

Audit Report

**Maryland Thoroughbred and Harness
Horse Racing Tracks**

February 2008



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

Bruce A. Myers, CPA
Legislative Auditor

February 5, 2008

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, 2005 and ending June 30, 2007:

- 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 applicable 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 licensees did not have a procedure to ensure that employees were State residents as required by State law.

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 (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 2006 are provided in the following table:

Calendar Year 2006 Racetrack Activity			
Type of Racing	Racetrack	Live Race Days	Pari-mutuel Wagering
Thoroughbred	Laurel Park	152	\$160,723,850
	Pimlico Race Course	31	\$109,010,271
	Timonium Race Course	8	\$14,147,785
Harness	Rosecroft Raceway	104	\$110,294,134
	Ocean Downs Racetrack	40	\$5,559,221

Source: Audited financial statements and licensees' annual reports

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.

Scope, Objectives, and Methodology

Scope

We audited the licensees for the following racetracks for the period beginning July 1, 2005 and ending June 30, 2007:

- 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 applicable State laws, rules, and regulations. This audit was conducted under the authority of the Business Regulation Article, Section 11-313 of the Annotated Code of Maryland which 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. The audit was conducted in accordance with generally accepted government auditing standards.

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 citizenship and residency requirements for its employees as required by State law, 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.

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 the independent auditors' reports of each licensee covering their 2005 and 2006 fiscal years. For four of the five licensees, the fiscal year ended on December 31, and for the fifth 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. We also reviewed the independent auditors' working papers applicable to certain of the licensees to determine the audit procedures performed and to avoid any duplication of audit effort. As a result of reviewing these working papers, we determined that we would not review certain financial-related activities (such as payroll processing and payments to vendors) that did not directly relate to each licensee's compliance with applicable State laws, rules, and regulations.

Furthermore, the independent auditors for Laurel Park, Pimlico Race Course, Rosecroft Raceway, and Ocean Downs Racetrack performed certain agreed-upon procedures to provide assurance regarding the accuracy of wagering revenues collected and the related distributions.¹ The related reports disclosed no material deficiencies. We reviewed the independent auditors' related working papers supporting these special procedures performed in lieu of conducting testing of the wagering revenues and related distributions.

Our fieldwork was completed during the period from September 2007 to October 2007. A copy of the draft report was provided to each licensee and to the Commission. The Commission's response to our finding and recommendation 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

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

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 the licensees did not have a process to ensure they complied with State law regarding state residency requirements, as detailed below.

Finding and Recommendation

Residency Requirements and Licensing

Finding 1

The licensees did not have a procedure to ensure that employees were State residents as required by State law.

Analysis

The three licensees tested did not have a procedure to ensure that employees were State residents as required by State law. Our test of 40 employees from 3 licensees (that is, Maryland Jockey Club, Cloverleaf Enterprises, and Ocean Downs Raceway) disclosed that there was no documentation for any of these employees as to whether they were residents of the State. The Business Regulation Article, Section 11-320 of the Annotated Code of Maryland requires that at least 85% of the individuals employed each day by a licensee shall be citizens of the United States who have maintained a permanent place of residence in the State for at least the two years immediately before being employed. Although we sighted evidence of citizenship, the licensees advised us that they were not aware of the residency requirement contained in the law.

In addition, we noted that neither the Maryland Racing Commission (the Commission) nor the three racetrack licensees had documentation that 15 of the 40 employees tested had been licensed by the Commission as required by the Code of Maryland Regulations. Specifically, the regulations require a variety of employees such as pari-mutuel, stable, and track employees to obtain a license from the Commission.

Recommendation 1

We recommend that all licensees, in conjunction with the Commission, develop a process to ensure employees are residents of the State and are licensed by the Commission as required by State law and regulations, respectively.

APPENDIX

MARTIN O'MALLEY, Governor
ANTHONY G. BROWN, Lt. Governor
THOMAS E. PEREZ, Secretary

DLLR

STATE OF MARYLAND

DEPARTMENT OF LABOR, LICENSING AND REGULATION

Maryland Racing Commission

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February 1, 2008

Mr. Bruce A. Myers
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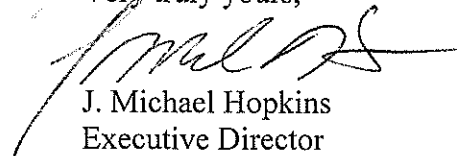
Dear Mr. Myers:

This is to advise you that the Commission will review the finding and recommendation cited in your audit of the Maryland thoroughbred and harness horse racing tracks covering the period beginning July 1, 2005 and ending June 30, 2007 at its next Public meeting on March 18, 2008.

I fully expect the Commission to concur with your recommendation. Prior to the Commission review, a procedure will be established to review the payroll records of the licensees to ensure compliance with the Commission's licensing requirements. The Commission staff will work with the licensees and review the residency requirement cited by your audit as well.

If you have any questions or comments please do not hesitate to contact me at any time.

Very truly yours,


J. Michael Hopkins
Executive Director

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