

Audit Report

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**Maryland Thoroughbred and Harness  
Horse Racing Tracks**

September 2010

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**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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**DEPARTMENT OF LEGISLATIVE SERVICES**  
**OFFICE OF LEGISLATIVE AUDITS**  
**MARYLAND GENERAL ASSEMBLY**

September 2, 2010

**Karl S. Aro**  
Executive Director

**Bruce A. Myers, CPA**  
Legislative Auditor

Senator Verna L. Jones, Co-Chair, Joint Audit Committee  
Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee  
Members of Joint Audit Committee  
Annapolis, Maryland

Ladies and Gentlemen:

As required by the Business Regulation Article, Section 11-313 of the Annotated Code of Maryland, we have audited the licensees for the following racetracks for the period beginning July 1, 2007 and ending June 30, 2009:

- Laurel Park
- Pimlico Race Course
- Timonium Race Course
- Rosecroft Raceway
- Ocean Downs Racetrack

The purpose of this audit was to assess whether the entities licensed by the Department of Labor, Licensing and Regulation - Maryland Racing Commission had complied with certain State laws, rules, and regulations.

Our audit disclosed that the licensees tested reported all forms of ownership in accordance with State law. In addition, based on our review of work performed by other auditors, no deficiencies were disclosed regarding the various systems used by the licensees to distribute wagering revenues, including taxes due to the State. Nevertheless, our audit disclosed that the audited financial statements for certain racetracks had not been obtained within the timeframe established by State law.

The Commission's response to this audit is included as an appendix to this report and represents the consolidated views of both the Commission and the licensees. We wish to acknowledge the cooperation extended to us by the Commission during our audit.

Respectfully submitted,

**Bruce A. Myers, CPA**  
Legislative Auditor



## Background Information

### Racetracks

The thoroughbred and harness racing tracks are licensed by the State of Maryland to conduct live racing and accept wagering on simulcast racing from other facilities throughout the United States. Furthermore, a limited liability corporation jointly owned by the Maryland Jockey Club (owner of Laurel Park and Pimlico Race Course) and Cloverleaf Enterprises Incorporated (owner of Rosecroft Raceway) is licensed by the State to conduct satellite simulcast wagering. Details of live race days and wagering at the racetracks for calendar year 2008 are provided in the following table:

<b>Calendar Year 2008 Racetrack Activity</b>			
<b>Type of Racing</b>	<b>Racetrack</b>	<b>Live Race Days</b>	<b>Pari-mutuel Wagering</b>
<b>Thoroughbred</b>	Laurel Park	134	\$133,138,481
	Pimlico Race Course	31	\$90,081,922
	Timonium Race Course	7	\$1,795,963
<b>Harness</b>	Rosecroft Raceway	43	\$83,534,559
	Ocean Downs Racetrack	40	\$17,024,648

Source: Maryland Racing Commission 2008 Annual Report (unaudited)

### Status of Licensees

The transfer of ownership of the Pimlico and Laurel Race Courses from the bankrupt Magna Entertainment Corporation (the Maryland Jockey Club's parent company) to MI Developments Incorporated (Magna's parent company) was approved by a bankruptcy judge. MI Developments Incorporated has entered into an agreement with Penn National Gaming Incorporated to become co-owners of both tracks, and the agreement has been approved by the Maryland Racing Commission. In addition, the parent company of Rosecroft Raceway, Cloverleaf Enterprises Incorporated, closed Rosecroft effective July 1, 2010.

### Automated Online Wagering Systems

Wagers at racetracks, both in Maryland and throughout the United States, are recorded electronically by use of various automated systems. In Maryland, racetracks generally use one system to transmit wagering transactions and compute the payoff of winning bets, and another system to compute deductions, such as for purses, State taxes, and simulcast signal fees.

## **Status of Finding From Preceding Audit Report**

Our audit included a review to determine the status of the finding contained in our preceding audit report dated February 5, 2008. We determined that the Commission satisfactorily addressed this finding.

# **Scope, Objectives, and Methodology**

## **Scope**

We have audited the licensees for the following racetracks for the period beginning July 1, 2007 and ending June 30, 2009:

- Laurel Park
- Pimlico Race Course
- Timonium Race Course
- Rosecroft Raceway
- Ocean Downs Racetrack

These racetracks are licensed by the Maryland Racing Commission (the Commission) to conduct live thoroughbred and harness racing in Maryland, and to accept wagering on simulcast racing from other facilities throughout the United States.

The purpose of this audit was to determine the licensees' compliance with certain State laws, rules, and regulations. We also determined the status of the finding included in our preceding audit report. The Business Regulation Article, Section 11-313 of the Annotated Code of Maryland requires the Office of Legislative Audits to audit the licensees of thoroughbred and harness racing tracks at least once every two years in accordance with the provisions of the State Government Article, Sections 2-1217 through 2-1227, of the Annotated Code of Maryland.

Our audit was performed 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.

## **Objectives**

The three objectives of our audit were to determine whether:

1. licensees disclosed all forms of ownership, as defined by the Annotated Code of Maryland, to the Commission;
2. various systems used by licensees to distribute wagering revenues, including taxes due the State, generated reliable financial information; and

3. licensees complied with certain requirements of State law (such as having an annual audit performed of the financial statements for each racetrack), as well as licensing requirements of the Commission contained in the Code of Maryland Regulations.

## **Methodology**

To accomplish our objectives, we interviewed various individuals employed by the licensees. In addition, we reviewed applicable State laws, as well as records maintained by the Commission. Furthermore, the independent auditors for Laurel Park, Pimlico Race Course, Rosecroft Raceway, and Ocean Downs performed certain agreed-upon procedures to provide assurance regarding the accuracy of wagering revenues collected and the related distributions.<sup>1</sup> The related reports disclosed no material deficiencies. We reviewed the independent auditors' related audit documentation supporting these special procedures performed in lieu of conducting testing of the wagering revenues and related distributions.

The financial statements of each licensee are audited annually by independent auditors for the purpose of expressing opinions on the fair presentation of the licensees' financial statements. We reviewed these financial statements and the related independent auditors' reports to ensure the audit had been completed as required by State law and to determine if any other conditions existed that would impact our audit objectives. Specifically, we reviewed the independent auditors' reports of three of the five licensees covering their 2008 fiscal years. For two of these three licensees, the fiscal year ended on December 31, and for the third licensee the fiscal year ended on October 31. In each report, the auditors stated that the licensees' financial statements presented fairly, in all material respects, their respective financial positions, results of operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

For the remaining two licensees, the independent auditor had not issued reports for the fiscal year ended December 31, 2008 due to certain financial issues associated with the licensees (see Finding 1). As a result, we reviewed the independent auditors' reports for the 2007 fiscal year. In each report, the auditor stated that the licensees' financial statements presented fairly, in all material respects, their respective financial positions, results of operations and cash flows

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<sup>1</sup> Due to the limited number of racing days (seven) and the Maryland Jockey Club (which operates Laurel Park and Pimlico Race Course) providing the pari-mutuel staff and expertise during those seven days of racing, similar agreed-upon procedures are not conducted for Timonium Race Track. For similar reasons, we also excluded such procedures from our scope. Nevertheless, under contract to the Maryland Racing Commission, an independent CPA firm monitors the wagering and payments at each of the five tracks whenever racing is conducted.

for the years then ended in conformity with accounting principles generally accepted in the United States.

Our fieldwork was completed during the period from February to June 2010. A copy of the draft report was provided to each licensee and to the Commission. The Commission's response to our findings and recommendations is included as an appendix to this report and represents the consolidated views of both the Commission and the licensees. Separate written responses to this report were not requested from the licensees. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the Commission regarding the results of our review of their response.

## Conclusions

We concluded that, for the licensees tested, all forms of ownership were properly reported to the Maryland Racing Commission as required by law. In addition, based on our review of the work performed by other auditors, no material deficiencies were disclosed regarding the various systems used by the licensees to distribute wagering revenues, including taxes due the State from wagering. However, we noted that certain tracks had not obtained audited financial statements timely, as required by State law.

## Findings and Recommendations

### Financial Statements

#### **Finding 1**

**Audited financial statements had not been completed as required by State law.**

#### **Analysis**

One of the licensees (that operated two racetracks for which separate audited financial statements are required) had not obtained audited financial statements for the fiscal year ended December 31, 2008 within 90 days of the end of the fiscal year as required by the Business Regulation Article, Title 11-313 of the Annotated Code of Maryland. Specifically, in the fiscal year 2007 auditor's reports, the independent auditor commented that there was substantial doubt about whether the licensee would continue as a going concern. We were advised that the related financial statements for fiscal year 2008 were not issued due to the bankruptcy status of the company that owned controlling interest in the licensee who owned both tracks. The audited financial statements had not been issued by July 2010; however, we were advised by the Commission that it expects to receive them.

#### **Recommendation 1**

**We recommend that the Commission work with the licensees to ensure that audited financial statements are completed as timely as possible, and that audits for future years are completed in accordance with the requirements of State law.**



APPENDIX

MARTIN O'MALLEY, Governor  
ANTHONY G. BROWN, Lt. Governor  
ALEXANDER M. SANCHEZ, Secretary

Maryland Racing Commission

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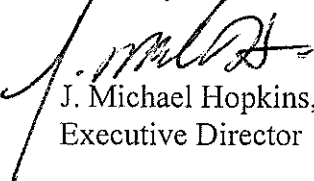
August 31, 2010

Mr. Bruce A. Myers  
Legislative Auditor  
Office of Legislative Audits  
301 West Preston Street  
Room 1202  
Baltimore, Maryland 21201

Dear Mr. Myers:

This is to advise you that the Maryland Racing Commission received the draft findings and recommendations applicable to your Office's audit of the Maryland Thoroughbred and Harness Horse Racing Tracks covering the period beginning July 1, 2007 and ending June 30, 2009 as referred to in your e-mail correspondence dated August 17, 2010. As a result, I concur with the findings and recommendations noted. The Commission will continue to work with the licensees to ensure audited financial statements are completed as timely as possible, and audits for future years are completed in accordance with the requirements of State law.

Sincerely,



J. Michael Hopkins,  
Executive Director



**AUDIT TEAM**

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