

**VIRGINIA RACING COMMISSION**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2009**

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**Auditor of  
Public Accounts**

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**COMMONWEALTH OF VIRGINIA**

## **AUDIT SUMMARY**

Our audit of the Virginia Racing Commission for the year ended June 30, 2009, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving internal control and its operations necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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## COMMISSION HIGHLIGHTS

The Virginia Racing Commission (Commission) controls and prescribes regulations and conditions for all horse racing with pari-mutuel wagering privileges in the Commonwealth. It licenses horse racetracks and satellite facilities, and ensures that all their employees have valid Commission permits. The Commission also issues permits 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. The Code of Virginia permits up to ten satellite wagering facilities. Currently, there are eight satellite facilities operated by Colonial Downs, which are located in Alberta, Chesapeake, Hampton, Martinsville, Richmond (two), Scott, and Vinton. The Commission monitors each of these facilities as a part of their regulatory oversight.

### SYSTEM UPGRADE

The Commission uses its TRACS-V system for a number of managerial functions, including tracking veterinary records for horses; reconciling wagering data from Colonial Downs race track; tracking fines, penalties, and suspensions; and tracking ongoing investigations. In 2006 the Commission engaged Oracle USA, Inc. (Oracle) to upgrade their TRACS-V reports and racing application. Oracle did not deliver the upgrade to the satisfaction of the Commission. The Commission contends that it should not pay, while Oracle contends they should be paid for the work that they did perform.

The Commission would pay for the system upgrade with a Treasury loan from the General Fund to be repaid over a three year period. However, as the Commission contends it did not receive a usable product, they have not executed the loan and have not paid Oracle.

This matter is currently being resolved by the Attorney General. The Commission will continue to use its current system until the Commonwealth and Oracle reach resolution.

## FINANCIAL SUMMARY

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 0.75 to 2.25 percent as directed by the Code of Virginia. 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 related to 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, 2009, the Commission had a cash balance of \$216,014 in its operating fund related mostly to unspent marketing funds. The Commission transferred \$815,870 to the General Fund as required by the 2009 Appropriation Act.

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 fund. 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 2009, the Commission made payments of \$1,938,170 from the Breeders Fund consisting of \$395,000 in purse money, \$1,423,170 in incentives to owners and breeders, and \$120,000 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 \$400,711. The cash balance does not revert to the General Fund.

Below are the results of the fiscal year 2009 financial operations of the Virginia Racing Commission. There was a decline in the amount wagered on horse racing in the Commonwealth primarily due to the poor economy. The amount wagered in the Commonwealth was down by 16 percent; as a result, the amount of tax revenue generated was also down. The incentive and marketing budget was reduced in the amended budget bill Chapter 781 from \$700,000 to \$284,908, therefore less money was spent on promoting the horse industry. The variance in the incentive and marketing payments line item is due to unspent marketing funds in the amount of \$233,365.

VIRGINIA RACING COMMISSION  
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES  
IN CASH BALANCES - BUDGET AND ACTUAL

For the Year Ending June 30, 2009

	Total Budget	Actual			Total Variance Positive/ (Negative)
		Breeders Fund	Operations Fund	Total	
<b>Revenues:</b>					
Taxes and pari-mutuel wagering	\$4,200,000	\$ 1,646,169	\$2,689,202	\$ 4,335,371	\$ 135,371
Application fees	145,000	-	133,186	133,186	(11,814)
Fines and assessments	12,000	-	16,950	16,950	4,950
Interest	<u>40,000</u>	<u>6,978</u>	<u>2,156</u>	<u>9,134</u>	<u>(30,866)</u>
Total revenues	<u>4,397,000</u>	<u>1,653,147</u>	<u>2,841,494</u>	<u>4,494,641</u>	<u>97,641</u>
<b>Expenses:</b>					
Personal services	1,275,474	-	1,063,568	1,063,568	211,906
Contractual services	555,454	-	531,804	531,804	23,650
Supplies and materials	17,094	-	20,450	20,450	(3,356)
Incentive and marketing payments	2,670,908	1,938,170	499,374	2,437,544	233,364
Continuous charges	42,650	-	148,009	148,009	(105,359)
Undistributed appropriation	51,000	-	-	-	51,000
Equipment	<u>21,239</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,239</u>
Total expenses:	<u>4,633,819</u>	<u>1,938,170</u>	<u>2,263,205</u>	<u>4,201,375</u>	<u>432,444</u>
<b>Transfers out:</b>					
General fund	815,870	-	815,870	815,870	-
Literary Fund	<u>12,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,000</u>
Total transfers	<u>827,870</u>	<u>-</u>	<u>815,870</u>	<u>815,870</u>	<u>12,000</u>
Revenues over (under) expenses and transfers out	(1,064,689)	(285,023)	(237,581)	(522,604)	(542,085)
Cash Balance at July 1, 2008	<u>1,045,429</u>	<u>685,734</u>	<u>453,595</u>	<u>1,139,329</u>	<u>(93,900)</u>
Cash Balance at June 30, 2009	<u>\$ (19,260)</u>	<u>\$ 400,711</u>	<u>\$ 216,014</u>	<u>\$ 616,725</u>	<u>\$ (635,985)</u>

Source: Commonwealth Accounting and Reporting System



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218**

October 28, 2009

The Honorable Timothy M. Kaine  
Governor of Virginia

The Honorable M. Kirkland Cox  
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, 2009. 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 Accounting and Reporting System, review the adequacy of the Commission's internal controls, and test compliance with applicable laws and regulations.

## Audit Scope and Methodology

The Commission's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. 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 and regulations.

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.

Purchase expenses  
Incentive and marketing payments  
License and permit fees

Purchase Card  
Tax and pari-mutuel wagering revenues  
TRAC V System Administration

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 and regulations. Our audit procedures included inquiries of appropriate personnel, and observation of the Commission's operations. We inspected documents including reconciliations, deposit slips and certificates, wagering reports provided by Colonial Downs, revenue summary reports and contracts. We tested transactions and performed analytical procedures.

### Conclusions

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Commission records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

### Exit Conference and Report Distribution

We discussed this report with management on November 16, 2009.

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.

AUDITOR OF PUBLIC ACCOUNTS

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AGENCY OFFICIALS

VIRGINIA RACING COMMISSION

Peter C. Burnett  
Chairman

Clinton Miller  
Vice Chairman

Mark T. Brown  
William (Trip) H. Ferguson  
David C. Reynolds

Victor Harrison  
Executive Secretary

David Lermond, Jr.  
Deputy Executive Secretary