Chapter 1

Section 1.12

Ministry of Finance

Provincial Support to Sustain the Horse Racing Industry

Follow-Up on VFM Section 3.12, *2019 Annual Report*

RECOMMENDATION STATUS OVERVIEW

	# of Actions Recommended	Status of Actions Recommended: Fully Implemented	In the Process of Being Implemented	Little or No Progress	Will Not Be Implemented	No Longer Applicable
Recommendation 1	3	1	1	1		
Recommendation 2	3			1	2	
Recommendation 3	2	1	1			
Recommendation 4	2	1		1		
Recommendation 5	1			1		
Recommendation 6	1		0.5		0.5	
Recommendation 7	1				1	
Recommendation 8	1				1	
Recommendation 9	2				2	
Total	**16**	**3**	**2.5**	**4**	**6.5**	**0**
%	**100**	**19**	**16**	**25**	**40**	**0**

Overall Conclusion

The Ontario Lottery and Gaming Corporation (OLG), and the Ministry of Finance and the Alcohol and Gaming Commission of Ontario (AGCO), as of June 28, 2021, have fully implemented 19% of the actions we recommended in our *2019 Annual Report*. An additional 16% of recommended actions were in the process of being implemented.

Fully implemented recommendations included completing an impact study of the horse racing industry on Ontario's economy; assessing the impact of OLG's marketing campaign in attracting customers to horse racing; and following up on deficiencies noted during audits or investigations to ensure corrective action has been taken. Examples of recommendations in process included constructing a long-term plan toward self-sustainment of horse racing through wagering revenues and other options; working with the industry to bring in new direct revenue streams and to increase wagering revenue; and publicly disclosing information on racetrack operations including wagering revenue, purses paid, and the distribution of the provincial tax reduction by racetracks. OLG informed us that for all recommendations requiring an amendment to the long-term funding agreement, it will need to negotiate changes with all parties to the agreement and obtain approval from the Ministry of Finance.

Little progress has been made on 25% of the actions we recommended. These included OLG periodically reviewing feedback from members of Ontario Racing and the industry on the composition of the Ontario Racing Board and nominee selection processes, to assess the ongoing effectiveness of the Board and take corrective action if necessary; and AGCO conducting proactive oversight on racetracks in a regular basis.

For another 40% of our recommended actions, the OLG and AGCO informed us that they would not be implemented. These include:

- working with racetracks to collect and monitor all suspicious transactions, including withdrawals over $10,000, and to report potential money laundering transactions to law enforcement, where necessary, because according to OLG, the determination of whether a particular sector should be designated as a regulated entity for the purpose of money laundering, and in turn, subject to monitoring and reporting responsibilities, is a federal responsibility;
- having racetracks submit audited financial statements with segmented information for horse racing operations, because Ontario Racing, Ontario Racing Management and the Woodbine Entertainment Group are of the opinion that segmented financials would not provide an accurate comparison of racetrack performance since racetracks may have unique operating structures and varying fiscal year-end dates, and doing so would create an addition financial burden to racetracks;
- restricting racetracks from making large discretionary payments, such as donations or large severance payments, because under the current funding agreement negotiated between the province and the horse racing industry OLG has no authority over racetrack operations to dictate how tracks spend their non-government provided funding;
- requiring Ontario Racing Management and racetracks to publicly disclose the names and salaries of employees making over $100,000, because Ontario Racing, Ontario Racing Management and the Woodbine Entertainment Group agree there is no legislative authority that can be applied to the agreement to compel Ontario Racing to require Ontario racetracks and their private sector employees to make such disclosure; and
- requiring racetracks to publicly provide wagering take-out and payout information by pool.

The Office of the Auditor General continues to support the implementation of these recommended actions.

The status of actions taken on each of our recommendations is described in this report.

Background

The province has been supporting the horse racing industry through various initiatives since 1996. Ontario's 15 racetracks rely on annual government funding of close to $120 million ($120 million as of 2018/19) to subsidize the horse racing industry in the province. In addition, 11 of these racetracks received about $140 million in 2018/19 in annual lease revenues from the Ontario Lottery and Gaming Corporation (OLG) to host slot machines and cover the cost of valet parking and food services. (The amount received by racetracks to host slot machines in 2020/21 was not available because, under the new provincial gaming model, lease payments were made directly by the gaming service providers to the racetracks, and OLG told us it did not have access to this information.) Government agreements did not require that these annual lease revenues be used to support horse racing operations.

Horse racing as a gaming operation had been in decline in Ontario since the legalization of lotteries in 1969. From 2018/19 to 2020/21, Ontarians' wagering on Ontario races and races outside the province had decreased by 38% and 19% respectively (44% and 15% between 2008/09 and 2018/19 respectively). Wagering by other Canadians on Ontario races had also decreased by 24% between 2018/19 and 2020/21 (48% between 2008/09 and 2018/19). The decrease in wagering over the last two years is due to a large extent on the fact that live horse racing stopped due to COVID-19 pandemic restrictions.

In 2020/21, gross wagering on horse racing in Ontario totalled \$1.4 billion (\$1.6 billion in 2018/19), including bets on Ontario races placed from outside Ontario and bets placed inside the province on races held elsewhere. In 2020/21, Ontario racetracks paid out 88.5% (87.3% in 2018/19) to winning bettors and kept 11.5% or \$163 million (12.7% or \$203 million in 2018/19) in gross commissions, before taxes and operating costs. However, these wagering commissions have not been sufficient for the industry to cover racetrack operating costs and purses, the prize money paid to horse owners.

In our 2019 audit, we reported that even though the horse racing industry receives a significant amount of public funding, it lacked transparency and public accountability. Of the 15 racetracks, only one posted its financial statements on its website. There was no public reporting of gross wagers collected, wagering commissions by racetrack, how the provincial tax reduction on wagering was shared between the various racetracks and horse people, purses paid by racetracks, revenue and expenses related to a racing operation separate from other operations, and key statistics such as the current number of people who worked in the industry.

Our 2019 audit found these significant concerns:

- The goal of the five-year, \$500-million Horse Racing Partnership Funding Program that ran from 2014/15 to 2018/19 was to support racetracks in becoming more self-sustaining. However, we found that the industry was not significantly closer to that goal than it was in 2013. In each of the five years, provincial funding consistently covered about 60% of purses paid to winning horse owners. Without government support, including lease revenue from hosting slot machines, all racetracks combined would have had an operating shortfall of \$170 million in 2018/19.
- With the introduction of the new 19-year funding agreement on April 1, 2019, the objective of government funding changed from transitioning the industry to become self-sustaining, to sustaining the industry for a long period of time. The agreement provides about \$120 million to the industry annually. Annual provincial funding was expected to drop to \$63.4 million by 2026/27, primarily due to a reduction in purse funding to the Woodbine Entertainment Group, since the Woodbine and Mohawk racetracks had been expanding gaming operations and were expected to earn additional casino lease revenue.
- The new long-term funding agreement did not include any clauses that would have allowed the province to terminate the agreement without cause. Furthermore, annual funding under the agreement was not reduced if a racetrack closed. Instead, the money would be redistributed among the remaining racetracks.
- Ontario had more racetracks than comparable jurisdictions, without sufficient wagering income to support them. Ontario had 15 racetracks in 2018/19. When compared to racetracks in the United States, Ontario served fewer people per racetrack than the states of California, Florida, New York, Pennsylvania and Ohio. Ontario had nine more racetracks than Pennsylvania, and six more than Florida, which had a 46% higher population than Ontario.
- The Woodbine Entertainment Group (Woodbine) had a significant role in negotiating the long-term funding agreement with OLG. Woodbine held two of 11 seats on the Board of Ontario Racing (a private industry association), which is responsible

for administering the new funding agreement, setting race days and distributing funding to racetracks. Ontario Racing Management, which supported operations for Ontario Racing's Board, is a wholly owned subsidiary of Woodbine. Also, the agreement includes language that effectively cancels the agreement if Woodbine's role is changed or eliminated.

We made nine recommendations, consisting of 16 action items, to address our audit findings.

The Ontario Lottery and Gaming Corporation committed that it would take action to address our recommendations.

The COVID-19 pandemic has significantly impacted horse racing on Ontario tracks. From 2018/19 to 2020/21 the number of racing days dropped by 20% with the bulk of the decrease (18%) occurring in 2020/21. In turn, total gross wagering decreased by 11.5% from 2018/19 to 2020/21, with the bulk of the decrease of 10.7% occurring in the last fiscal year. Since the time of our 2019 audit, gross wagering by Ontarians decreased by 24%, whereas wagering by foreign customers wagering on Ontario tracks increased by 4.5%.

Status of Actions Taken on Recommendations

We conducted assurance work between April and August 2021. We obtained written representation from the Ontario Lottery and Gaming Corporation, the Ministry of Finance, and the Alcohol and Gaming Commission of Ontario that effective November 23, 2021, they have provided us with a complete update of the status of the recommendations we made in the original audit two years ago.

Self-Sustainment of Horse Racing Through Marketplace Revenue

Recommendation 1

In order to reduce the horse racing industry's reliance on government funding and become self-sustaining, we recommend that the Ministry of Finance and the Ontario Lottery and Gaming Corporation:

- *complete its impact study of the horse racing industry on Ontario's economy;*

  Status: Fully implemented.

Details

In our 2019 audit, we found that Ontario had more racetracks than comparable jurisdictions, without the wagering income needed to support them. Further, we noted that the province had not conducted an economic impact study to look at the number of jobs being impacted or the economic activity generated by the horse racing industry, before finalizing both the five-year funding agreement for $100 million a year that took effect April 1, 2014, or the latest 19-year agreement for $120 million a year initially, that took effect April 1, 2019.

During our follow-up, the OLG provided us with a study completed in July 2020 that quantified the economic impact and employment levels of the horse racing sector in Ontario. The study indicated that the industry contributed $1.9 billion to Ontario's Gross Domestic Product in 2018, of which $1.5 billion went to horse people (like owners, breeders, groomers, jockeys, and trainers), $400.1 million went to racetracks and $37.8 million went to industry associations and government agencies. The study noted that the industry supported 22,965 jobs, of which 79% were horse people, 19% were people working at the racetracks and 1% were people working at industry associations and agencies. The study also noted that in 2018 the industry generated $327 million in provincial tax revenue.

- *based on the results of the study, construct a long-term plan toward self-sustainment of horse racing through wagering revenues and other options;*

  Status: In the process of being implemented by 2026.

Details

In our 2019 audit, we reported that in 2012 the Drummond Report recommended that the horse-racing industry rationalize its presence in the gaming marketplace so that the industry is more appropriately sustained by the wagering revenues it generates, than by sharing in the revenue generated by slot machines co-located with horse racing venues. At the time of our audit, the industry was not significantly closer to the goal of becoming self-sustaining than it was in 2013 and over the same time period, gross wagering had remained relatively unchanged and the government was still funding a significant portion of the purses (60%).

In fact, at the time of our follow-up, the parties to the original Long-Term Funding Agreement (OLG, Horse Racing Ontario, Ontario Racing Management Inc and Woodbine Entertainment Group) had negotiated three amendments to the agreement between April 2020 and January 2021, to:

- maintain stable annual funding to all 15 racetracks for the next five years;
- pay unused purse funding during the period when live horse racing stopped due to the COVID-19 pandemic directly to eligible owners to put toward the cost of racehorse training and care, and trainers and drivers; and
- postpone the claw back of purse funds tied to the Woodbine Entertainment Group Gaming Expansion from the third to the fourth year of the funding agreement.

These amendments, in effect, prevent changes to the existing size of Ontario's horse racing industry until March 2026. We were informed that their intent was to give the industry time to recover from the pandemic, preserve local employment and provide reliable support to racetracks until that time.

Also, in July 2020 Ontario Racing developed a draft horse racing sustainability plan. This plan considered the rationalization of underperforming racetracks and the redirection of savings to the remaining tracks or other industry initiatives industry initiatives. It also considered the economic impact on, for example, Gross Domestic Product and industry jobs. The plan included a high-level implementation timeline with major milestones.

The Ministry of Finance informed us that this plan was not finalized and submitted to the Ministry for approval. The Ministry also informed us that the government's priorities have shifted to focus on economic stability and resiliency, that is, no change to the existing size of Ontario's horse racing industry. The Ministry informed us that a final sustainability strategy is expected from the industry before the completion of the five-year extension in 2026.

- *consider revisiting the latest agreement based on the results of the study.*

  Status: Little or no progress.

Details

According to the Ministry of Finance, the latest funding agreement will be revisited after a final sustainability strategy is submitted from Ontario Racing in 2026.

OLG's Role in Horse Racing

Recommendation 2

In order to effectively monitor funding agreements with the horse racing industry, we recommend that the Ontario Lottery and Gaming Corporation:

- *have racetracks submit audited financial statements with segmented information for horse racing operations;*

  Status: Will not be implemented. The Office of the Auditor General continues to support the implementation of this recommendation. Under the current situation, the OLG is not performing sufficient due diligence over the use of government funding by racetracks as, for example, it does not use audited financial statements to assess the use of government funds.

Details

At the time of our audit, we found that OLG was relying mainly on self-reported information from racetracks to assess whether the racetracks used government funding according to the terms of the agreement. Although OLG received audited financial statements from racetracks a few months after receiving the self-reported information, much of the information OLG required for monitoring purposes could not be tied directly to the audited financial statements. We also noted differences between the audited financial statements, and the information reported to OLG for two racetracks with the same year-end as OLG.

At the time of our follow-up, OLG informed us that it had had discussions with representatives from Ontario Racing, Ontario Racing Management and the Woodbine Entertainment Group during February to April 2021 to consider whether the long-term funding agreement should be amended to require racetracks to use a “segmented note” in their financial statements to help distinguish between racing-related and non-racing-related revenues and expenses. We were informed that the industry did not agree to an amendment that would require racetracks to submit audited segmented financial statements. According to the meeting minutes, the group is of the opinion that requiring segmented financials for racetrack operations would not provide an accurate comparison of racetrack performance, noting that racetracks may have unique operating structures and varying fiscal year-end dates. The group was also concerned that audited segmented information would also create an additional financial burden to racetracks. Instead, the group has decided to enhance the existing profit and loss reporting template used to report revenue and expenses information semi-annually to Ontario Racing. In June 2021, the OLG drafted an amendment to the semi-annual financial reporting requirement template within the long-term funding agreement, and told us it would be sending it to the Ministry of Finance in July 2021 for approval. However, this approach would not provide audit assurance on the accuracy of the information reported, and hence may not permit reliable racetrack-to-racetrack comparisons.

- *investigate significant differences or unusual items;*

  Status: Little or no progress.

Details

In our 2019 audit, we reported that the OLG was only validating gross wagering amounts reported with information received from the Canadian Pari-Mutuel Agency. The OLG was not verifying expenses reported by racetracks and the amount of purses paid. We also noted a situation where salary expenses reported by a racetrack to OLG were overstated, but OLG had not followed up with the racetrack to question the anomaly.

During our follow-up, OLG informed us that in the second quarter of fiscal 2020/21 it started to review discrepancies between projected and actual revenues and expenses by racetrack reported to it by Ontario Racing Management. OLG indicated that it identified and followed up on four discrepancies in total, but in each case, it could not provide us with supporting documents to explain the nature of the discrepancy. In our follow-up, we noted many discrepancies for various tracks which were not investigated.

- *restrict racetracks from making large discretionary payments, such as donations or large severance payments.*

  Status: Will not be implemented. The Office of the Auditor General continues to support the implementation of this recommendation. If the racetracks have sufficient funds to make donations, government funding to this extent likely is not needed.

Details

In our 2019 audit, we reported that OLG was allowing racetracks that receive government support to make large donations and other discretionary payments. Based on our review of the racetracks’ audited financial statements, we identified two racetracks that made substantial donations to external parties – one racetrack donated $4.8 million to a charitable foundation to increase its corporate profile, and another donated $150,000 to help the municipality build a splash pad at a nearby park. We also noted that one racetrack paid $250,000 in severance to a retiring senior staff member.

During our follow-up, we found that OLG had met with representatives from Ontario Racing, Ontario Racing Management and the Woodbine

Entertainment Group in February and March 2021 to discuss possible courses of action related to this recommendation. According to the long-term funding agreement, OLG's role is limited to overseeing how funds provided under the funding agreement are used, and not the daily operations of racetracks. We were informed that the parties to the funding agreement would not mutually consent to amending the agreement to address this recommendation. As we noted in our 2019 audit report, without financial support from the province for racetrack operations and purses, most racetracks would either close or significantly reduce the number of race days and size of purses. We would have expected that when the OLG was negotiating amendments to the long-term funding agreement between April 2020 and January 2021 (as described in **Recommendation 1**), that OLG would also have negotiated changes to the funding agreement that would have allowed it to implement our audit recommendations and improve oversight.

Recommendation 3

In order to further support the horse racing industry to become self-sustainable, we recommend that the Ontario Lottery and Gaming Corporation:

- *assess the impact of its marketing campaign in attracting customers to horse racing;*

  Status: Fully implemented.

Details

In our 2019 audit, we reported that, since 2016, to increase awareness and consideration of horse racing as a gaming option, OLG had created two horse-themed slot games released through OLG's iGaming website (PlayOLG), and two horse racing-themed instant lottery games. However, the OLG had no data to assess whether the marketing initiatives generated increased wagering revenue for the industry overall. Further initiatives were planned for 2019/20 which included advertising on multiple media channels, event sponsorship, and supporting the broadcast of premier Canadian races.

During our follow-up, we found that in October 2020, OLG hired Ipsos, a market research and consulting firm, to conduct a research study to gain a better understanding of the horse racing customer. The objectives of the study were, among other things, to measure past and present players' awareness of racetracks and advertising recall, examine motivations for attending horse races and wagering, and examine attitudes toward horse racing. The study found that advertising awareness in 2020 was low and down from the prior year; television and online ads were the most impactful source of ad awareness, with the latter medium growing in importance; the primary reason for going to the track was the social experience of hanging out with friends and family; and overall, the interest in horse racing has remained steady or slightly lower than the prior year. OLG informed us that it will apply the insights gained from the study to future campaigns.

- *work with the industry to bring in new direct revenue streams and to increase wagering revenue.*

  Status: In the process of being implemented by March 2023.

Details

Ontario Racing's 2020/21 annual Business Plan stated that it was intending to work with OLG to develop an action plan to facilitate the research of new racing-related gaming products, and explore revenue generating opportunities that may exist within the existing regulatory and legislative framework, as well as existing gaming contracts in place in the province. At the time of our follow-up, Ontario Racing had not developed an action plan to explore new revenue generating opportunities. However, we noted that efforts were being made to increase wagering revenue and bring in new direct revenue streams. For example:

- In 2019, the Woodbine Entertainment Group (Woodbine) launched a new wagering product (the new cross-track Pick 4 wager). However, we were informed that the product was not successful in attracting new customers and was discontinued.

- Woodbine expanded its simulcast reach to an additional international market in 2019/20 (Italy). At the time of our follow-up, its simulcast reach was in a total of 29 foreign markets. Between 2018/19 and 2020/21 foreign wagering revenue increased by 4.5%.
- In 2019/20, Woodbine developed a new horse racing app called Dark Horse and released it to customers in mid-2020. OLG did not have information on whether this app had attracted new customers and/or had an impact on wagering revenue.
- In the spring of 2019, Ontario Racing entered into an arrangement with the Daily Racing Form such that all Ontario racetracks are now referenced in the form. The Daily Racing Form is a newspaper that publishes the past performances of racehorses as a statistical service for bettors on horse racing in North America. The campaign is designed to increase exposure of Ontario's harness tracks. We were told that this initiative is only one element of the overall remote strategy and therefore could not be directly correlated to an increase in remote wagering.
- In 2018, Ontario Racing established a Customer Advisory/New Products, Technology & Revenue Committee, to engage with the OLG and the full industry on how new lottery and gaming concepts can work for the betterment of Ontario's entire horse racing sector. A member of the OLG is expected to participate in this Committee in 2021/22 to better integrate the OLG's plans with the Committee's objectives. This Committee's goals for next year include working with the OLG with respect to potential new products, and encouraging cross-promotion among the tracks via marketing and social media in an effort to work together to increase the customer base.

Oversight by the Alcohol and Gaming Commission of Ontario is Reactive Rather Than Proactive

Recommendation 4

In order to provide comprehensive and efficient oversight of the racing industry, we recom-mend that Alcohol and Gaming Commission of Ontario (AGCO):

- *conduct proactive oversight on racetracks on a regular basis;*

  Status: Little or no progress.

Details

We found in our 2019 audit that over the past five fiscal years, AGCO had conducted accountability reviews at only five racetracks and governance audits at only two racetracks of the 15 racetracks in Ontario. An accountability review looks at compliance with terms and conditions contained in the licence to operate a racetrack, whereas a governance audit looks at the overall effectiveness of the racetrack's governance structure and processes and controls related to revenues, expenditures, cash management and financial reporting cycles. At that time, the AGCO told us it only performed audits or investigations in response to allegations made against a racetrack.

During our follow-up, we were informed that the AGCO had not conducted any audits in the 2020/21 fiscal year due to the COVID-19 pandemic. As of August 2021, we noted that AGCO had conducted audits at three racetracks (Fort Erie, Haiwatha and Western Fair). Although the AGCO told us it uses a risk-based audit approach, eight out of 15 racetracks have not been audited by the AGCO since at least 2016. Even when using a risk-based approach, best practices would expect that each racetrack be audited on a more frequent periodic basis.

- *follow up on deficiencies noted during audits or investigations to ensure corrective action has been taken.*

  Status: Fully implemented

Details

We found in our 2019 audit that AGCO had followed up to confirm that corrective action had been taken to address the deficiencies noted during only one of the two governance audits conducted in the last five years.

During our follow-up, we noted that the AGCO had performed follow-up audits in 2020/21 at three racetracks. Two of the follow-ups were intended to determine whether corrective action had been taken to address deficiencies identified in audits conducted in 2017 at Ajax Downs and Hanover Raceway. The third follow-up was of a 2018 audit of Woodbine.

For one racetrack, the audit followed up on six of the seven recommendations, as one recommendation related to the reporting of interest income earned on funds provided by the government and was considered the oversight responsibility of OLG. For the items followed up by the AGCO, all deficiencies noted in 2017 were assessed as fully addressed. However, the follow-up audit made four additional recommendations for further improvements.

For another racetrack, AGCO found that 47% of deficiencies were fully addressed, 33% were either addressed with exceptions or with improvement opportunities, and 7% had not yet been addressed. An additional 13% of deficiencies were no longer applicable.

For the third racetrack, AGCO found that 87% of deficiencies were fully addressed, 7% were partially addressed and another 7% had not been addressed.

Some Stakeholders Raised Concerns as Future Funding Decisions Shift from Province to Industry

Recommendation 5

To ensure all parties to the horse racing industry are fairly represented, we recommend that the Ontario Lottery and Gaming Corporation periodically review feedback from members of Ontario Racing and the industry regarding the composition of the Ontario Racing Board and nominee selection processes, to assess the ongoing effectiveness of the Board and take corrective action if necessary.

Status: Little or no progress.

Details

In our 2019 audit, we reported that for the first two years of the 19-year funding agreement that began on April 1, 2019, all 15 racetracks would be funded, as determined by the OLG. After that time, the decision on how funds are to be allocated and which tracks would be funded, would transfer to Ontario Racing (a private industry association). This association is supported by Ontario Racing Management, which is a subsidiary of the Woodbine Entertainment Group (Woodbine). At the time of our audit, Woodbine, which is the largest player in the industry and holds the only wagering permit in Ontario, was generating about 90% of the industry's wagering revenues and was paying out over 70% of the purses in Ontario. Although OLG structured Ontario Racing to have representation across all levels of racetracks and all breeds of racehorses, Woodbine has two of the 11 seats on the Board, and some stakeholders we spoke with at the time were concerned that Woodbine had too much influence over key decisions made by Ontario Racing. At the time of our audit, the Ontario Racing Board had yet to make any substantive funding decisions. Therefore, it was difficult to assess the Board's effectiveness and whether all parties to the horse racing industry continued to be fairly represented.

During our follow-up, the OLG informed us that Ontario Racing had considered issuing a member's survey in the summer of 2020 to collect feedback and suggestions with respect to our audit recommendation, but the survey was not conducted due to COVID-19. According to the OLG, staff in Ontario Racing Management were unable to conduct the survey because they were focused on implementing pandemic protocols. Since surveys can be done electronically, we believe it was possible to conduct a member's survey during COVID-19. In its 2021/22 business plan, Ontario Racing stated that one of its initiatives for the year is to conduct an effectiveness assessment and consult with the industry directly to ensure the organization is meeting the expectations of its primary stakeholders.

In addition, the OLG told us that Ontario Racing is planning an initiative to proactively assess the effectiveness of the Ontario Racing Board. We also noted that in December 2020 the OLG developed a process map of how OLG and Ontario Racing will address industry feedback. The process map indicates that formal complaints or concerns can be received by the either the OLG, Ontario Racing or Ontario Racing Management. It further indicates that the OLG will work with Ontario Racing and Ontario Racing Management to address concerns raised about the Ontario Racing Board structure and/or specific individuals on the board, and determine if changes to the Ontario Racing Board structure or individual representation is needed.

We would expect the OLG to independently review feedback from the industry and assess the effectiveness of the Ontario Racing Board to avoid any conflicts or undue influence from Ontario Racing Management and its board.

Public Reporting by Industry

Recommendation 6

In order for the horse racing industry to be transparent with horse people associations and the public, we recommend that the Ontario Lottery and Gaming Corporation work with racetracks to have them publicly disclose information on racetrack operations including wagering revenue and commissions, distribution of the provincial tax reduction, purses paid by racetracks, revenue and expenses related to racing operation separate from other operations, key statistics regarding people working in the industry, and their audited financial statements.

Status: In the process of being implemented by December 2022 – with respect to having racetracks publicly disclose wagering revenue, purses paid and the distribution of the provincial tax reduction by racetrack.

Will not be implemented – with respect to having racetracks publicly disclose revenue and expenses related to racing operations separate from other operations, audited financial statements, and key statistics regarding people working in the industry. The Office of the Auditor General continues to support the implementation of these recommended actions that are needed for public transparency of gaming operators in Ontario, since gambling ultimately remains a provincial responsibility.

Details

In our 2019 audit we found that there was no public reporting of gross wagers collected and wagering commissions by racetrack, how the provincial tax reduction on wagering was shared between the various racetracks and horse people, purses paid by racetracks, revenue and expenses related to racing operations separate from other operations, and key statistics regarding people working in the industry.

In our follow-up, we found that between February and April 2021 OLG held meetings with representatives from Ontario Racing, Ontario Racing Management and the Woodbine Entertainment Group to discuss possibilities related to this recommendation and to make suggestions to increase transparency. The parties agreed that public disclosure of racing-related revenue and expenses is commercially sensitive and therefore, they were unwilling to require racetracks to publish audited financial statements or have Ontario Racing disclose on its website information about wagering commissions. Instead, the parties decided to have racetracks publish an annual corporate responsibility report. However, at the time of our follow-up, the contents of such a report were unknown because a template for the corporate responsibility report had not yet been developed.

Regarding our recommendation that the distribution of the provincial tax reduction be disclosed by racetrack, the parties felt this would be captured as part of the Horse Racing Pari-Mutuel Tax Reduction Reform initiative, which is working on developing a new Memorandum of Understanding for how the provincial tax reduction on wagering is to be managed among industry parties. At the time of our follow-up, the timeline for this initiative was unknown.

Regarding our recommendation to report key statistics regarding people working in the industry, OLG plans to report this figure when it releases its Economic Impact Study. (The date of release is to be coordinated with the Ministry of Finance). At the time of our follow-up, the timeline for the release of the study was not known.

The amended long-term funding agreement in draft form, previously mentioned in **Recommendation 2**, includes amendments that:

- allow the public disclosure of wagering revenue by racetrack on OLG's website;
- require the public disclosure of purses paid by racetracks on Ontario Racing's website on a quarterly basis; and
- require the public disclosure of the Corporate Responsibility Report on each racetrack's website on an annual basis.

OLG expects these amendments to be in place by December 2022, pending approval by the Ministry of Finance.

Recommendation 7

To ensure the transparency of salaries paid in the horse racing industry, we recommend that the Ontario Lottery and Gaming Corporation continue, under the new funding agreement, to require Ontario Racing Management and the racetracks that receive government funding to publicly disclose the names and salaries of employees making over $100,000, similar to the terms under the previous funding agreement.

Status: Will not be implemented. The Office of the Auditor General continues to support the implementation of this recommendation, given the industry's dependency on provincial taxpayer dollars for financial sustainability.

Details

In our 2019 audit, we reported that, because the long-term funding agreement that came into effect in 2019 is a commercial agreement rather than a transfer payment agreement, it was not subject to the *Public Sector Salary Disclosure Act*. As a result, racetracks were no longer required to publicly disclose the names and salaries of employees making over $100,000. We noted that in 2018, 69 racetrack employees made over $100,000 – most were employees of Woodbine and three made over $350,000 each.

During our follow-up, we were informed by the OLG that it would not be implementing this recommendation. OLG told us that all parties to the long-term funding agreement (including Ontario Racing, Ontario Racing Management and the Woodbine Entertainment Group) agree there is no legislative authority that can be applied to the agreement to compel Ontario Racing to require Ontario racetracks and their private sector employees to disclose annual salaries of more than $100,000. It further told us, the legal advice it received was that since the racetracks are not counterparties to the agreement, each racetrack employee would need to provide written consent for this to be implemented. Should one employee object, the value in publishing the rest is diminished and likely to lead to objections by multiple employees and poses potential legal risks.

Recommendation 8

In order to increase confidence through greater transparency, we recommend that the Ontario Lottery and Gaming Corporation require racetracks to publicly provide wagering take-out and payout information by pool.

Status: Will not be implemented. The Office of the Auditor General continues to support the implementation of this recommendation to increase transparency in provincially subsidized gambling.

Details

We found in our 2019 audit that none of Ontario's racetracks publicly report the amount collected through bets, the amount paid out to winning bettors, or the amount won per bet for each betting pool. Racetracks are only required to disclose to bettors their take-out percentage (that is, the percent of gross commissions racetracks keep for themselves from wagering).

During our follow-up, we found that OLG staff had met with a representative from the Canadian Pari-Mutuel Agency (CPMA) to discuss our recommendation, because the regulation dealing with the disclosure of wagering take-outs and payout information is currently under the jurisdiction of the CPMA. Among other things, the OLG asked the CPMA to "identify potential public reporting enhancements of pari-mutuel wagering take-out and payout information with implementation of any amendments to disclosure requirements being consistent with the federal regulations." The OLG informed us that the CPMA is satisfied that the current provisions are fulfilling their intended objective of providing assurances that take-out rates and other pool-related information are available to the betting public, and therefore OLG will not take any further action.

However, our recommendation is intended to increase reporting beyond CPMA requirements, in order to increase transparency for an industry that is heavily supported by public funds. Without such increased reporting, Ontarians don't know how much each racetrack in Ontario collects through bets, pays out to winning betters or the amount won per betting pool.

Concerns over Money Laundering in the Horse Racing Industry

Recommendation 9

In order to reduce the risk of money laundering at racetracks, we recommend that the Alcohol and Gaming Commission of Ontario and the Ontario Lottery and Gaming Corporation work with racetracks to:

- *collect and monitor all suspicious transactions, including withdrawals over $10,000 along with the necessary supporting documentation;*

Status: Will not be implemented. The Office of the Auditor General continues to support the implementation of this recommendation, given the industry's dependency on provincial taxpayer dollars and a need for stronger provincial oversight.

Details

During our 2019 audit, we reported that the federal government had not placed any money-laundering reporting requirement on racetracks to help detect and prevent money laundering in the horse racing industry. Since Woodbine is the only racetrack licenced to conduct pari-mutuel wagering in Ontario (that is, it collects bets for all racetracks in the province), we reviewed its money laundering controls. We noted that Woodbine's wagering managers were required to sign-off on cheques over $10,000 and ensure the money was generated from winning wagers. However, in our 2019 audit we noted that for cheques over $10,000 generated through online wagers for the period January 1, 2018, to July 31, 2019, no supporting documentation of the winning bets was attached. For cheques to people who placed their bets in person, Woodbine retained supporting documentation for less than half.

During our follow-up, both the Alcohol and Gaming Commission of Ontario and the OLG told us that they would not be implementing our recommendation, because the determination of whether a particular sector should be designated as a regulated entity for the purpose of money laundering, and in turn, subject to monitoring and reporting responsibilities, is a federal responsibility. As was the case at the time of our 2019 audit, the horse racing sector is not subject to federal legislation entitled, *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. We note that this act does not provide the federal government exclusive jurisdiction over the monitoring of suspicious monetary transactions. Therefore, it does not prohibit other levels of government, for example, the province through the AGCO or OLG, from monitoring suspicious transactions at racetracks.

Nevertheless, in May 2021 the AGCO held a virtual Anti-Money Laundering Seminar, which was attended by many racetrack executives and personnel in Ontario. Presentations were made by representatives from the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC), the Canadian Pari-Mutuel Agency, the Alcohol and Gaming Corporation of Ontario (AGCO) and the Ontario Provincial Police within the AGCO, in order to build awareness and encourage an increased focus on the risk of money laundering in the horse racing industry.

- *report the information to law enforcement, where necessary.*

  Status: Will not be implemented. The Office of the Auditor General continues to support the implementation of this recommendation, given the industry's dependency on provincial taxpayer dollars and a need for stronger provincial oversight.

Details

We found in our 2019 audit that during the period January 1, 2018, to July 31, 2019, Woodbine had identified only one potential money laundering transaction for $100,000, which it reported to the subcommittee of its Board, but not to law enforcement.

During our follow-up, the ACGO and OLG informed us that they would not be implementing this recommendation. The reason provided by the AGCO, was that "the federal government maintains sole jurisdictional responsibility for establishing and maintaining the national anti-money laundering regulatory regime, which includes the jurisdiction to determine which industries will be designated and, thereby, mandated to report eligible transactions to FINTRAC and, ultimately, law enforcement."