

Audit Report

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**Maryland Department of Labor  
Division of Racing**

January 2022

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

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Victoria L. Gruber  
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Gregory A. Hook, CPA  
Legislative Auditor

January 26, 2022

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee  
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee  
Members of Joint Audit and Evaluation Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Department of Labor – Division of Racing (DOR) for the period beginning June 14, 2017 and ending August 31, 2021. DOR is responsible for implementing the policies of the Maryland Racing Commission, which regulates the conduct of horseracing and pari-mutuel wagering in the State. DOR is also responsible for the distribution of certain video lottery terminal funds in accordance with certain provisions of State law.

Our audit did not disclose any findings.

We wish to acknowledge DOR's efforts to satisfactorily address the finding contained in our preceding audit report. We also wish to acknowledge the cooperation extended to us during the audit by DOR.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive, flowing style.

Gregory A. Hook, CPA  
Legislative Auditor



## **Background Information**

### **Agency Responsibilities**

The Maryland Department of Labor – Division of Racing (DOR) 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.

DOR is also responsible for the allocation of certain video lottery terminal funds. Specifically, DOR distributes these funds, 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 its records, during fiscal year 2021, DOR distributed \$171 million in video lottery terminal funds, and its operating expenses totaled \$3.2 million.

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

Our audit included a review to determine the status of the one finding contained in our preceding audit report dated January 4, 2018. We determined that DOR satisfactorily addressed this finding.

## **Findings and Recommendations**

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

A draft copy of this report was provided to DOR. 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 Maryland Department of Labor (MDL) – Division of Racing (DOR) for the period beginning June 14, 2017

and ending August 31, 2021. 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 DOR'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, payroll, and certain licensee (racetrack) requirements regarding the reporting and distribution of pari-mutuel wagering revenue. We also determined the status of the finding contained in our preceding audit report.

Our audit did not include certain support services provided by the MDL – 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.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of June 14, 2017 to August 31, 2021, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of DOR's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected.

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 sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from the Statewide Personnel System (SPS) for the purpose of testing certain payroll transactions. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

DOR'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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to DOR, were considered by us during the course of this audit.

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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