DEPARTMENT OF AGRICULTURE, FISHERIES AND FORESTRY

CHAP REVIEW – QUEENSLAND RACING

2007/2008
CONTENTS

1. EXECUTIVE SUMMARY ........................................................................................................2
   1.1 INTRODUCTION .........................................................................................................2
   1.2 AUDIT SCOPE ..............................................................................................................2
   1.3 CONCLUSION ...............................................................................................................2

2. BACKGROUND ..................................................................................................................4

3. COMPLIANCE WITH FUNDING DEED ........................................................................5

4. DISCUSSION .....................................................................................................................8
   4.1 APPLICATION PROCESS .............................................................................................8
   4.2 PAYMENT PROCESS ..................................................................................................10
   4.3 SITE VISITS ...............................................................................................................13
   4.4 UNSUCCESSFUL APPLICATIONS AND APPEALS PROCESS ....................................14
   4.5 REPORTING / INVOICING .........................................................................................16
   4.6 QUALITY ASSURANCE .............................................................................................17
   4.7 RETAINED FEES ........................................................................................................18
1. EXECUTIVE SUMMARY

1.1 Introduction

On 9 September 2007, the Minister for Agriculture, Fisheries and Forestry, the Honourable Peter McGauran, announced assistance measures for those horse dependent businesses, employees and employers affected by the equine influenza outbreak in Australia.

Commercial Horse Assistance Payments (CHAPs) were provided to primary carers of commercial horses who would otherwise be active and potentially earning an income if not for the equine influenza outbreak and resulting standstill. A per-horse, per-day payment was provided to eligible applicants for the welfare and ongoing training of horses to ensure they remained fit and healthy and could return to normal activity as soon as the standstill was lifted.

Acumen Alliance was engaged by the Department of Agriculture, Fisheries and Forestry to undertake an independent third-party financial and performance audit of each Commercial Horse Assistance Payments (CHAPs) delivery agency. This report has been compiled to provide an assessment of the project delivery by Queensland Racing and make recommendations for future process or project management improvement.

1.2 Audit Scope

In conducting the third party audit, Acumen Alliance:

- reviewed the delivery agencies’ books, records (including project reports and invoices) and financial statements, including those relating to the receipt, holding, expenditure and commitment of the funding;

- reviewed whether the funding was spent in accordance with the Terms of the Funding Deed with the Department of Agriculture Fisheries and Forestry; and

- examined the efficiency and effectiveness of delivery agencies’ activities in administering CHAPs.

1.3 Conclusion

Overall, Queensland Racing successfully implemented the CHAPs programme on behalf of the Commonwealth. Queensland Racing devoted many resources to the programme which included hotline employees, systems expert, internal auditors and several Queensland Racing employees full time.

Queensland Racing utilised current processes and systems to assist in the administration of the program. All processes and procedures were documented. No major issues were
identified from the review and internal controls around CHAPs payment processing were strong.

Opportunities for improvement have been identified if Queensland Racing were to undertake a similar program in the future. These are discussed within the body of the report.
2. BACKGROUND

Queensland Racing Limited is the peak control body for the thoroughbred racing industry in the State of Queensland.

It coordinates, manages, and regulates the industry through a number of distinct functions including:

- administration of the rules of racing;
- enforcement of standards of safety and integrity;
- licensing industry participants;
- registering race clubs and monitoring their activities;
- racecourse development and capital works;
- research and promotional activities;
- administration of industry funding and commercial agreements; and
- representing the Queensland Racing Industry on the peak national body, the Australian Racing Board, and its Sub-committees

CHAPs was administered by Queensland Racing for eligible horses that have been unable to undertake their normal activities, and could otherwise have generated an income, if not for the quarantine restrictions in place.

Queensland Racing devoted a large amount of resources to administering the programme. These included:

- 3 Full-time staff for the first few months, with less in subsequent months;
- Approximately 5 full-time equivalent (3 full-time, 3 part-time) contractors for the first few months, with less in subsequent months; and
- A system developer for enhancements to the Horses database used by Queensland Racing.

Queensland Racing advised that they “incurred excessive administrative costs in excess of $700K in setting up the software specifications, contract labour, and additional communication costs in administering CHAPS, internal audit review and vaccinations and veterinarian fees. These have not been reimbursed to date.” Queensland Racing did not receive any funding from the CHAPs programme to assist in the management of the programme.

Queensland Racing developed comprehensive procedures to assist in the administration of the CHAP programme. QLD Racing also engaged an external provider to review ongoing processes and provide live recommendations and quality assurance over the period of the programme.
## 3. Compliance with Funding Deed

<table>
<thead>
<tr>
<th>Deed Section</th>
<th>Compliant</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Defined Terms &amp; Interpretation</td>
<td>Not Assessed or Information Only</td>
<td></td>
</tr>
<tr>
<td>2. Project Performance</td>
<td>Compliant</td>
<td></td>
</tr>
<tr>
<td>3. Grantee’s Warranties</td>
<td>Compliant</td>
<td></td>
</tr>
<tr>
<td>4. Funding Payment</td>
<td>Compliant</td>
<td></td>
</tr>
<tr>
<td>5. Use and Banking of Funding Money</td>
<td>Not Compliant</td>
<td>A separate bank account was created for the deposit of DAFF funds. However, it was not used for payments and was not the same account as stated in the Deed.</td>
</tr>
<tr>
<td>6. Goods and Services Tax</td>
<td>Not Assessed or Information Only</td>
<td></td>
</tr>
<tr>
<td>7. Accounts and Records</td>
<td>Compliant</td>
<td></td>
</tr>
</tbody>
</table>
| 8. Reports                                        | Partially Compliant        | The Grantee Payment Reports did not contain details on reasons for application rejection, ineligibility or withdrawn applications.  
The Retained Fees Report did not contain all required information such as outcomes achieved or specific details on how funds were expended. |
<p>| 9. Assets                                         | Compliant                  | Gym equipment was bought for jockeys. It is to still make it onto the Queensland Racing Asset Register.                                  |
| 10. Commonwealth Material                         | Compliant                  |                                                                                                                                         |
| 11. Confidential Information                      | Partially compliant        | Application forms are not securely stored                                                                                               |
| 12. Personal Information – Grantee to Comply with Privacy Obligations | Not Assessed or Information Only |                                                                                                                                         |</p>
<table>
<thead>
<tr>
<th>Deed Section</th>
<th>Compliant</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>13. Personal Information – Grantee to Comply with Privacy Obligations</td>
<td>Not Assessed or Information Only</td>
<td></td>
</tr>
<tr>
<td>14. Indemnity and Insurance</td>
<td>Compliant</td>
<td></td>
</tr>
<tr>
<td>15. Conflict of Interest</td>
<td>Compliant</td>
<td></td>
</tr>
<tr>
<td>16. Dispute Resolution</td>
<td>Compliant</td>
<td></td>
</tr>
<tr>
<td>17. Termination</td>
<td>Compliant</td>
<td></td>
</tr>
<tr>
<td>18. Assignment</td>
<td>Not Assessed or Information Only</td>
<td></td>
</tr>
<tr>
<td>19. No Partnership or Employment</td>
<td>Not Assessed or Information Only</td>
<td></td>
</tr>
<tr>
<td>20. Compliance with Law</td>
<td>Not Assessed or Information Only</td>
<td></td>
</tr>
<tr>
<td>21. Notices</td>
<td>Not Assessed or Information Only</td>
<td></td>
</tr>
<tr>
<td>22. Miscellaneous</td>
<td>Not Assessed or Information Only</td>
<td></td>
</tr>
</tbody>
</table>

Comments provided by Queensland Racing

**USE AND BANKING OF FUNDING MONEY**

Queensland Racing Limited (QRL) was paid in arrears, with invoices taking up to a month to receive payment (attached). On average over the entire period of CHAPS Funding it took 12 days for the invoice to be paid by DAFF and QRL had to fund the payments through its own investments and main operating account before payment was made by DAFF for fortnightly CHAPS payments. In one instance it took 26 days for payment to be made by DAFF to QRL.

All amounts were reconciled through the CHAPS funding bank account once DAFF had reimbursed QRL.

**REPORTS**

Exception reports were maintained for applications rejected or partially complete or requiring follow up information and these were reviewed on a continuous basis.

The retained fees report was a summary report, given the sheer volume of payments made to stakeholders. Specific details on how the funds were expended were detailed in the relevant application forms and payments made to stakeholders.
The retained fees report was sent through every fortnight to DAFF and there were individual queries raised but there were no queries raised on information such as outcomes achieved being not included. Before all initial retained fee payments were made to stakeholders in accordance with the Funding Deed a request for authorisation was obtained from DAFF and the outcome was detailed in these requests.

**GYM EQUIPMENT**

The gym equipment has been added onto the QRL asset register as at 30 June 2008.

**CONFIDENTIAL INFORMATION**

All applications and corresponding information has been moved and is now stored in a lockable store room on site. These will be moved off site into secure shortage with Grace Record’s management.

The previous location was only accessible by QRL employees as a security entry card is required to enter the administration area past reception.
4. DIscussion

4.1 Application Process

Summary
Queensland Racing developed an application process that consistently applied the rules. Applicants could apply online. Enhancements were undertaken to the database maintained by Queensland Racing.

Discussion
Queensland Racing undertook administration of the CHAPs programme for those eligible horses that were in the Queensland racing industry.

APPLICATION FORM AND ASSISTANCE

CHAP application forms were made available by Queensland Racing on the Queensland Racing website and the Queensland Department of Primary Industries and Fisheries website. In addition, all persons listed as a licensed trainer with Queensland Racing were mailed a notification letter as well as sent an SMS by mobile. Where requested, Queensland Racing would mail-out or fax applications to individuals.

Applicants also had the opportunity to apply online. Online applications could not be processed if the applicant’s postal code was ineligible to receive funding or an invalid post code.

Applicants could contact Queensland Racing between 7am and 7pm via a hotline number for any application queries and/or assistance.

APPLICATION FORM

Applicants were required to indicate on the application form the number of horses unable to undertake normal activities to generate an income due to Equine Influenza and that were in work at time of the standstill. They were also to provide a schedule of horses they were claiming for and a statement of Stable Returns for each horse. Other suitable documentation could also be provided which detailed horses under their care and not generating an income.

In addition to providing the above documentation, applicants were required to provide a statutory declaration of Net Liquid Assets for each controlling interest/first owner/manager for every horse (i.e. statutory declaration for each owner/manager that holds 50% or more of ownership).

On receipt of an application, the applicant’s details were entered into the Horses database. The Horses database is a website portal on Queensland Racing’s system and was used by
Queensland Racing prior to the CHAPs programme. Queensland Racing engaged a systems developer to enhance the database so that it could also be used for the CHAPs programme.

On receipt of statutory declarations, a field on the applicant’s database record was marked to identify that the statutory declarations had been received. Queensland Racing provided a high level of reliance on the statutory declarations as the primary form of evidence of the primary carer and liquid assets thresholds.

Checks were randomly conducted by Queensland Racing staff on I-ris (Racing Information System) to determine whether the number of horses an applicant was claiming matched the stable return information recorded in the database. The number of checks on I-ris increased in CHAPs II and by CHAPs III all horse registration numbers were being checked.

For horses that had not been named, checks were conducted on the life number of the horse to ensure the horse exists. For unnamed horses, statutory declarations were heavily relied on as the primary form of evidence a horse was in work and was eligible for funding.

Our review of applicant statutory declarations found instances of incorrect statutory declarations received from applicants. In one instance a statutory declaration was signed by an inappropriate signatory.

**Unsuccessful Applications**

Overall there were very few unsuccessful applications (refer to Section 4.4 Unsuccessful Applications and Appeals Process for further details). As the application process was system generated, automated system controls ensured applicants that were not a licensed trainer or had an invalid postal code would not be processed.

Applicants were required to apply fortnightly to receive ongoing payment. If the application was received late (i.e. after for the fortnightly batch was run), the applicant would be backdated in the subsequent period.

**Issues**

**Statutory Declarations**

- One instance of statutory declaration signed by an inappropriate signatory (trainer).
- Incorrect statutory declarations were received from applicants.
- Applicants could be backdated for fortnightly payments if application not received in time.

**Comment provided by Queensland Racing**

Follow up has been completed to check all statutory declarations for CHAPS 1 and 2.
4.2 Payment Process

Summary
Queensland Racing had an automated process for paying CHAPs recipients. No incorrect payments were identified for the sample reviewed.

Discussion
Applicant’s could receive funding via cheque or electronic funds transfer (EFT). EFT was the main payment method used. Queensland Racing adopted the same payment process used in their ordinary business activities. Payments were made via batch processing in the Horses database. The amount eligible was calculated automatically based on built in parameters which included deduction of prize money. Prize money was processed weekly by Queensland Racing so applicants did not exceed their limit of eligible funding. No incorrect payments were made based on the sample reviewed.

When a batch was processed, a payment summary was generated and an EFT file created. Reconciliation would be conducted to ensure amounts equalled. When the EFT file was complete it would be sent to the bank. The Bank Reconciliation Officer and the Accountant would then be notified via email of the total amount so that they can order the funds required from Treasury.

Cheques were also processed through the online Horses database. Cheques used for prize money recipients were used for CHAPs payments. When cheques were printed, a check was conducted to ensure numbers were listed in sequence and no cheque numbers were missing or had been skipped or duplicated. Cheques would then be stored in a secure safe and signed by two signatories before being sent to the applicant.

When cheques and EFT payment have been prepared, the journal would be imported from the Horses database into SUN (financial product used by Queensland Racing). Remittances would be prepared and sent to the applicant.

Invoices to the Department of Agriculture Fisheries and Forestry were prepared based on payment reports generated on Horses.

Issues

PAYMENTS TO RECIPIENTS

The first CHAPs payment was distributed by Queensland Racing to potential applicants as soon as CHAPs I funding was agreed by the Department of Agriculture, Fisheries and Forestry, however before funding was made available to Queensland Racing and before applications were received. The decision was made by the Queensland Racing Board with buy-in from Queensland Racing Managers to provide initial payment to potential applicants prior to funding received. The main reason behind this decision was to ease the economic strain and provide some relief in the industry.
Funding was electronically transferred into potential applicant’s (licensed trainers) bank accounts and remittance notices sent. Information was sought from different databases to determine potential applicants who would be eligible for CHAPs I payment and for banking details. Information was sought from the Horses (licensee database) and I-ris (Racing information services, stable returns) databases.

Persons who received funding without applying had until 18 December 2007 to submit an application form. Application forms were sent by Queensland Racing to all licenced trainers shortly after the payment was made. Those failing to return the application form to Queensland Racing were issued with an invoice.

Queensland Racing has reconciled the number of horses the initial payment was based on with the number of horses in work at the CHAPs I cut-off date. Queensland Racing has taken responsibility to recover any overpayment to applicants. To date, Queensland Racing has been able to recover most funds from trainers by deducting amount owed to Queensland Racing from a future payment. In these instances, the adjustment made was specified on the invoice. Funds that have not been recoverable have mainly been because an application has not been received for any funding. The Department has not been invoiced for applications not received.

Queensland Racing has sent reminders to all aged debtors. Persons with invoices exceeding 60 days have been informed the following three stage process will occur if payment is not received.

- Names will be put on the inclusions list;
- Horses will be unable to race; and
- Horses and trainers will be unable to enter a Queensland Racing race track.

**Allocation of Prize money**

Schedule 3 of the Funding Deed provides a calculation for the CHAPs payment, taking into consideration prize money. This states that 85% of prize money should be offset against the CHAPs payment. 85% represents the owner’s allocation of prizemoney. However, it does not take into account the 10% of prize money that the trainer receives (the final 5% goes to the jockey). Queensland Racing applied 95% of prize money to the calculation of the CHAPs payment. While this is the appropriate amount to be applied, it is inconsistent with the Funding Deed.

**Comment provided by Queensland Racing**

As both the trainer and owner received CHAPS funding it was considered appropriate that the prizemoney deductions should also affect the trainer and owner percentages which are 95% of the total gross prizemoney (5% paid to jockeys).

**Fortnightly application**

The Funding Agreement required that after the initial application, applicants were required to apply fortnightly for further payments. If the follow-up application was not received by
the cut-off date, Queensland Racing would pay in the next fortnight’s payment run. It was noted during the review that some applicants provided multiple fortnightly applications at once. This made the fortnightly application process somewhat redundant.

**Statutory declarations**

The applicant was responsible to arrange payment between the owner and trainer. 70% should go to the owner and 30% to the trainer. Statutory declarations were strongly relied on by Queensland Racing regarding whether the proportion would be split appropriately between the owner and the trainer.
4.3 Site Visits

Summary
Site visits were undertaken by Queensland Racing. These visits were conducted by regional stewards.

Discussion
Queensland Racing employs stewards right through Queensland to conduct stable inspections of all new and existing racing licensees. Stable inspections are a long standing requirement by Queensland Racing before a licence is granted and for a licence to be maintained.

During the CHAPs programme Queensland Racing expanded the stewards’ role to include verification of the number of horses specified on a CHAPs application were equal to the number of horses identified to be in work.

Site visits were usually random but would often consist of inspecting sites in the general region where the steward would be conducting a routine licensee stable inspection. Stewards would also conduct site visits of stables in which they believe or have reason to believe a CHAPs application had been completed incorrectly.

Following each site inspection, stewards would complete a site report and submit it to the Chief Steward for review. The Chief Steward was responsible in ensuring stable inspections were being conducted. Any exceptions (which were not often) identified from a site visit would be discussed internally between the Chief Steward, the inspecting steward and the Senior Finance Officer before discussing with the applicant. All information regarding the inaccurate application would be sent to the Department of Agriculture, Fisheries and Forestry for consideration and ruling on an appropriate action. Payment was withheld for any persons believed to have not provided accurate details.
4.4 Unsuccessful Applications and Appeals Process

Summary
Queensland Racing did not have a formal process for handling unsuccessful applicants. Unsuccessful applicants were not advised in writing and offered the opportunity to appeal the decision.

Discussion

**Rejected Applications**
Queensland Racing rejected 14 CHAPs applications. Applications were primarily rejected for the following reasons:

- Horse not in work;
- Location not eligible to receive CHAPs funding;
- Horses older than five years; and
- Application form (excluding statutory declarations) incomplete.

Applicants that have been rejected have not been given a formal notification letter. The applicant would be notified of the decision only if the applicant contacted Queensland Racing to enquire on their application. All rejected applicants should have been formally notified and given the opportunity to appeal the decision.

**System Automated Rejected Applications**
As the application process was system generated, automated system controls ensured applicants that were not a licensed trainer or had an invalid postal code could not apply online.

**Queries**
Queensland Racing received a number of queries from applicants regarding why horses they listed on their applications were deemed ineligible to receive funding. All queries of this nature were logged in “Debtors Collect” which is a part of the SUN financial system. Queries were printed, supporting information gathered and then put in a query tray on the Senior Finance Officer’s desk. The Senior Finance Officer was responsible for reviewing and actioning queries. Any queries that could not be processed by the Senior Finance Officer were provided to the Finance Manager, Licensing and Training Manager and Director of Integrity Operations to review and make a final determination. The applicant would be notified via telephone and mail of final decisions for all queries.

Registers of queries or rejected applications were not maintained by Queensland Racing.
Issues

Notification to Unsuccessful Applicants

Unsuccessful applicants were not notified they were not going to receive CHAPs funding. As such, they would not have been aware of any appeals mechanism.

Comment provided by Queensland Racing

The 14 applications rejected were for trainer applications declined on application. A further 32 applicants’ were declined on appeal. QRL was still in the process of finalising appeals when the audit was undertaken. The above numbers are based on trainer applications. The number of horses declined would be significantly higher depending on if the appeal was for an entire application including all related horses or for individual horses.
4.5 Reporting / invoicing

Summary

Queensland Racing met its reporting and invoicing obligations as required in the Funding Deed. The database was able to provide information for the reports sent to the Department of Agriculture, Fisheries and Forestry.

Discussion

Queensland Racing used the Horses database to record all applicant information, including payments. Information was extracted from these to prepare the Invoice and Reports for the Department.

Schedule 2 of the Funding Deed outlined what details were required in the reports to be provided by Queensland Racing to the Department. This included details to be provided in the Eligible Horse Report and Grantee Payment Report. Queensland Racing adhered to these requirements and provided them within the required timeframes. Details provided by Queensland Racing included:

- Number of applications received
- Number of applications approved and rejected
- Reasons for rejection
- Applications processed and amount paid
- Number of eligible horses
- Days horses eligible for assistance
- Income earned for the period

Issue

REPORTS

The Queensland Racing reports did not contain all the required information. For the Grantee Payments report, information such as reasons for rejection, ineligible or withdrawn applications was not included. For the Retained Fees report, information such as outcomes achieved was not included.
4.6 Quality Assurance

Summary
Queensland Racing used their internal auditors to review the process.
A post-payment review has been undertaken to confirm the statutory declarations are correct.

Discussion
Queensland Racing engaged their internal auditors to review Queensland Racing’s administration of the CHAPs programme. The review, conducted during CHAPs I, assisted Queensland Racing in identifying areas of poor controls in the CHAPs application process. Recommendations for improving the governance and administration of CHAPs application processing were provided to Queensland Racing. Most recommendations were endorsed by Queensland Racing.

Queensland Racing developed procedures and flow charts on how to process CHAPs applications. These documents were a useful tool to ensure consistency in processing applications.

Queensland Racing has conducted a post-payment review of applications to ensure statutory declarations are complete and on file. This has been particularly necessary for CHAPs 1 funding recipients as payment was made to potential applicants prior to an application form received.

Some quality assurance was provided by the Finance Manager, Licensing and Training Manager and Director of Integrity Operations to review and make final decisions on applicant queries which could not be processed by the Senior Finance Officer. The decision makers were independent to the processing of CHAPs applications.
4.7 Retained Fees

Summary
As part of the CHAP scheme for thoroughbred racing, Queensland Racing had approval to redirect $10 from each per horse per day payment to owners and trainers to sustain vital skills and services for the resumption of racing. These payments were directed to jockeys and apprentices, farriers, dentists and therapists, float transport operators and trackriders.

Discussion
Queensland Racing received over $9.7 million in retained fees. This amount was used to sustain vital skills and services within the racing industry. Information about retained fees and retained fees application forms were published on the Queensland Racing website and the Queensland Department of Primary Industries and Fisheries website. QLD Racing also formally notified racing associations eligible for retained fees.

Retained Fees applications were received through fax to the Finance Section which would be then distributed to the Licensing Department. The Licensing Department were responsible to check all ABN’s, applicant income and completeness of application form (including banking information). Valid applications were authorised by the Licensing Manger and then provided to Finance for processing. A spreadsheet of retained funds applicants would be then prepared by Finance and sent to the Department of Agriculture, Fisheries and Forestry requesting permission to spend retained fees for the amounts and reason listed on the spreadsheet. Payments were approved for the following services:

- Jockeys;
- Veterinarians;
- Farriers;
- Breeders;
- Float Companies;
- Special consideration, for example acupuncture, therapist, jockey gym equipment; and
- Freelance riders.

Approved applications would be invoiced at the same time as CHAP payment runs.

Issue
Our review of Queensland Racing Retained Fees found the following exceptions:

- One instance where the Farrier application does not appear complete. Invoices provided were not valid tax invoices;
One instance where the check list was not complete (application was not stamped approved or circled for future action i.e. hold, reject or proceed);

Two instances where the application form was not clear as to why the applicant was declined; and

In one instance the cover letter from an applicant requested that Queensland Racing contact them should they require further information. The application was rejected because details of staff or wages were not provided and therefore Queensland Racing was unable to estimate the claim. There is no evidence Queensland Racing contacted the applicant and requested additional information.

**COMMENT PROVIDED BY QUEENSLAND RACING**

These were administrative oversights of controls which were implemented by QRL over and above the CHAPS funding requirements and they were unfortunately not strictly complied with. In my opinion this is not material given the volume of transactions and applications processed.