

California Horse Racing Board

2021 Leadership Accountability Report

December 22, 2021

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Lourdes M. Castro Ramirez, Secretary
California Business, Consumer Services and Housing Agency
915 Capitol Mall, Suite 350-A
Sacramento, CA 95814

Dear Ms. Lourdes M. Castro Ramirez,

In accordance with the State Leadership Accountability Act (Leadership Accountability), 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, 2021.

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

GOVERNANCE

Mission and Strategic Plan

The mission of the California Horse Racing Board (CHRB) is to ensure the integrity, viability, and safety of the California horse racing industry by regulating pari-mutuel wagering for the protection of the public, promoting horse racing, breeding, and wagering opportunities, and fostering safe racing through the development and enforcement of track safety standards and regulations for the health and welfare of all participants.

The CHRB's objectives are:

- Assure protection of the public.
- Encourage agriculture and the breeding of horses in this state.
- Provide uniformity of regulation for each type of horse racing.
- Provide for maximum expansion of horse-racing opportunities in the public interest.

Control Environment

The CHRB is a department of the California Business and Consumer Services, and Housing Agency (Agency). The CHRB is directed by a seven-member board appointed by the Governor. The seven-member board (the Board) elects its chairperson and vice chairperson. The chairperson presides over meetings of the Board. The CHRB's oversight body is the Agency Secretary. The Board appoints an executive director to carry out the CHRB's mission and objectives. The Board and the executive director are responsible for establishing and demonstrating integrity and ethical values for the overall organization. The CHRB organizational structure and responsibilities are as follows:

- The executive director is responsible for the department's operations and regulation of the horse racing industry.
- The executive director is supported in this regard by the assistant executive director.
- The Board counsel, the staff counsel, and supervisorial staff at CHRB offices and at all of the

state's racetracks support the executive director in this endeavor.

- The executive and management team plans and oversees the CHRB's budget and directs the department's operational divisions:
 - Administrative Services
 - Legislation and Regulations
 - Audits
 - Licensing
 - Information Technology, and
 - Enforcement

The CHRB issues and maintains internal policies and procedures geared towards the achievement of its mission and objectives. The policies are maintained at a centralized location at the headquarters office. In addition, the CHRB operational divisions maintain individual desk manuals for their areas of work.

The executive director reports to both the Board and Agency and seeks direction from the Board and Agency on highly controversial and sensitive matters affecting the CHRB. The Board has the ultimate authority to direct the CHRB activities through its executive director.

Information and Communication

The CHRB has a process to collect and communicate both internally and externally, quality information needed to achieve its mission and objectives.

The executive director presents a status report to the Board and the public at the monthly regular Board meeting. The status report communicates industry updates, including developments, changes, goals, challenges, and an economic report on the health of the industry.

The CHRB executive staff and managers meet monthly with the executive director to discuss industry changes and issues. During the monthly management meeting supervisors and managers communicate issues, goals, and tasks, affecting their divisions.

Simultaneously, quality information is communicated down, across, and up the organization. Following the management monthly meeting, supervisors and managers conduct division staff meetings to communicate current goals and tasks. In addition, the executive director conducts a quarterly staff meeting to communicate directly with staff. At the staff meetings CHRB staff has the opportunity to communicate across and up the organization by having the ability to ask questions and/or share concerns. The quarterly staff meeting is made available to all CHRB staff via MS Teams. Internally, CHRB employees can confidentially report improper activity by contacting the Auditor of the State of California using the Whistleblower Hotline via phone, web, or mail. Externally industry stakeholders and the general public can report improper activity or concerns to the CHRB by utilizing the CHRB Hotline via phone or email or the CHRB Public Inquiry email in-box.

MONITORING

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the California Horse Racing Board monitoring practices are implemented and functioning.

The responsibilities as the executive monitoring sponsor(s) have been given to:
Susan Bitcon, Chief of Administration; and Cynthia Alameda, Assistant Executive Director.

The CHRB conducts continuous ongoing monitoring of its internal control system. The CHRB executive staff and managers meet monthly to discuss areas of concern, including any necessary operational improvements. The executive director, as head of the CHRB, is responsible for the overall establishment and maintenance of the internal control and monitoring systems. With the support of the executive director, supervisors and managers address risk vulnerabilities. The division manager where the vulnerability resides is responsible for identifying and implementing a solution. The manager revisits the implemented solution to determine the efficacy of the solution. During the monthly managers meeting the executive director communicates directly with the SLAA administrator and CHRB managers regarding the progress to reduce identified vulnerabilities. Furthermore, the CHRB has designated executive monitoring sponsors. Responsibilities of the executive monitoring sponsors include facilitating and verifying that the CHRB internal control monitoring practices are implemented and functioning as intended. Additionally, the Audit Unit performs separate operational integrity evaluations, and any findings of risk are brought to the attention of the executive director.

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.

The following methods were used to identify risks: ongoing monitoring activities, other/prior risk assessments, questionnaires, and consideration of potential fraud.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, potential impact of remediation efforts, and tolerance level for the type of risk.

The CHRB SLAA Administrator requested the CHRB management team:

- Identify relevant risks within their divisions;
- Determine the nature of the risk, where the risk originates, and the impact of the risk to the CHRB;
- Determine the likelihood of the risk occurring and how and why the risks affect the CHRB;
- Provides a description of control(s) in place to address identified risks and how the control(s) help to mitigate these risks;
- Indicate whether the control(s) is new or existing.

The SLAA Administrator used the Risk Aggregation Worksheet to solicit input from the CHRB management team.

RISKS AND CONTROLS

Risk: Loss of Confidence in Regulatory Effectiveness

The occurrence of catastrophic injuries to horses and jockeys generates negative public attention for the CHRB and can result in a loss of confidence from government officials, California citizens and racing stakeholders in the Board's ability to uphold its mission. Further, any increase, or lack of a significant decrease, in these types of injuries leads to additional scrutiny by the legislature and the

Governor on the ability to ensure proper regulation of horse racing in California.

Control: Implementation of Robust and Proactive Regulatory Program

The CHRB maintains a responsive and assertive regulatory presence including a proactive and on-site safety and investigative enforcement program. The CHRB is very active in adopting, repealing, and amending rules regulating the racing industry with a specific focus on those that enhance safety for jockeys and horses. Further, the CHRB is an active participant in state and nationwide collaboration efforts partnering with industry experts on advancing research and solutions on all racing activities and issues of safety for horses and jockeys.

Risk: Recruitment in High Cost of Living Areas

Recruitment for investigative and licensing staff for office locations in higher cost of living areas is challenging and often results in prolonged vacancies in critical roles.

Control: Expanded Recruitment

CHRB conducts expanded recruitment efforts to reach existing non-civil service personnel working at racetracks through on-site job fairs and advertisement of vacant positions. CHRB further participates in job fairs hosted by schools and local colleges that offer POST certification to engage potential candidates for investigator positions.

Control: Actively Advertises Employment Benefits

CHRB actively markets the benefits of working for the CHRB including free parking, unique state employment environment, retirement pension, health benefits and for investigative staff, an alternate working environment for peace officers currently working in city and county law enforcement departments.

Risk: Business Continuity Plan

The CHRB does not have a business continuity plan to address business disruptions.

Control: Develop a business continuity plan

The CHRB executive team will develop a business continuity plan based on prevention, preparedness, response, and recovery. The business continuity plan will be developed within the first quarter of 2022 with an estimated completion date of March 31, 2022.

Risk: Staff Retention

The CHRB is a small department with less than 55 employees and the added complexity of maintaining operations from several different offices located statewide. As a result, retention of employees is challenging due to limited lateral and promotional opportunities.

Control: Organizational Structure

CHRB promotes upward mobility by maintaining an organizational structure that provides promotional opportunities for all levels of staff, including entry level through management.

Control: Staff Development

CHRB embraces opportunities for staff growth by providing Training and Development assignments, conducting annual performance evaluations, and creating Individual Development Plans for staff. CHRB has further implemented staff cross training within units to both strengthen institutional knowledge and create opportunities for employees to expand their skill set and job experiences.

Control: Staff Exit Interviews

CHRB conducts exit interviews when employees leave the organization to obtain feedback on both positive and negative aspects of an employee's experiences and their individual perspectives.

Risk: Electronic Signature

The CHRB is not in compliance with a new requirement established by the Department of General Services (DGS). Effective June 1, 2021, DGS required state departments to implement a policy for electronic signatures.

Control: Implement Electronic Signature

The CHRB is actively working on the inception of an electronic signature policy. Currently the CHRB has the electronic signature policy in draft form. Policy development and implementation will occur by June 30, 2022.

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 risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Scott Chaney, 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