In addition, we judgmentally selected a sample of 24 from the 151 expenses in the OTB Other Expense categories of the General Ledger: cleaning and supplies; repair and maintenance; stationery supplies; miscellaneous; cellular, car phones, pagers; equipment rental – other; telephone and simulcast; guard and security services; and promotion and public affairs. For our sample, we reviewed various supporting documents that included Pre-Solicitation Review Reports, Recommendations for Awards, and evidence that bids were properly solicited. In addition, we determined whether each expense was properly supported by an approved purchase order and original invoice.

We examined 12 months of corporate credit card statements to determine whether those expenses were incurred for legitimate business purposes.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the audit responsibilities of the New York City Comptroller as set forth in Chapter 5, § 93, of the New York City Charter.

### **Discussion of Audit Results**

The matters covered in this report were discussed with OTB officials during and at the conclusion of this audit. A preliminary draft report was sent to OTB officials and was discussed at an exit conference on June 10, 2003. On June 11, 2003, we submitted a draft report to OTB officials with a request for comments. We received a written response from OTB officials on June 24, 2003.

OTB officials responded that they generally agree with the audit recommendations and described the process in place to ensure that employee reimbursements are appropriately documented.

The full text of OTB officials comments is included as an addendum to this report.

## FINDINGS AND RECOMMENDATIONS

Apart from the minor exceptions noted in this report, we found that OTB has adequate internal controls in place to ensure that employee personal expense reimbursements and charges for General Expenses were reasonable and justified. OTB generally complied with its Corporate Guidelines for Expense Accounts and its Corporate Procedures for Expense Reports when processing employee personal expense reimbursements. Furthermore, our review of General Expenses found that OTB generally complied with its requisitioning procedures, purchasing matrix, and applicable City procurement guidelines. Based on our review, we conclude that:

- duties were adequately segregated with regard to approving employee reimbursements and general expense procurements;
- computations on reimbursement forms and voucher packages were accurate;
- employee expense reports were reviewed, approved, and signed by the appropriate department heads before reimbursements were made;
- procurements were reviewed by various levels of OTB officials and were approved by the appropriate OTB official at each step of the procurement process;
- when taking out-of-town trips, employees used economy class airfare, applied applicable federal General Services Administration (GSA) rates for hotel and meals, and used Sales Tax Exemption Certificates when paying for hotels in New York State;
- requisitions for purchases of more than \$10,000 were sent to the Purchasing Department for review and contained the Chief Financial Officer's signature; a justification statement for the purchase accompanied the requisition;
- five (5) bids were obtained for purchases exceeding \$2,500;
- procurements were awarded to the lowest responsive and responsible bidders for purchases of more than \$50;
- requisitions and purchase orders had specifications describing the requirements for the goods or services procured that included the description, the name of the manufacturer or vendor, and any available information on standard pricing;
- all required forms (purchase order, Pre-Solicitation Review Report, Recommendation of Award, and Notice of Award) were on file;
- public notice was entered in the *City Record* for all procurements; and
- procedures for sole source procurements, negotiated acquisitions, and requests for proposals were properly followed.

However, OTB did not provide adequate documentation for some of the expenses we reviewed. This issue is discussed in the following section.

### **Inadequate Documentation**

OTB did not provide sufficient documentation to support \$14,198 in expenses, as follows:

- 33 instances, totaling \$9,879, in which reimbursements were made to employees without sufficient documentation, without detailed travel information, or without having obtained advance approval for the travel. For example, in 14 instances (totaling \$699), reimbursements were made to employees who did not provide required travel information, invoices, and receipts. In three other instances (totaling \$871) employees, while attending out-of-town conferences, paid for meals for individuals but failed to disclose the names of these individuals nor the business purpose for the expense. Finally, a reimbursement without supporting documentation was made to an employee for \$100 for a labor relations dinner and for association dues.
- five employee expense reimbursements totaling \$1,807 that could not be found.
- 18 instances, totaling \$1,778, in which purchases were made for items that were unrelated to day-to-day OTB operations. These purchases included flowers and fruit baskets.
- six instances for meal purchases totaling \$734 for which there was no documentation that indicated the meals were business-related.

It should be noted that subsequent to the issuance of a draft of this report, OTB officials provided documentation that substantiated one instance totaling \$5,316 in which advance approval was obtained for an employee attending an out-of-town telecommunications course.

### **Recommendations**

We recommend that OTB:

1. Ensure that all reimbursements to employees are for appropriate business-related expenses.

**OTB Response:** OTB officials stated: “All reimbursements are for appropriate business-related expenses. As per the Corporation’s Policies and Procedures (GL-303-11), the employee’s supervisor is responsible for approving the completed expense report *to ensure that all expenses are prudent and directly related to the necessary functioning of the department and in accordance with all applicable company guidelines.* The audit report cites instances totaling \$1,778 in which purchases were made for items that were ‘unrelated to day-to-day OTB operations.’ It should be noted that during the period in question, the purchase of flowers and fruit baskets was a corporate sanctioned practice to reach out to employees during a time of personal crisis, for example, the death of a parent or close relative, or serious illness. Nevertheless, due to current fiscal constraints, the Corporation has chosen to discontinue this practice.”

2. Obtain appropriate documentation before processing reimbursements to employees. All documentation should be kept on file.

**OTB Response:** OTB officials responded: “The Corporation does and will continue to require employees to submit appropriate documentation for reimbursements. As per the Corporation’s Policies and Procedures, *original receipts must accompany all reimbursement requests*. NYCOTB will issue a memorandum reminding employees to adhere to this policy and will enforce the policy by not issuing reimbursements until the necessary documents are submitted. A copy of this memorandum will be forwarded to the Comptroller’s Office. In addition, where warranted, we will review our Corporate Policies and Procedures to identify and authorize an appropriate substitute form of documentation if the original is unavailable.”

3. Maintain all voucher packages on file.

**OTB Response:** OTB officials stated: “The Corporation does and will continue to maintain complete voucher packages.”



New York City Off-Track Betting Corporation  
1501 Broadway  
New York, N.Y. 10036-5572

Ira H. Block  
Executive Vice President  
Legal Affairs & General Counsel  
212-221-5200 Ext. 1-5311  
Fax: 212-221-6011

BY HAND

June 24, 2003

Greg Brooks  
Deputy Comptroller  
Policy, Audits, Accountancy & Contracts  
Office of the City Comptroller  
1 Centre Street  
New York, N.Y. 10007-2341

Re: Audit report FN03-121A

Dear Mr. Brooks,

Attached you will find the New York City Off-Track Betting Corporation's (NYCOTB) response to the Comptroller's draft audit report on the Corporation's controls over general expenses and reimbursements for the period covering July 1, 2001 through June 30, 2002.

We believe that your audit amplifies our commitment and ongoing efforts to strengthen controls over the Corporation's general expenses and reimbursements.

We are pleased that your audit found that NYCOTB generally complied with Corporate Guidelines and Procedures for Expense Accounts and Expense Reports. In addition, we appreciate the Comptroller's confirmation that NYCOTB is in compliance with the applicable City procurement guidelines.

As to those few instances where NYCOTB did not have on file detailed documentation, we generally agree with the audit recommendations and are making the necessary changes to ensure that detailed original documentation or equivalent is provided by employees when submitting expenses.

Please contact my office at 212 704-5121 if you have any questions regarding our response.

Very truly yours,

New York City Off-Track Betting Corporation

By: Ira H. Block  
Executive Vice President - Legal Affairs & General Counsel

NYCOTB response to City Comptroller Audit FN03-121A

As stated in the audit report, the total expenses for the Corporation in FY 2002 totaled over \$124 million. Although instances of inadequate documentation certainly are not to be overlooked, we would like to note that the total dollar amount of reimbursements to which the audit report took exception represents approximately .01% of our overall expenses in that fiscal year. The Corporation does and will continue to strive to ensure that documentation and authorization of expenses is appropriate. We will review our internal processes to ensure that the practices set forth in our Corporate Policies and Procedures are followed and, if and where appropriate, amended to reflect current corporate policy.

Recommendations:

- 1) Ensure that all reimbursements to employees are for appropriate business-related expenses.

**NYCOTB response** – All reimbursements are for appropriate business related expenses. As per the Corporation's Policies and Procedures (GL-303-11) the employee's supervisor is responsible for approving the completed expense report to *ensure that all expenses are prudent and directly related to the necessary functioning of the department and in accordance with all applicable company guidelines.* The audit report cites instances totaling \$1,778 in which purchases were made for items that were "unrelated to day-to day OTB operations". It should be noted that during the period in question, the purchase of flowers and fruit baskets was a corporate sanctioned practice to reach out to employees during a time of personal crisis, for example, the death of a parent or close relative, or serious illness. Nevertheless, due to current fiscal constraints, the Corporation has chosen to discontinue this practice.

- 2) Obtain appropriate documentation before processing reimbursements to employees. All documentation should be kept on file.

**NYCOTB response** – The Corporation does and will continue to require employees to submit appropriate documentation for reimbursements. As per the Corporation's Policies and Procedures, *original receipts must accompany all reimbursement requests.* NYCOTB will issue a memorandum reminding employees to adhere to this policy and will enforce the policy by not issuing reimbursements until the necessary documents are submitted. A copy of this memorandum will be forwarded to the Comptroller's office. In addition, where warranted, we will review our Corporate Policies and Procedures to identify and authorize an appropriate substitute form of documentation if the original is unavailable.

- 3) Maintain all voucher packages.

**NYCOTB response** – The Corporation does and will continue to maintain complete voucher packages.