

Performance Audit Report

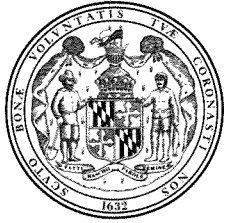
**Video Lottery Operations Revenue
Small, Minority, and Women-Owned Businesses Account**

December 2013



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

Karl S. Aro
Executive Director

December 4, 2013

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 Section 9-1A-35 of the State Government Article of the Annotated Code of Maryland, we audited the use of video lottery terminal (VLT) funds that are allocated to small, minority, and women-owned businesses in the State by eligible fund managers who receive grants from the Board of Public Works (BPW). The grants are to be made from the Small, Minority, and Women-Owned Businesses Account, which is generally funded by 1.5 percent of VLT proceeds, and at least 50 percent of the funds are to provide investment capital and loans to small, minority, and women-owned businesses in the jurisdictions and communities surrounding video lottery facilities. As part of the audit, we also determined that the appropriate amounts were paid into the Account and that proper accountability was established over the Account. Our audit covered Account activity for the period beginning July 1, 2012 and ending June 30, 2013.

On August 22, 2012, BPW entered into a Memorandum of Understanding (MOU) with the Department of Business and Economic Development (DBED) for DBED to manage the grants program for the BPW. Furthermore, on April 17, 2013, the BPW approved the selection of three fund managers and approved grants to these fund managers totaling \$7.9 million. However, as of June 30, 2013, no grants had been disbursed to the fund managers.

We determined that proper accountability had been established over the Account, which had a balance at June 30, 2013 totaling \$10,945,566. Receipts into the Account totaled \$8,389,178 for fiscal year 2013.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thomas J. Barnickel III". The signature is fluid and cursive, with a large initial "T" and a stylized "B".

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Small, Minority, and Women-Owned Businesses Account

During the 2007 special session, the General Assembly enacted legislation to license video lottery terminal (VLT) gaming in Maryland contingent on the legislation being ratified by the voters of the State. In the November 2008 general election, the voters of Maryland ratified a constitutional amendment authorizing VLTs in the State. As a result of the ratification of the constitutional amendment, the Small, Minority, and Women-Owned Businesses Account was established; the legislation creating the Account was similarly enacted during the 2007 special session.

State Law generally requires that 1.5 percent of VLT proceeds be paid into the Account, which is a special, nonlapsing fund administered by the Comptroller of Maryland under the authority of the Board of Public Works (BPW). State Law specifies that the Account is to be used by the BPW to make grants to eligible fund managers to provide investment capital and loans to small, minority, and women-owned businesses in the State, of which at least 50 percent must be allocated to such businesses in the jurisdictions and communities surrounding a video lottery facility. BPW is responsible for ensuring that the fund managers allocate the funds in accordance with the State law.

Video Lottery Facility Licenses and Operations

Licenses have been awarded to operate VLT casinos in Cecil, Worcester, Anne Arundel, and Allegany Counties and Baltimore City. The casinos in Cecil, Worcester, Anne Arundel, and Allegany Counties began VLT gaming operations on September 27, 2010, January 4, 2011, June 6, 2012, and May 22, 2013, respectively. VLT gaming operations have not begun in Baltimore City.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the finding contained in our preceding audit report dated October 16, 2012. We determined that the BPW satisfactorily addressed this finding.

Audit Scope, Objectives, and Methodology

Scope and Objectives

As required by Section 9-1A-35 of the State Government Article of the Annotated Code of Maryland, we conducted an audit to evaluate the utilization of the video lottery terminal (VLT) funds that are allocated to small, minority, and women-owned businesses by eligible fund managers who received grants from the Board of Public Works (BPW). As part of the audit, we also determined that the appropriate amounts were paid into the Account, disbursements or transfers from the Account were properly authorized, and proper accountability was established over the Account. Our audit covered Account activity for the period beginning July 1, 2012 and ending June 30, 2013.

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.

Methodology

To accomplish our objectives, we interviewed employees of the BPW and the Department of Business and Economic Development (DBED), which, as of August 22, 2012, was designated by the BPW to manage the grant program authorized by State law. We also reviewed the records maintained by the Comptroller of Maryland for the Account, including the one transfer from the Account to DBED for administrative costs. Finally, we verified that the amounts transferred into the Account during fiscal year 2013 were proper based on the total VLT revenue reflected in the records of the Maryland Lottery and Gaming Control Agency.¹ As of June 30, 2013, no disbursements to any fund managers had been made from the Account.

Our fieldwork was completed during the period from April through September 2013. A copy of the draft report was provided to the BPW. Since there are no recommendations in this report, a written response was not necessary.

¹ Chapter 1, Special Session 2, Laws of Maryland 2013, effective October 1, 2012, changed the Agency's name from the State Lottery Agency to the State Lottery and Gaming Control Agency.

Conclusions

We concluded that proper accountability had been established over the Account. Specifically, as of June 30, 2013, the Account had been funded as required by law and the one transfer from the Account to another State fund was made in accordance with law.

At the request of the Governor, the BPW designated DBED as the administering agency for the grant program. On August 22, 2012, the BPW entered into a Memorandum of Understanding (MOU) with DBED for DBED to manage the grants program on BPW's behalf. DBED engaged in a competitive procurement process and recommended the award of \$7.9 million in grant funds to three fund managers. On April 17, 2013, the BPW approved the award to the three fund managers. As of June 30, 2013, no Account funds had yet been disbursed to these fund managers to provide investment capital and loans to small, minority, and women-owned businesses in the State. Subsequent to our audit fieldwork, the BPW disbursed approximately \$1.6 million to fund managers; these and other fiscal year 2014 disbursements will be reviewed during our next audit of the Account.

Since its inception through June 30, 2013, the Small, Minority, and Women-Owned Businesses Account has been properly credited with VLT proceeds as specified by law. The Account began receiving funds during fiscal year 2011 when the first VLT facility began gaming operations.

A transfer of \$50,000 from the Account to DBED was made for the costs of administering the grant program in fiscal year 2013. This transfer was authorized by the MOU that BPW entered into with DBED to manage the grants program.

A summary of Account activity through June 30, 2013, according to the Comptroller's accounting records, is presented below.

Summary of Account Activity Fiscal Year 2013	
Account Balance – July 1, 2012	\$ 2,606,388
Receipts	8,389,178
Transfer to DBED	(50,000)
Account Balance – June 30, 2013	<u>\$ 10,945,566</u>

AUDIT TEAM

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