

Alexis Podesta, Secretary  
California Business, Consumer Services and Housing Agency  
915 Capitol Mall, Suite 350-A  
Sacramento, CA 95814

Dear Ms. Alexis Podesta,

In accordance with the State Leadership Accountability Act (SLAA), the California Horse Racing Board submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2017.

Should you have any questions please contact Francisco G Gonzalez, Audit Unit Supervisor, at (916) 263-6010, franciscog@chrb.ca.gov.

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## BACKGROUND

The California Horse Racing Board was established in 1933 by constitutional amendment and is overseen by a seven member Board, appointed by the Governor. The California Horse Racing Board regulates horse racing and pari-mutuel wagering, adopts rules and regulations to protect the public, ensures the safety and health of human and equine participants, promotes horse racing, breeding, and wagering opportunities. The Board directs a statewide staff in the licensure and oversight of all race meetings in the state where pari-mutuel wagering is conducted, as well as off-site simulcast wagering locations and Advance Deposit Wagering companies. As a Special Fund department, the California Horse Racing Board's revenue is principally derived from the horse racing industry. General Fund revenue is derived from occupational license fees collected and from fines imposed for violations of the Board's horse racing rules and regulations.

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## ONGOING MONITORING

As the head of California Horse Racing Board, Rick Baedeker, Executive Director, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

### EXECUTIVE MONITORING SPONSOR(S)

The executive monitoring sponsor responsibilities include facilitating and verifying that the California Horse Racing Board internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Jacqueline Wagner, Assistant Executive Director, and Wendy Voss, Chief of Administration.

### MONITORING ACTIVITIES

The California Horse Racing Board conducts continuous ongoing monitoring of internal controls. California Horse Racing Board executive staff and managers meet monthly to discuss areas of concern, including any necessary operational improvements. In addition, the Audit Unit performs separate operational integrity evaluations, and any findings of risk are brought to the attention of the Executive Director.

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### **ADDRESSING VULNERABILITIES**

With the support of the Executive Director, supervisors and managers address risk vulnerabilities. The unit manager where the vulnerability resides is responsible for identifying and implementing a solution. California Horse Racing Board management revisits implemented solutions to determine the efficacy of the solution. In addition, the Audit Unit conducts six-month follow-up evaluations of identified risks to determine the results and effectiveness of recommendations.

### **COMMUNICATION**

The Executive Director communicates directly with the SLAA Administrator and California Horse Racing Board managers regarding the progress to reduce identified vulnerabilities. During California Horse Racing Board monthly manager meetings, the Executive Director addresses issues of risk affecting individual business units intended to build upon effective service delivery and operational efficiency. Executive staff and managers implement recommendations through coordinated task completion procedures.

### **ONGOING MONITORING COMPLIANCE**

The California Horse Racing Board has implemented and documented the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to the California Horse Racing Board systems of controls and monitoring.

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### **RISK ASSESSMENT PROCESS**

The following personnel were involved in the California Horse Racing Board risk assessment process: Executive Management, Middle Management, and Front Line Management.

#### **RISK IDENTIFICATION**

The executive management sponsor(s) distributed an internal memorandum to managers responsible for each level of business operations, requesting an assessment of their areas of responsibility for consideration of prior and emerging risks. Methods, procedures, alternatives, and options to resolve issues of risk were discussed with the executive monitoring sponsor(s) team evaluating the existence of a risk.

#### **RISK RANKING**

Identified risks were placed into risk ranking tables. Based on the impact to operations and the likelihood of occurrence, the executive monitoring sponsor(s) then met with individual managers to determine whether existing controls were in place to mitigate the risk and/or assist in the development of new controls. Control decisions were documented in evaluations and controls tables. The executive management sponsor(s) obtained confirmation of resolution controls from each manager approving the assessment and documentation of each risk and controls.

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### **RISKS AND CONTROLS**

#### **RISK: OPERATIONS -INTERNAL-TECHNOLOGY—SUPPORT, TOOLS, DESIGN, OR MAINTENANCE**

California Horse Racing Board must be vigilant in its security defense measures in an ever evolving technological environment. The California Horse Racing Board recognizes that a review process at planned

intervals needs to be implemented to ensure the continuing suitability and effectiveness of the department's approach to managing information security.

During the 2015 Risk Assessment the California Horse Racing Board found that the Board lacked specialized scanning tools and techniques that evaluate information technology configuration, patches, and services to protect the Board from information technology vulnerabilities.

The California Horse Racing Board information technology environment runs the risk of malicious system access.

**CONTROL A**

Microsoft Systems Center Operations Manager and Data Protection Manager implementation is ongoing, with integration into the network infrastructure in terms of efficiency and overall review accuracy improving steadily. Once testing and integration is completed, and the California Horse Racing Board is satisfied with the efficiency and error-free functionality of these two management systems, additional modules will be added to Systems Center Operations Manager and Data Protection Manager to widen California Horse Racing Board's monitoring capability to include every part of the network's functionality and security.

**CONTROL B**

The California Horse Racing Board has partially implemented, and is currently in development and testing of a baseline server and workstation hardening to improve security network-wide which when partnered with the Systems Center Operations Manager/ Data Protection Manager implementation and the Adaptive Security Appliance, will effectively mitigate this risk.

**RISK: OPERATIONS -INTERNAL-TECHNOLOGY—SUPPORT, TOOLS, DESIGN, OR MAINTENANCE**

The California Horse Racing Board categorizes electronic data equally without regard for classification of value, legal requirements, or sensitivity.

During the 2015 Risk Assessment the California Horse Racing Board found that the Board must establish policies and procedures to classify stored, processed, shared or transmitted data with respect to type and value to critical business functionality.

The California Horse Racing Board may overstate resources needed by not being able to assess information efficiently and effectively with respect to business requirements to determine the best use of data security resources.

**CONTROL A**

The California Horse Racing Board is continuing the California Horse Racing Information System 2 rewrite; the Application Development Environment that has been selected and installed is Oracle PeopleSoft. PeopleSoft software requires the implementation of role-based asset-level and row-level security.

**CONTROL B**

As a function of the final business requirements to the Licensing, Policy and Regulations, Enforcement, and Accounting, the California Horse Racing Board will complete the mitigation of this risk. The first implementation/prototype of California Horse Racing Information System 2 including Licensing, Policy and Regulations modules is due to be completed by the third quarter of calendar year 2018.

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**RISK: OPERATIONS -INTERNAL-TECHNOLOGY—SUPPORT, TOOLS, DESIGN, OR MAINTENANCE**

The California Horse Racing Board runs the risk of providing unauthorized information technology access rights to users.

During the 2015 Risk Assessment it was determined that California Horse Racing Board does not have established policies and procedures for identification to identify of user roles, responsibilities, and compliance standards for individuals requesting system access.

Without proper user controls in place to enhance system access rights California Horse Racing Board increases the risk of privacy and a confidential data breach.

**CONTROL A**

The California Horse Racing Board is currently in the process of reviewing its various network security roles and policies, and adjusting privileges, access, and policy as necessary. This includes, departmental document folder access, information technology administrative identification and compartmentalization, and assessment and updating of California Horse Racing Board information technology policies.

**CONTROL B**

There are currently two parts to address this risk; the first part is a review of California Horse Racing Board's Network Access and Acceptable Use policies, which will identify and clarify the roles and privileges needed by each California Horse Racing Board network user. The second part is an effort to separate the Information Technology Unit's network administrative account privileges from the unit member's workstation login accounts. This will firewall the administrative accounts from security vulnerabilities.

**RISK: OPERATIONS -INTERNAL-TECHNOLOGY—COMPATIBILITY**

The California Horse Racing Board information data currently lacks systems and applications to verify data inputs with accuracy, completeness, and validation.

During the 2015 Risk Assessment it was determined that the California Horse Racing Board did not have a system in place to comprehensively verify data input.

Without proper controls in place to enhance data integrity, the data generated and stored is at risk of being deemed unreliable.

**CONTROL A**

The California Horse Racing Board is continuing the California Horse Racing Information System 2 rewrite; the Application Development Environment that has been selected and installed is Oracle PeopleSoft. PeopleSoft implements cross-referenced data entry and validation data as a matter of process, and includes drop-down, and "type-ahead" options. The first implementation/prototype of California Horse Racing Information System 2 including Licensing, Policy and Regulations modules is due to be completed by the third quarter of calendar year 2018.

**RISK: OPERATIONS -EXTERNAL-STAFF—RECRUITMENT, RETENTION, STAFFING LEVELS**

The California Horse Racing Board Enforcement Unit is faced with the difficulty of recruiting and hiring qualified peace officers for investigator positions.

California state government law enforcement agencies face a serious shortage of qualified peace officer

candidates. Enforcement agencies are forced to compete against each other for a very limited pool of applicants. Many agencies offer incentives such as paying above minimum and special pay, as well as expanded benefit packages in order to attract potential candidates.

The overall risk of unfilled investigator positions results in the inability to comply with mandates to enforce horse racing laws, rules and regulations, which potentially imposes risk to the industry, horses, licensees and the public. Horse racing is a highly regulated industry, and the California Horse Racing Board Enforcement Unit is critical in meeting these requirements.

**CONTROL A**

Minimum requirements for investigators positions, include Peace Officer Standards and Training (POST) certification. Reevaluate the requirements for the investigator classification; determine whether POST certification is necessary, as it relates to the Board's investigators' duties and responsibilities.

**CONTROL B**

Expand recruitment efforts to include the California Horse Racing Board participation in job fairs hosted by school, and local colleges that offer POST certification.

**RISK: OPERATIONS -INTERNAL-STAFF—TRAINING, KNOWLEDGE, COMPETENCE**

There is currently no standardized procedure for the evaluation of Criminal Investigation and Identification reports. The absence of written procedures, including Criminal Investigation and Identification evaluation criteria for the time consuming review process of Criminal Investigation and Identification reports, places the California Horse Racing Board at risk, as potentially serious offenders may be inadvertently overlooked.

The California Department of Justice provides Criminal Investigation and Identification reports to the California Horse Racing Board for new license applicants, and current California Horse Racing Board license holders that have new arrest or convictions. The California Horse Racing Board reviews approximately 700 to 1,000 Criminal Investigation and Identification monthly reports. The monthly Criminal Investigation and Identification reports are generated in a paper format. Review of the reports can be an overwhelming task without standardized procedures.

The high volume of Criminal Investigation and Identification reports presents a challenge as the California Horse Racing Board is unable to thoroughly review each report, and when action or lack of action takes place on a licensee, the decision and action taken is not properly documented.

**CONTROL A**

The California Horse Racing Board will develop a written policy addressing the criteria used to evaluate how criminal actions are processed.

**CONTROL B**

The California Horse Racing Board will request the California Department of Justice to send Criminal Investigation and Identification reports electronically.

**CONTROL C**

The California Horse Racing Board will evaluate the possibility of obtaining a California Law Enforcement Telecommunication System terminal, which will provide direct access into the California Department of Justice Criminal Investigation and Identification reports.

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## CONCLUSION

The California Horse Racing Board strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising controls to prevent those risks from happening. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

**Rick Baedeker, Executive Director**

CC: California Legislature [Senate (2), Assembly (1)]  
California State Auditor  
California State Library  
California State Controller  
Director of California Department of Finance  
Secretary of California Government Operations Agency