

Audit Report

Department of Labor, Licensing and Regulation

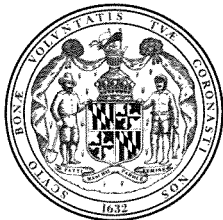
Division of Racing

August 2014



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Thomas J. Barnickel III, CPA
Legislative Auditor

August 26, 2014

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Division of Racing of the Department of Labor, Licensing and Regulation for the period beginning February 7, 2011 and ending April 23, 2014. The Division of Racing is responsible for implementing the policies of the Maryland Racing Commission, which regulates the conduct of horseracing and pari-mutuel wagering in the State. The Division is also responsible for the distribution of certain video lottery terminal funds in accordance with the provisions of State law.

Our audit did not disclose any findings.

We wish to acknowledge the cooperation extended to us by the Division during the course of this audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Thomas J. Barnickel III".

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Division of Racing, within the Department of Labor, Licensing and Regulation, is responsible for implementing the policies of the Maryland Racing Commission, which operates under the provisions of Title 11 of the Business Regulation Article of the Annotated Code of Maryland. The Commission, which consists of nine members who are appointed by the Governor, is responsible for regulating the conduct of horseracing and pari-mutuel wagering in the State.

The Division is also responsible for the allocation of certain video lottery terminal funds. Specifically, the Division distributes these funds, which are originally collected by the Maryland Lottery and Gaming Control Agency, for the purposes established in the State Government Article, Title 9 of the Annotated Code of Maryland (purse dedication, racetrack facility renewal, and local impact grants).

According to the State's records, during fiscal year 2013 the Division's expenditures totaled approximately \$79.6 million, of which \$76.1 million related to the distribution of video lottery terminal funds.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the two findings contained in our preceding audit report dated August 23, 2011. We determined that the Division satisfactorily addressed these two findings.

Findings and Recommendations

Our audit did not disclose any significant deficiencies in the design or operation of the Division's internal control. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

A draft copy of this report was provided to the Department of Labor, Licensing and Regulation's Office of the Secretary and to the Division. Since there are no recommendations in this report, a written response was not necessary.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Division of Racing of the Department of Labor, Licensing and Regulation for the period beginning February 7, 2011 and ending April 23, 2014. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine the Division's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included cash receipts, racing funds, distribution of video lottery terminal funds, and payroll. We also determined the status of the findings included in our preceding audit report.

To accomplish our objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of the Divisions' operations, and tests of transactions. We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these various sources were sufficiently reliable for the purposes the data were used during this audit. Finally, we performed other auditing procedures that we considered necessary to achieve our objectives. The reliability of data used in this report for background or informational purposes was not assessed.

Our audit did not include certain support services provided by the Department of Labor, Licensing and Regulation - Office of the Secretary. These support services (such as purchasing, data processing, maintenance of accounting records, and related fiscal functions) are included within the scope of our audits of the Office of the Secretary.

The Division's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

AUDIT TEAM

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