



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

Making government work better

Official Audit Report – Issued April 5, 2016

Standardbred Owners of Massachusetts Inc.

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





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Making government work better

April 5, 2016

Mr. Edward Nowak, President
Standardbred Owners of Massachusetts Inc.
PO Box 1682
Plainville, MA 02762

Dear Mr. Nowak:

I am pleased to provide this performance audit of Standardbred Owners of Massachusetts 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 agency, whose comments are reflected in this report.

I would also like to express my appreciation to Standardbred Owners of Massachusetts Inc. for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written over a light blue horizontal line.

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 the Standardbred Owners of Massachusetts Inc. (SOM) for the period January 1, 2013 through December 31, 2014. The objective of our audit was to determine whether SOM was properly administering its revenue and expenses in compliance with applicable statutory requirements.

Below is a summary of our finding and recommendation, with links to each page listed.

Finding 1 Page 6	SOM did not verify that it received the legally required percentage of revenue from the Plainridge Park Racecourse.
Recommendation Page 7	SOM should contact Plainridge and request documentation of all gross live wagering amounts by category. SOM should then establish and implement policies and procedures to use this documentation to verify that the amount of revenue it receives from Plainridge is in accordance with statutory requirements.

OVERVIEW OF AUDITED ENTITY

Standardbred Owners of Massachusetts Inc. (SOM) is a nonprofit organization incorporated on May 1, 1992 and headquartered in Plainville. According to its website, “the purpose of the Standardbred Owners of Massachusetts Inc. is to promote the business of Standardbred horse breeding and racing in the Commonwealth.” SOM represents Standardbred breeders and owners in Massachusetts and administers the state’s Standardbred Breeding Program. Anyone in Massachusetts who has a Standardbred horse registered with the United States Trotter Association can apply for membership in SOM. SOM had 56 members in calendar year 2013 and 47 members in 2014. During our audit period, SOM was governed by a seven-member board of directors, whose members are elected by SOM members at their annual meeting and serve three-year terms.

SOM offers cash prizes for sire-stakes races to breeders and owners of Massachusetts-bred Standardbred racehorses and stallions. These races are for Standardbred racing horses between the ages of two and three that were born in Massachusetts and sired by Massachusetts-registered stallions. In 2013, SOM sponsored 31 sire-stakes races on four racing dates. In 2014, it sponsored 21 races covering three racing dates. The prizes, or purses, paid to owners of horses that participate in these races are established by SOM in consultation with the commissioner of the Massachusetts State Racing Commission and the commissioner of the Massachusetts Department of Agricultural Resources.

For calendar year 2013, SOM’s revenue totaled \$199,787 and its expenses totaled \$202,823. For calendar year 2014, revenue totaled \$175,045 and expenses totaled \$173,300. Revenue and expenses for these years are shown below.

	Calendar Year 2013	Calendar Year 2014
Beginning Balance	\$ 6,514	\$ 3,478
Revenue		
Plainridge Park Racecourse*	172,907	146,545
Registration Fees	25,250	27,350
Membership Fees	1,400	1,150
Promotion Reimbursement	230	–
Total Revenue	\$ 199,787	\$ 175,045

	Calendar Year 2013	Calendar Year 2014
Expenditures		
Purse Awards	\$ 182,303	\$ 157,676
Operating Expenses	20,520	15,624
Total Expenditures	<u>\$ 202,823</u>	<u>\$ 173,300</u>
Ending Balance	<u>\$ 3,478</u>	<u>\$ 5,223</u>

* According to law, a percentage of all live bets at the Plainridge Park Racecourse must be transferred to SOM. The share of revenue remitted to SOM totaled \$172,907 for the period January 1, 2013 through December 31, 2013 and \$146,545 for the period January 1, 2014 through December 31, 2014.

On November 22, 2011, the Governor signed into law Chapter 194 of the Acts of 2011. This legislation established expanded gaming in the Commonwealth and is expected to have significant impact on the horse-racing industry in Massachusetts. It established a Race Horse Development Fund within the Commonwealth of Massachusetts. The Massachusetts Gaming Commission administers the fund, which supports the Massachusetts Thoroughbred and Standardbred horse-racing industries. The fund consists of money deposited from Category 2 licensees such as Plainridge Casino. A Category 2 license permits the licensee to operate a gaming establishment with no table games and no more than 1,250 slot machines. Currently, there is only one Category 2 licensee in Massachusetts.

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. Section 60 of Chapter 194 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 for members of SOM and the Massachusetts Thoroughbred Breeders Association. After our audit period, from April 17, 2015 to November 19, 2015, a total of \$592,231 was transferred from the Race Horse Development Fund to SOM. This amount included \$350,000, received on April 17, 2015, designated as SOM's share of the license fee for its Category 2 license. Of the \$592,231, SOM has allocated \$544,853 for purses and awards and \$47,378 for its administrative expenses.

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 the Standardbred Owners of Massachusetts Inc. (SOM) 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 SOM properly receiving, recording, and depositing the revenue it receives from the Plainridge Park Racecourse?	No; see Finding <u>1</u>
2. Does SOM ensure that it expends no more than the maximum of 8% of the income received from Plainridge on administrative expenses, and are these operating expenses that SOM incurs reasonable and allowable?	Yes
3. Is money that is received from live racing used for purse money in stake races to promote the Standardbred Breeding Program in Massachusetts?	Yes

To achieve our 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. We also performed the following procedures:

- We obtained and reviewed various criteria related to our audit objectives, including applicable laws, rules and 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 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.

SOM did not use an electronic software system to record its financial transactions. Therefore, we did not assess the reliability of any computerized data.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. Standardbred Owners of Massachusetts Inc. did not verify revenue received from the Plainridge Park Racecourse.

Standardbred Owners of Massachusetts Inc. (SOM) did not verify that the revenue it received from the Plainridge Park Racecourse was in accordance with the amounts required by state law.

According to Chapter 128A, and Section 5 of Chapter 128C, of the Massachusetts General Laws, during the racing season SOM is to receive a percentage of the gross amount wagered on all pari-mutuel¹ live horse racing at Plainridge. For live harness racing, SOM should receive 0.5% of the gross win, place, and show wagering and 1.5% of the gross exotic wagering; for simulcast Thoroughbred racing, 0.5% of the gross win, place, and show wagering; and for simulcast harness racing, 0.25% of the gross win, place, and show wagering and 0.75% of the gross exotic wagering. SOM receives this revenue from Plainridge through wire transfers to its bank account. From January 1, 2013 through December 31, 2014, Plainridge transferred a total of \$319,452 to SOM: \$172,907 in calendar year 2013 and \$146,545 in 2014. This was SOM's main source of revenue, which it used to operate the Standardbred Breeding Program in Massachusetts.

Without detailed verification, SOM has no assurance that it received the correct percentage of revenue from Plainridge; it could be unknowingly losing revenue to which it is entitled by law. During our audit fieldwork, we performed testing and determined that SOM had received the correct amount of revenue during the 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 SOM ensure that it is receiving all the revenue to which it is entitled from Plainridge by verifying that it is receiving the legally required percentage.

Reasons for Not Verifying Revenue

To support its wire transfers, Plainridge sent SOM "breeder contribution reports" that listed the weekly amounts transferred to SOM, but these reports showed only the amounts being transferred. They did not show the calculation of gross pari-mutuel wagering multiplied by the various percentages to arrive at the

1. Pari-mutuel racing is a 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 SOM. According to SOM's treasurer, SOM did not have policies and procedures that required it to verify that the amounts of revenue transferred to SOM were correct, and because of limited staff resources, it has never been SOM's practice to do so.

Recommendation

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

Auditee's Response

We are in agreement with your recommendation that we request documentation from Plainridge of all gross live wagering amounts by category.