

Audit Report

**Department of Labor, Licensing and Regulation
Division of Racing**

January 2018



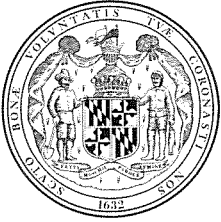
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

January 4, 2018

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate C. William Frick, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Department of Labor, Licensing and Regulation (DLLR) – Division of Racing (DOR) for the period beginning April 24, 2014 and ending June 13, 2017. 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 disclosed that DOR did not have adequate procedures to ensure that hours worked by its employees were properly recorded in the Statewide Personnel System to support the validity and accuracy of payroll processed.

The response from DLLR – Office of the Secretary, on behalf of DOR, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during our audit by DOR.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "T. J. Barnickel III".

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Department of Labor, Licensing and Regulation – 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 2017, DOR distributed \$100.3 million in video lottery terminal funds, and its operating expenses totaled \$3 million.

Findings and Recommendations

Payroll

Finding 1

The Division of Racing (DOR) did not establish adequate procedures to ensure that hours worked by its employees were properly recorded in the Statewide Personnel System (SPS) to support payroll expenditures.

Analysis

DOR did not establish adequate procedures to ensure that hours worked by its employees were properly recorded in the Statewide Personnel System (SPS) to support employee payroll expenditures. Specifically, two DOR headquarters employees recorded employee work hours in SPS, as reflected on approved paper timesheets, on behalf of the vast majority of its employees who worked at the State's race tracks. However, the employee who subsequently approved the employee work hours in SPS did not receive and review the paper timesheets to ensure that hours were properly recorded. As a result, employee work hours could be recorded improperly in SPS without detection.

According to the State's records, DOR's calendar year 2016 payroll expenditures totaled approximately \$1.4 million for its 23 regular employees and 68 contractual employees. This included expenditures totaling approximately \$1.1 million for 18 regular employees and all 68 contractual employees who prepared paper timesheets for submission to DOR headquarters. DOR advised us that these employees prepared paper timesheets because they do not have access to SPS at the racetracks.

Recommendation

We recommend that DOR implement procedures requiring the employee who approves employee work hours recorded in SPS to review supporting timesheets as part of the approval process.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Department of Labor, Licensing and Regulation (DLLR) – Division of Racing (DOR) for the period beginning April 24, 2014 and ending June 13, 2017. 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.

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

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of DOR's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests 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). These 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 and leave transactions, including the conversion of employee data to SPS. 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.

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.

This report includes a finding relating to a condition that we consider to be a significant deficiency in the design and operation of internal that could adversely

affect DOR's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our audit did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

The DLLR – Office of the Secretary's response, on behalf of DOR, to our finding and recommendation is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the Office of the Secretary regarding the results of our review of its response.

APPENDIX



OFFICE OF THE SECRETARY
500 North Calvert Street
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December 20, 2017

Mr. Thomas J. Barnickel III, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, MD 21201

The Department of Labor, Licensing, and Regulation (DLLR) respectfully submits the enclosed response to the Office of Legislative Auditor's (OLA) report on the Division of Racing for a period beginning April 24, 2014 and ending June 13, 2017.

The Department has initiated measures to strengthen internal controls and improve processes to mitigate deficiencies identified in your discussion notes.

DLLR would like to thank the audit staff who conducted the audit of the Division of Racing. Their professionalism and respect to our staff and processes is much appreciated.

Should you have any questions, feel free to contact me or Executive Director Mike Hopkins, of the Division.

Best Regards,

A handwritten signature in black ink that reads "Kelly M. Schulz".

Kelly M. Schulz
Secretary

KMS/mh

cc: David McGlone, Deputy Secretary, DLLR
Michael J. Algeo, Chair, Maryland Racing Commission
J. Michael Hopkins, Executive Director, Division of Racing, DLLR
Elizabeth Williams, Executive Director, Office of Administration, DLLR
Samuel K. Smith, Director, Office of Program Analysis and Audit, DLLR

Finding 1

The Division of Racing (DOR) did not establish adequate procedures to ensure that hours worked by its employees were properly recorded in the Statewide Personnel System (SPS) to support payroll expenditures.

Recommendation

We recommend that DOR implement procedures requiring the employee who approves employee work hours recorded in SPS to review supporting timesheets as part of the approval process.

DLLR Response:

The Division of Racing concurs with the finding and will have the employee who approves work hours review timesheets presented for approval and document the review.

AUDIT TEAM

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