

NYS THOROUGHBRED BREEDING AND DEVELOPMENT FUND 2010 INTERNAL CONTROL REVIEW

The Fund has a general internal control policy, dated June 2010, which is posted on the Fund's website. This document also specifies that the Executive Director of the Fund serves as its Internal Control Officer, who reports to and is responsible to the Fund's Chairman and its Board. The Executive Director is assisted by the CFO.

The Fund has reviewed its system of internal controls and has determined that they are adequate. However, the Fund has determined that a number of its systems and controls require updating to both improve efficiency and implement a better system of control.

The Fund has developed a list of significant functions to organize its internal control efforts.

The high-risk activities identified are as follows:

- Inspection program
- Revenues
- Processing, computing and distribution of Breeder, Stallion, and Open-Company Owner awards
- General process efficiency and cost control

The deficiencies and control improvement opportunities identified in the 2010 review process are as follows:

Inspections . The Executive Director will be attending inspections with field inspectors to better understand the process and the time required, as well as to review issues addressed by the inspections. Deployment of inspectors is not centrally located within the state, so this issue will require further review. The process for the assignment and monitoring of farms for inspection is expected to undergo significant revision. Work scheduling and results are closely monitored and controlled by the Executive Director.

Awards . The database application used to compute awards requires significant updating, and standard reports and ad hoc reporting capabilities require improvement.

Revenues . These are predominantly based upon statutory payments by racetracks, off-track betting corporations, and/or certain VLT racinos. The Fund will attempt to identify means of improving verification regarding the accuracy of payments received.

Business Continuity . Specific and detailed documentation of key operating procedures will be memorialized to minimize risk of staff turnover.

General Processes . The Executive director and the CFO will be making significant changes to the Fund's past practices in order to improve efficiency, reduce expenses, and strengthen the overall internal control environment.

Cost Control . A thorough and comprehensive review of all expenditures is ongoing by the CFO and the Executive Director.