



# VIRGINIA RACING COMMISSION

## REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2019

Auditor of Public Accounts  
Martha S. Mavredes, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

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## AUDIT SUMMARY

Our audit of the Virginia Racing Commission for the year ended June 30, 2019, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and financial reporting system;
- no matters involving internal control and its operation necessary to bring to management's attention; and
- one instance of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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## AUDIT FINDINGS AND RECOMMENDATIONS

### **Comply with Federal Regulations for Documentation of Employment Eligibility**

**Type:** Compliance

**Repeat:** No

The Virginia Racing Commission (Commission) did not complete the Employment Eligibility Verification Form (I-9) in compliance with applicable laws for employees hired during fiscal year 2019. For one of three (33%) I-9s tested, Section 1 and Section 2 were not completed timely. For two of three (67%) I-9s tested, the creation of the employee's E-Verify case was not completed timely.

The Immigration Reform and Control Act of 1986 requires that employers complete an I-9 Form to verify both identity and employment eligibility for all employees hired after November 6, 1986. Additionally, the Handbook for Employers: Guidance for Completing Form I-9 (Handbook), issued by the U.S. Citizenship and Immigration Services prescribes federal requirements for completing I-9 Forms. According to the handbook, Section 1 of Form I-9 must be completed and signed by the employee by the first day of employment. Section 2 must be completed by the employer within three days of the employee's first day of work. Lastly, the employer must create an E-Verify case for the employee within three days of the employee's first day of work.

Delays in the completion of the I-9 were due to errors that required correction, combined with the employee's part-time schedule, which limited the Commission's interactions with the employee. The Commission could not provide a specific cause for the delays in creating the E-Verify cases timely. Not complying with federal regulations related to employment verification could result in civil and/or criminal penalties.

To reduce the risks associated with non-compliance with federal regulations, the Commission should implement corrective action to ensure the Form I-9 is completed by the employee and employer timely and E-Verify cases are created within the required timeframe. The Commission should also follow guidance provided in Chapter 8.0 of the Handbook on correcting errors or missing information.

## COMMISSION HIGHLIGHTS

The Commission controls and prescribes regulations and conditions for all horse racing with pari-mutuel wagering privileges in the Commonwealth. The Code of Virginia requires licensing of all persons engaged in pari-mutuel horse racing in Virginia. The license process includes fingerprinting, criminal background checks, and investigations from other states. In this capacity, the Commission licenses horse racetracks and satellite wagering facilities, and ensures that all their employees have valid Commission licenses. The Commission also issues licenses to anyone associated with horse racing, including horse owners, trainers, jockeys, grooms, veterinarians, and blacksmiths. Pari-mutuel horse racing began in the Commonwealth in September 1997 at Colonial Downs, a privately held racetrack in New Kent County. Colonial Downs surrendered its racing license in October 2014; however, the racetrack reopened in April 2019 for pari-mutuel wagering on historical horse racing following the passing of Chapter 811 during the 2018 legislative session. The Code of Virginia permits up to ten satellite wagering facilities. As of June 30, 2019, there were five satellite wagering facilities open in the state of Virginia; three of which are licensed to conduct wagering on historical horse racing. The Commission monitors each of these facilities as part of their regulatory oversight.

### Financial Summary

The results of the fiscal year 2019 financial operations of the Virginia Racing Commission are on page six. Table 1 below shows the change in wagers and revenues between fiscal years 2018 and 2019. The total amount wagered on horse racing in the Commonwealth increased from fiscal year 2018 to fiscal year 2019 by approximately \$175.9 million or 210 percent. This increase is primarily attributable to three months of wagering on historical horse racing (HHR) (April through June 2019). Tax revenue increased in correlation with historical horse racing wagers, of which the Commission receives three quarters of a percent. Breeders Fund revenue also increased as a result of increased online and historical horse racing wagers.

**Change in Wagers and Revenues  
Fiscal Year (FY) 2019 and 2018**

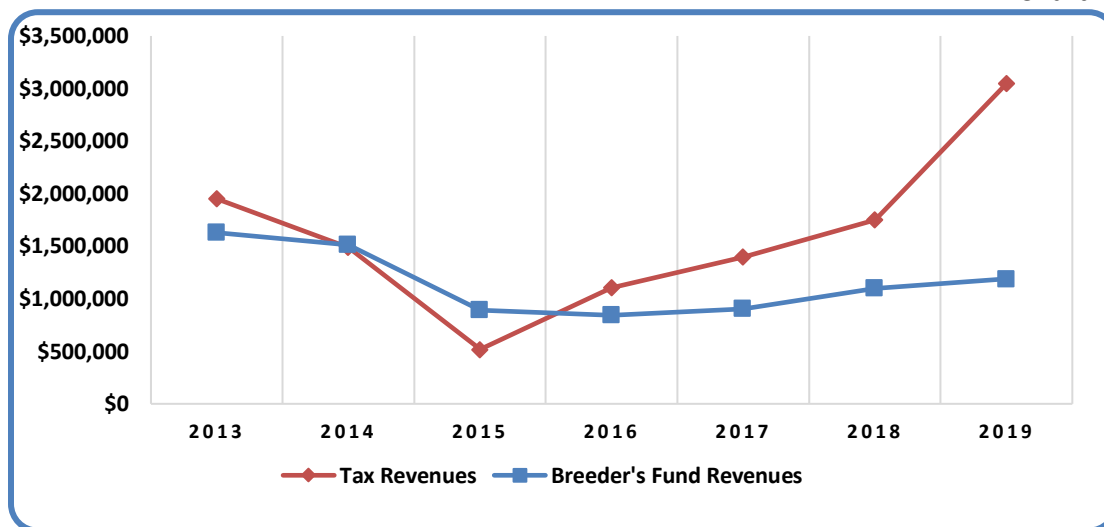
Table 1

	Total In-State Race Wagers	Total Online Wagers	Total HHR Wagers	Tax Revenue	Breeders Fund Revenue
FY 2019	\$303,708	\$84,911,189	\$174,269,011	\$3,046,272	\$1,187,746
FY 2018	329,498	83,285,553	-	1,751,419	1,100,753
Variance	(25,790)	1,625,636	174,269,011	1,294,853	86,993
% Variance	(8%)	2%	100%	74%	8%

Source: Commonwealth's accounting and reporting system

### Breeders Fund and Tax Revenues By Fiscal Year

Chart 1



Source: Commonwealth's accounting and reporting system

The Code of Virginia directs the distribution of the funds in the horse racing wagering pools. The percentage distribution varies based on factors such as the type of wagering, whether the race took place within or outside of the Commonwealth, and whether the wagering occurred at the racetrack or at a satellite facility. The Commonwealth retains, as a license tax, a portion of the wagering pools ranging from 1.50 to 2.75 percent. All revenues received by the Commission go to a special fund known as the State Racing Operations Fund.

The Appropriation Act requires the Commission to transfer any funds in excess of the Commission's operating expenses to the General Fund of the Commonwealth. However, the Appropriation Act contains language allowing the Commission to carry forward a portion of its unspent appropriation for the promotion and marketing, sustenance, and growth of the Virginia horse industry as long as it makes its required transfer to the General Fund. At June 30, 2019, the Commission had a cash balance of \$4,547,617 in its operating fund. Due to upcoming payments at the beginning of fiscal year 2020, and in consultation with the Department of Planning and Budget, the Commission retained the excess cash balance to ensure its ability to support operations in the upcoming race season. A newly passed provision in the Appropriation Act, which is effective beginning in fiscal year 2021, will allow the Commission to maintain a \$500,000 year-end fund balance for payment of authorized commission obligations with the remainder of end of year cash balances being reverted to the General Fund.

### Year-End Operating Cash Balances and General Fund Transfers by Fiscal Year

Table 2

	2017	2018	2019
Operating Cash Balance	\$1,275,783	\$2,302,672	\$4,547,617
Transfers to General Fund	8,212	-	-

Source: Commonwealth's accounting and reporting system

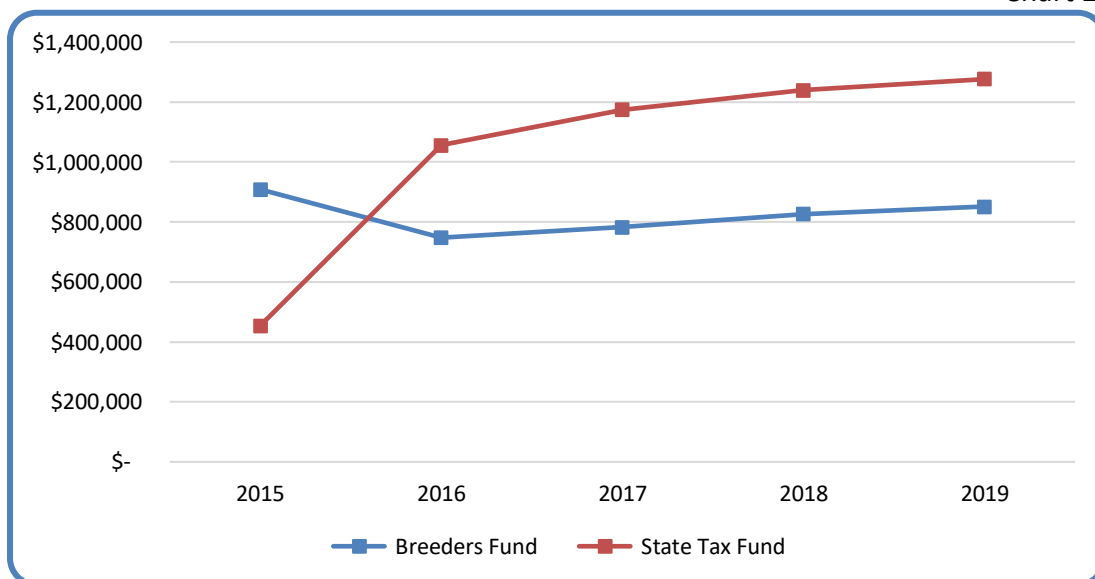
The Code of Virginia also created the Virginia Breeders Fund to support an incentive program to foster the industry of breeding racehorses in Virginia. It receives a one percent distribution of the horse racing wagering conducted in the Commonwealth. The Commission contracted with the Virginia Thoroughbred Association and the Virginia Harness Horse Association to manage the funds. The incentive program provides purses for races, restricted to Virginia bred or sired horses, and awards to the owners and breeders of Virginia bred horses that win or earn purse money in races designated by the Commission. During fiscal year 2019, the Commission made payments totaling \$1,171,304 from the Breeders Fund consisting of \$931,304 in incentives to owners and breeders, and \$240,000 in management fees to the Virginia Thoroughbred Association and the Virginia Harness Horse Association. At year-end, the cash balance in the Breeder's Fund was \$534,551. This cash balance does not revert to the General Fund.

### **Advance Deposit Wagering**

Section 59.1-369(5) of the Code of Virginia directs the Commission to collect a licensing fee for any provider wishing to offer advance deposit wagering (ADW) to its customers. Currently, these online providers pay \$1,000 annually to renew this license. ADW includes online or other electronic forms of wagering on horse races simulcast from around the world. Once the provider verifies an applicant's Virginia residency to establish an ADW account, the customer must deposit funds into the account, from which the provider deducts any race wagers. Total wagers from ADW accounts, less any refunds and cancellations, yields gross handle. The Commission ensures that the ADW licensees who operate in Virginia pay a monthly fee of one and one-half percent based on the gross ADW handle from Virginia residents. For fiscal year 2019, ADW fee deposits into the Commission's operating fund totaled \$1,276,395. The Commission also collects one percent of the gross ADW handle for wagers placed by Virginia residents and deposits these funds into the Virginia Breeders Fund. For fiscal year 2019, total deposits to the Virginia Breeders Fund from ADW licensees were \$850,930.

**ADW Revenues by Fiscal Year**

Chart 2



Source: Commonwealth's accounting and reporting system

### **Future of Horseracing in the Commonwealth**

There were two days of thoroughbred racing and ten days of harness racing held during the 2018/2019 racing season. Great Meadow Racecourse in Fauquier County played host to the Gold Cup International in October 2018 and the Virginia Gold Cup in May 2019. Ten days of harness racing took place over five weekends at Shenandoah Downs Racecourse in Woodstock.

The Commission is optimistic that both thoroughbred and harness racing will remain in Virginia well into the future. Thoroughbred racing in Virginia began a new era August 8, 2019, as Colonial Downs conducted racing for the first time in six years. A total of fifteen days of racing were held at Colonial Downs, along with a single race day at Great Meadow, and another ten days at Shenandoah Downs during fiscal year 2020.

Three satellite wagering facilities opened during fiscal years 2018 and 2019, located in New Kent, Richmond, and Vinton. Each of these locations are licensed to operate historical horse racing terminals. In combination with the re-opening of Colonial Downs, increased number of race days, planned off-track betting facilities, and the inception of historical horse racing in Virginia, the Commission is optimistic there will be a continued increase in revenues in the future.



**VIRGINIA RACING COMMISSION**  
**SCHEDULE OF REVENUES, EXPENSES, AND CHANGES**  
**IN CASH BALANCES - BUDGET AND ACTUAL**  
**For the Twelve Months Ending June 30, 2019**

	<b>Budget</b>	<b>Actual</b>			<b>Total Variance</b>
	<b>Total Budget</b>	<b>Breeders Fund</b>	<b>Operations Fund</b>	<b>Total</b>	<b>Positive/ (Negative)</b>
Revenues:					
Taxes and pari-mutuel wagering	\$ 2,900,000	\$ 1,187,746	\$ 3,046,272	\$ 4,234,018	\$ 1,334,018
Application fees	45,000	-	82,975	82,975	37,975
Fines and assessments	2,000	-	3,650	3,650	1,650
Interest	-	7,456	22,062	29,518	29,518
Total revenues:	<u>2,947,000</u>	<u>1,195,202</u>	<u>3,154,959</u>	<u>4,350,161</u>	<u>1,403,161</u>
Expenses:					
Personal services	986,424	-	464,772	464,772	(521,652)
Contractual services	409,157	-	224,084	224,084	(185,073)
Supplies and materials	18,078	-	14,457	14,457	(3,621)
Incentive and marketing payments	1,511,933	1,171,304	97,888	1,269,192	(242,741)
Continuous charges	263,063	-	81,655	81,655	(181,408)
Equipment	-	-	23,508	23,508	23,508
Total expenses:	<u>3,188,655</u>	<u>1,171,304</u>	<u>906,364</u>	<u>2,077,668</u>	<u>(1,110,987)</u>
Transfers out:					
General fund	-	-	-	-	-
Literary fund	2,000	-	3,650	3,650	1,650
Total transfers:	<u>2,000</u>	<u>-</u>	<u>3,650</u>	<u>3,650</u>	<u>1,650</u>
Revenues over (under) expenses and transfers out	<u>\$ (243,655)</u>	<u>\$ 23,898</u>	<u>\$ 2,244,945</u>	<u>\$ 2,268,843</u>	<u>\$ 2,512,498</u>
Cash Balance at June 30, 2018		<u>\$ 510,654</u>	<u>\$ 2,302,672</u>	<u>\$ 2,813,325</u>	
Cash Balance at June 30, 2019		<u>\$ 534,552</u>	<u>\$ 4,547,617</u>	<u>\$ 5,082,169</u>	

Source: Commonwealth's accounting and reporting system



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

July 14, 2020

The Honorable Ralph S. Northam  
Governor of Virginia

The Honorable Kenneth R. Plum  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Virginia Racing Commission** for the year ended June 30, 2019. 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.

## **Audit Objectives**

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system, review the adequacy of the Commission's internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements.

## **Audit Scope and Methodology**

The Commission's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts and grant agreements. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Contractual services expenses  
Payroll expenses  
Small purchase charge card  
Financial assistance and incentives payments  
Appropriations  
Cash receipting and collections

We performed audit tests to determine whether the Commission's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Commission's operations. We performed analytical procedures, including budgetary and trend analyses. We also tested details of transactions to achieve our objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

### **Conclusions**

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in Commonwealth's accounting and financial reporting system. The financial information presented in this report came directly from the Commonwealth's accounting and financial reporting system.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. We noted a matter involving compliance with applicable laws, regulations, contracts and grant agreements that require management's attention and corrective action. This matter is described in the section entitled "Audit Findings and Recommendations."

### **Exit Conference and Report Distribution**

We discussed this report with management on August 7, 2020. Management's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

Martha S. Mavredes  
AUDITOR OF PUBLIC ACCOUNTS

DS/clj



# COMMONWEALTH of VIRGINIA

## *Virginia Racing Commission*

D.G. Van Clief, Jr., Chairman  
Stuart c. Siegel, Vice Chairman  
J. Sargeant Reynolds, Jr.  
Marsha K. Hudgins  
Stephanie B. Nixon

David S. Lermond, Jr.  
Executive Secretary

August 13, 2020

Ms. Martha Mavredes  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond, VA 23218-1295

Dear Ms. Mavredes,

The Virginia Racing Commission has reviewed the Compliance Findings and Recommendations provided by the Auditor of Public Accounts for the fiscal year ended June 30, 2019, and agrees with the findings submitted.

Sincerely,

A handwritten signature in blue ink, appearing to read "DL", with a stylized flourish at the end.

David Lermond  
Executive Secretary

## **VIRGINIA RACING COMMISSION**

As of June 30, 2019

D.G. Van Clief, Jr., Chairman  
Stuart C. Siegel, Vice Chairman

J. Sargeant Reynolds, Jr.  
Marsha K. Hudgins  
Stephanie B. Nixon

David Lermond, Jr.  
Executive Secretary