

Audit Report

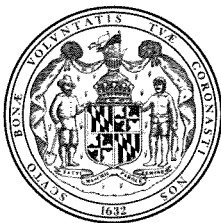
**Maryland Thoroughbred and Harness
Horse Racing Tracks**

September 2014



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 15, 2014

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Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

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:

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, 2011 and ending June 30, 2013:

- 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 audited financial statements for licensees had been obtained and that the licensees tested properly reported the forms of ownership in accordance with State law. In addition, based on the work performed by other auditors, licensees properly distributed wagering revenues, including taxes due to the State. Finally, we determined that licensees complied with certain other legal requirements, such as having annual financial statements independently audited and properly using revenue from video lottery proceeds.

We wish to acknowledge the cooperation extended to us by the Commission and the licensees during our audit.

Respectfully submitted,

Thomas J. Barnickel III, 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. Details of live race days and wagering at the racetracks for calendar year 2012 are provided in the following table:

Calendar Year 2012 Racetrack Activity			
Type of Racing	Racetrack	Live Race Days	Pari-mutuel Wagering
Thoroughbred	Laurel Park	117	\$99,296,799
	Pimlico Race Course	29	\$57,255,862
	Timonium Race Course	7	\$1,329,343
Harness	Rosecroft Raceway	54	\$19,668,505
	Ocean Downs Racetrack	44	\$14,511,632
	Total	251	\$192,062,141

Source: Maryland Racing Commission records (unaudited)

Status of Licensees

In its fiscal year 2013 audited financial statement report, the Ocean Downs Racetrack independent auditor commented that recurring losses from operations and cash flow deficiencies for the last 10 years had raised substantial doubt as to its ability to continue as a going concern.

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 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, 2012. We determined that these findings were satisfactorily addressed.

Scope, Objectives, and Methodology

Scope

We have audited the licensees for the following racetracks for the period beginning July 1, 2011 and ending June 30, 2013:

- 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 two findings 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. licensees properly distributed wagering revenues, including taxes due the State; and

3. licensees complied with certain requirements of State law, such as having annual financial statements independently audited, submitting certain unclaimed ticket revenue to the Commission, and properly using revenue from video lottery proceeds, as well as meeting the 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, independent auditors for Laurel Park, Pimlico Race Course, Rosecroft Raceway, and Ocean Downs Racetrack performed certain agreed-upon procedures to provide assurances regarding the accuracy of wagering revenues collected and the related distributions during the audit period.¹ We have relied on the work of the independent auditors to provide audit coverage of wagering revenues collected and related distributions. Therefore, our audit procedures in these areas were generally limited to obtaining a sufficient basis for that reliance.

The financial statements of each licensee are to be 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 all of the licensees covering their 2012 and 2013 fiscal years (most of which are on a calendar year basis) to ensure the audits had been completed as required by State law and to determine if any other conditions existed that would impact our audit objectives. 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 accordance with accounting principles generally accepted in the United States.

Our fieldwork was completed during the period from May 2014 to June 2014.

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

Audit Findings

We found that, for the licensees tested, all racetracks had obtained audited financial statements and all forms of ownership were properly reported to the Maryland Racing Commission as required by law. In addition, based on the work performed by other auditors, licensees properly distributed wagering revenues, including taxes due to the State from wagering. We also determined that certain unclaimed ticket revenue was submitted to the Commission, video lottery proceeds disbursed to racetracks were properly utilized, and the licensing requirements of the Commission contained in the Code of Maryland Regulations were met.

A copy of this draft report was provided to each licensee and to the Commission. Since there are no recommendations in this report, a written response was not necessary.

AUDIT TEAM

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