



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued June 8, 2016

Massachusetts Thoroughbred Breeders Association Inc.

For the period January 1, 2013 through December 31, 2014





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Making government work better

June 8, 2016

Mr. George Brown, Chair and President
Massachusetts Thoroughbred Breeders Association Inc.
121 Pine Street
Rehoboth, MA 02769

Dear Mr. Brown:

I am pleased to provide this performance audit of Massachusetts Thoroughbred Breeders Association Inc. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, January 1, 2013 through December 31, 2014. My audit staff discussed the contents of this report with management of the association, whose comments are reflected in this report.

I would also like to express my appreciation to Massachusetts Thoroughbred Breeders Association Inc. for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump
Auditor of the Commonwealth

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EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of Massachusetts Thoroughbred Breeders Association Inc. (MTBA) for the period January 1, 2013 through December 31, 2014. The objective of our audit was to determine whether MTBA was properly administering its revenue and expenses in compliance with applicable statutory requirements.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1 Page 6	MTBA did not verify the amount of revenue it received from the Suffolk Downs racecourse.
Recommendation Page 7	MTBA should contact Suffolk Downs and request documentation of all gross live wagering amounts by category. MTBA should then establish and implement policies and procedures to use this documentation to verify that the amount of revenue it receives from Suffolk Downs is in accordance with statutory requirements.
Finding 2 Page 7	MTBA did not issue required Internal Revenue Service (IRS) Form 1099-MISCs for one vendor for 2013 and 2014.
Recommendations Page 7	<ol style="list-style-type: none">1. MTBA should issue the required IRS Form 1099-MISCs to the vendor in question for 2013 and 2014.2. MTBA's accountant should make sure that the agency annually submits all required IRS Form 1099-MISC information to its vendors and the IRS in accordance with IRS requirements.
Finding 3 Page 8	Administrative expenses and debit-card transactions totaling \$5,044 were not supported by documentation.
Recommendation Page 8	MTBA should maintain adequate documentation for all of its expenses and should not reimburse employees for any expenses for which there is no such documentation.

OVERVIEW OF AUDITED ENTITY

Massachusetts Thoroughbred Breeders Association Inc. (MTBA) is a nonprofit organization incorporated on March 21, 1981 and headquartered in Chelmsford. According to its website, “the purpose of Massachusetts Thoroughbred Breeders Association Inc. is to promote the business of Thoroughbred horse breeding in the Commonwealth of Massachusetts in order to improve the Thoroughbred race horse and to foster such programs as will ensure the benefit of the Association’s members.” MTBA represents Thoroughbred breeders and owners in Massachusetts and administers the state’s Thoroughbred Breeding Program. Anyone in Massachusetts who is engaged or interested in the breeding, owning, racing, or training of Thoroughbred racehorses can apply for membership in MTBA. MTBA had 64 members in calendar year 2013 and 66 members in calendar year 2014. During our audit period, it was governed by a 12-member board of directors, whose members are elected by MTBA members at their annual meeting and serve three-year terms.

For calendar year 2013, MTBA’s revenue totaled \$671,485 and its expenses totaled \$689,245. For calendar year 2014, its revenue totaled \$552,419 and its expenses totaled \$542,161. Revenue and expenses for these years are shown below.

	Calendar Year 2013	Calendar Year 2014
Beginning Balance	\$ 20,581	\$ 2,821
Revenue		
Suffolk Downs Racecourse Live Handle*	338,429	275,043
Suffolk Downs Purse	292,480	238,099
Suffolk Downs Stake Racing Fees	24,200	20,500
Membership Fees	7,150	8,100
Donations	8,805	10,506
Other Revenue	421	171
Total Revenue	\$ 671,485	\$ 552,419
Expenditures		
Purse Awards	\$ 603,044	\$ 466,199
Operating Expenses	86,201	75,962
Total Expenditures	\$ 689,245	\$ 542,161
Ending Balance	\$ 2,821	\$ 13,079

* Chapter 128A, and Section 5 of Chapter 128C, of the Massachusetts General Laws require that a percentage of all live bets and purses (prizes paid to owners of winning horses) paid at Suffolk Downs be transferred to MTBA.

On November 22, 2011, the Governor signed into law Chapter 194 of the Acts of 2011. This legislation established expanded gaming in the Commonwealth as well as a Race Horse Development Fund to support the Massachusetts Thoroughbred and Standardbred horse-racing industries. The Massachusetts Gaming Commission administers the fund, which consists of money deposited from Category 2 licensees¹ (as of the end of our audit period, the only such licensee was the Plainridge Park Casino).

Section 60 of the Acts of 2011 states that funds received from the Race Horse Development Fund are to be distributed between Thoroughbred and Standardbred accounts as approved by the Massachusetts Gaming Commission, with 80% distributed into accounts that fund purse awards, 16% to support breeding programs, and 4% for health benefits of Standardbred Owners of Massachusetts Inc. and MTBA.

The legislation requires that a Category 2 licensee pay a daily assessment of 9% of its gross gaming revenue into the Race Horse Development Fund. The first distributions from this fund to MTBA occurred from March 30, 2015 through December 24, 2015 and totaled \$1,915,859. This amount included \$1,050,000, received on March 30, 2015, designated as MTBA's share of the license fee for the Plainridge Park Casino's Category 2 license and \$865,859 from the 9% assessment of gross gaming revenue from the Plainridge Park Casino.

1. A Category 2 license permits the licensee to operate a gaming establishment with no table games and no more than 1,250 slot machines.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of Massachusetts Thoroughbred Breeders Association Inc. (MTBA) for the period January 1, 2013 through December 31, 2014.

We conducted this performance audit 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.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Is MTBA verifying that it is receiving all of the required revenue from the Suffolk Downs racecourse and is properly receiving, recording, and depositing this revenue?	No; see Finding 1
2. Does MTBA ensure that it expends no more than the maximum of 8% of the income received from Suffolk Downs on administrative expenses?	Yes
3. Are the operating expenses that MTBA incurs properly documented, reasonable, allowable, and properly reported?	No; see Findings 2 and 3
4. Is money that is received from live racing used for purse money in stake races to promote the Thoroughbred breeding program in Massachusetts?	Yes

To achieve our audit objectives, we gained an understanding of the internal controls we deemed significant to our audit objectives and evaluated the design and effectiveness of those controls in the following areas: Internal Revenue Service Form 1099-MISC, administrative expenditures, financial reporting, and award payments. We also performed the following procedures:

- We obtained and reviewed various criteria related to our audit objectives, including applicable laws, regulations, policies and procedures, and other authoritative guidance.
- We examined financial records, including pertinent source documents such as bank statements, invoices, and deposit information.

- We reviewed the minutes of board of directors' meetings that took place during the audit period.
- We tested all revenue and credit-card expenditures during the audit period and determined whether revenue was properly received, recorded, and deposited and whether expenses were reasonable and in accordance with statutory limits.
- For expenditures made by check, we used a random, nonstatistical sample of 6 administrative expenditures selected from a population of 29, and determined whether the expenses were reasonable and had supporting documentation.
- We tested a random, nonstatistical sample of 2 reconciliations selected from each of 3 bank accounts, for a sample of 6 out of 72 reconciliations, to verify that the balance in the cash account was correct and was in agreement with the general ledger.
- We used a nonstatistical judgmental sample of 25 award payments selected from a population of 487 to determine whether award payouts were made in accordance with MTBA policies and procedures.
- We tested all vendors that received \$600 or more for each calendar year of the audit period to determine whether MTBA had issued Internal Revenue Service Form 1099-MISCs in accordance with Section 6041(a) of Title 26 of the United States Code.

Whenever sampling was used, we applied a nonstatistical approach, and as a result, we were not able to project our results to the population.

We determined the reliability of data from MTBA's QuickBooks software by tracing certain transactions to original source documents such as invoices, accounts-payable checks, and bank statements. In addition, we compared these documents to the general ledger for accuracy. We determined that the data from the system were sufficiently reliable for the purposes of our audit.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. Massachusetts Thoroughbred Breeders Association Inc. did not verify the amount of revenue it received from the Suffolk Downs racecourse.

Massachusetts Thoroughbred Breeders Association Inc. (MTBA) did not verify that the revenue it received from the Suffolk Downs racecourse during our audit period was in accordance with the amounts established by state law.

According to Chapter 128A, and Section 5 of Chapter 128C, of the Massachusetts General Laws, during the racing season MTBA is to receive a percentage of the gross amount wagered on all pari-mutuel² live horse racing at Suffolk Downs. For Thoroughbred racing, MTBA should receive 1% of the total handle (total amount of bets taken) at all horse races that are run on licensees' tracks in the Commonwealth. MTBA receives this revenue from Suffolk Downs through wire transfers to its bank account. Suffolk Downs transferred a total of \$1,108,901 to MTBA during the audit period: \$595,759 in calendar year 2013 and \$513,142 in calendar year 2014. This was MTBA's main source of revenue, which it used to operate the Thoroughbred Breeding Program in Massachusetts.

Without detailed verification, MTBA has no assurance that it is receiving the correct percentage of revenue from Suffolk Downs and is not unknowingly losing revenue to which it is entitled by law. During our audit fieldwork, we independently verified that MTBA did receive the correct amounts of revenue from Suffolk Downs during our audit period, but there is no assurance that this would be the case for any other given year.

Authoritative Guidance

Prudent business practices require that MTBA ensure that it is receiving all the revenue to which it is entitled from Suffolk Downs by verifying that it is receiving the legally required percentage.

Reasons for Lack of Verification

To support its wire transfers, Suffolk Downs sent MTBA weekly wire transfer notices that listed the weekly amounts transferred to MTBA, but they showed only the amounts being transferred. They did not show the calculation of gross pari-mutuel wagering multiplied by the appropriate percentage to arrive at the

2. Pari-mutuel racing is a betting system in which all bets of a particular type are placed in a pool and payoff odds are calculated by sharing the pool among all winning bets.

amounts to be transferred to MTBA. According to MTBA's accountant, MTBA did not have policies and procedures that required it to verify that the amounts of revenue transferred to MTBA were correct, and because of limited resources, it has never been MTBA's practice to do so.

Recommendation

MTBA should contact Suffolk Downs and request documentation of all gross live wagering amounts by category. MTBA should then establish and implement policies and procedures to use this documentation to verify that the amount of revenue it receives from Suffolk Downs is in accordance with statutory requirements.

2. MTBA did not issue all required Internal Revenue Service Form 1099-MISCs for 2013 and 2014.

MTBA did not issue Internal Revenue Service (IRS) Miscellaneous Income Form 1099-MISCs to one of its vendors during either year of our audit period. MTBA paid this vendor \$800 in 2013 and \$1,550 in 2014 and therefore should have issued this tax form to the vendor and reported the information to the IRS for those years. Not adhering to this requirement makes MTBA subject to an IRS penalty. Further, not providing this vendor this information may cause the vendor to file an incorrect tax return, which could also subject it to a penalty.

Authoritative Guidance

Section 6041(a) of Title 26 of the United States Code requires entities to prepare Form 1099-MISC, which details the name, federal reporting number, and amount paid, for each contractor to which the entity paid more than \$600 during a calendar year. The entity must send copies of the form to the contractor and the IRS. Failing to file correct 1099-MISC information with the IRS without showing reasonable cause can result in a penalty.

Reasons for Missing Forms

MTBA's accountant stated that it was an oversight not to send the Form 1099-MISC information for this vendor to the vendor and the IRS.

Recommendations

1. MTBA should issue the required IRS Form 1099-MISCs to the vendor in question for 2013 and 2014.

2. MTBA's accountant should make sure that the agency annually submits all required IRS Form 1099-MISC information to its vendors and the IRS in accordance with IRS requirements.

3. Administrative expenses and debit-card transactions totaling \$5,045 were not supported by documentation.

MTBA did not maintain supporting documentation for certain expenses. Our review of office expenditures made during the audit period revealed that MTBA lacked supporting documentation for 25 (44%) of the 57 administrative expenditures tested. The 25 expenditures totaled \$5,045. Of the 57 expenditures tested, 51 were paid by debit card and 6 by check. These expenditures were for MTBA administration and included such items as postage, office supplies, telephones, and license fees to the Secretary of State's Office.

As a result of the lack of documentation, there is inadequate assurance that these expenses were proper.

Authoritative Guidance

MTBA's own Controls for Administrative Account Expenditures policy states that expenses must be supported with sufficient documentation to justify their appropriateness. It also requires that all purchases be supported by a receipt, which will be held by the accountant for review and audit purposes.

Reasons for Lack of Documentation

According to MTBA's accountant, although this documentation was supposed to be kept in the previous accountant's office, it was kept in his home and was discarded after his death. We could not verify that the documentation had once been kept in the previous accountant's home; however, if it was, this was contrary to MTBA's policies.

Recommendation

MTBA should maintain adequate documentation for all of its expenses and should not reimburse employees for any expenses for which there is no such documentation.

Auditee's Response

The MTBA responded to all three findings that it "has either completed or is working toward being in compliance with the recommendations." It also provided the following additional comments on Finding 3:

Many of the expenses flagged as unsupported were recurring expenses debited from our bank account such as a phone bill. I was not given a list of unsupported expenses until after the audit

was over. Had I been given the opportunity I more likely could have logged on to the Verizon website and downloaded the old bills thereby supporting the expenses.

For this reason, my view is that the amount of unsupported expenses is somewhat overstated.

Auditor's Reply

We believe the actions taken by MTBA to implement our recommendations were appropriate and should address the problems we found during our audit. We note that at the conclusion of our audit fieldwork, we contacted MTBA's accountant, informed him of our audit findings, and gave him a list of the undocumented expenses we would discuss in our report. MTBA had sufficient time (almost three weeks) to review this information, ask questions, and give us any additional documentation that it had for these expenses before it received our draft report. Moreover, it is important that MTBA maintain documentation for all expenses, since its own policy states that expenses must be supported with sufficient documentation to justify their appropriateness.