

SPECIAL AUDIT

**OKLAHOMA HORSE RACING COMMISSION
SPECIAL AUDIT REPORT OF
HORSEMAN'S PURSE ACCOUNTS
FAIR MEADOWS AT TULSA**

January 1, 2008 through December 31, 2012



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

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SPECIAL AUDIT REPORT OF HORSEMAN'S PURSE ACCOUNTS
FAIR MEADOWS AT TULSA
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Oklahoma State Auditor & Inspector

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January 27, 2014

The Oklahoma Horse Racing Commission
2401 NW 23rd St., Suite 78
Oklahoma City, OK 73107

Transmitted herewith is the Special Report of the Horseman's Purse Accounts for Fair Meadows at Tulsa (FMT) governed by the Tulsa County Public Facilities Authority (TCPFA).

Pursuant to your November 21, 2012 request and in accordance with O. S. Title 3A § 208.13, we performed a special audit of FMT's Purse Accounts which includes the Trust and Operating accounts for the period January 1, 2008 through December 31, 2012.

The procedures for our audit primarily included, but were not limited to, the areas noted in your request. Our findings and recommendations related only to those procedures presented in the accompanying report.

Because a special audit does not constitute an audit conducted in accordance with generally accepted auditing standards, we do not express an opinion on the account balances or financial statements of FMT or TCPFA for the period January 1, 2008 to December 31, 2012.

The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance. We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our Office during our engagement.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Gary A. Jones', is written over a light blue horizontal line.

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

TABLE OF CONTENTS

	Page
Officials as of December 31, 2012.....	ii
Background Comments	1
Audit Procedures, Findings, and Recommendations	2

OFFICIALS AS OF DECEMBER 31, 2012

Oklahoma Horse Racing Commission

Becky Goumaz.....	Chair
Brandon Burton, Esq.....	Vice-Chair
Mel Bollenbach	Secretary
Wayne Carter.....	Member
Phillip Kirk	Member
Ran Leonard	Member
Jim Bowers	Member
Malcolm Savage, Esq.	Member
Joe Lucas	Member
Constantin Rieger	Director

Tulsa County Public Facilities Authority

Fred Perry.....	Chairman
Karen Keith	Member
John Smaligo	Member
Mike Spradling	Member
Daryl Woodard.....	Member

Fair Meadow Racetrack

Ron Shotts.....	Director of Racing
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BACKGROUND:

O. S. Title 3A § 208.2 and the Oklahoma Horse Racing Commission (OHRC) authorize horse racing at Fair Meadows at Tulsa (FMT). Since 1989, the track has featured horse races Thursday through Sunday from early June to late July at its facility in Expo Square. Full-card simulcasting began in 1996. FMT is governed by the Tulsa County Public Facilities Authority.

Questions had arisen about the actual balances of the Operating and Trust accounts because FMT included checks written to horsemen that had not been cashed, but had been carried on the books/records in the horseman's operating account. At the insistence of the horseman's groups, OHRC requested this audit when FMT relinquished their license to offer live horse racing during calendar year 2013. Subsequent to the audit request, FMT reversed its decision to not have live races, and decided to resume its live race meeting. The OHRC then changed its request from a final audit to an on-going audit.

During this process, FMT and the horseman's bookkeeper were able to resolve the un-cashed checks issue by identifying the check numbers and amounts. If the payee was still active, the money was put back into their respective account. If the payee was not active, new checks were issued. If the payee could not be located, funds were turned over to the Unclaimed Property Division of the Oklahoma State Treasurer's Office.

Audit Procedures for Horseman's Trust Account

The following audit procedures were performed to test the Horseman's Trust Account per the bank statement for the period January 1, 2008 through December 31, 2012:

- We verified and traced the beginning balance for each month to the prior month ending balance.
- We compared the total monies deposited by year to the Oklahoma State Auditor and Inspector's prior audits.
- We traced one hundred percent of transfers from the Trust Account to Operating Account.
- We confirmed the December 31, 2012 bank balance of the Trust Account with the bank.

No exceptions were noted for the Horseman's Trust Account procedures.

Audit Procedures for Horseman's Operating Account

The following audit procedures were performed to test the Horseman's Operating Account per the bank statement for the period January 1, 2008 through December 31, 2012:

- We verified and traced the beginning balance for each month to the prior month ending balance.
- We traced a sample of fifty (50) purse expenditures for each year from the bank statement to the Incompass System and through the Equibase System.
- We traced a sample of fifty (50) non-purse expenditures for each year from the bank records to the Incompass System, and verified those expenditures occurred according to the OHRC Rules of Racing.
- We reviewed a sample of voided checks from the Incompass System to verify the checks did not clear the bank.
- We scanned the Incompass System to determine whether checks were in sequential order.
- We reviewed stale checks over \$2000.00 to determine whether the check was paid to the payee Account.

Findings were noted for the procedures performed on the Horseman's Operating Accounts.

Policies and Procedures Not Developed

Criteria: Basic components of effective internal controls include written policies and procedures for performing essential duties that are adequately documented by the entity to ensure compliance with applicable laws and regulations.

Condition: FMT had not developed policies and procedures to document the processing of deposits and expenditures.

Cause/Effect: Without documented policies and procedures, any subsequent bookkeeper would not have complete information to properly process transactions.

Recommendation: FMT and the horseman's bookkeeper should develop a written set of policies and procedures for processing transactions which would help to ensure accuracy, compliance with applicable laws and regulations, and would provide a resource for an efficient transition of job duties.

Management Response: FMT provided a copy of the horseman's bookkeeper job description as the policies and procedures.

Auditor's Response: The job description provided by FMT did not contain sufficient detail for processing transactions.

Inadequate Segregation of Duties in Revenue and Expenditures Processes

Criteria: Key duties and responsibilities need to be segregated among different people to reduce the risk of error or fraud. Any specific individual should not control all key aspects of a transaction.

Condition: The bookkeeper is responsible for all receipting, depositing and expenditure transactions.

Cause/Effect: Without adequate segregation of duties, errors and irregularities could occur and not be detected in a timely manner.

Recommendation: We recommend either FMT, the Director of Racing or a designated FMT official should periodically review the horseman's bookkeeper transactions. Also, FMT management should reconcile bank accounts monthly.

Management Response: Due to the retirement of Ron Shotts and Kevin Jones, job duties at FMT have been consolidated. At this time, on an interim basis, Richard Linihan is both Mutuel Manager and Director of Simulcast. He has taken on the duties of Kevin Jones. Besides my other duties I have taken on the duties of Ron Shotts. These cost saving measures have been put in place and we will continue to monitor daily activities. We understand that segregation of duties is needed and we will do our best to accomplish those tasks.

No Reconciliation Performed

Criteria: A key component of internal controls is the performance of reconciliation of funds between the entity and external records. The reconciliation process is essential to ensure that accounting records are accurate, and that errors are detected and corrected in a timely manner.

Condition: No reconciliations of the horseman's operating account to the bank records were performed during the audit period January 1, 2008 through December 31, 2012.

Cause/Effect: Without a monthly reconciliation, errors and irregularities could occur and not be detected in a timely manner.

Recommendation: A monthly operating account reconciliation should be performed by the FMT director or management.

Management Response: Reconciliation of the Incompass System with actual bank statements will be and is being conducted on a regular basis. FMT accounting has been provided unclaimed property forms and instructions for their use and will work with the horseman's bookkeeper to prepare the annual report.

Inadequate Controls over Deposits

Criteria: A key component of internal controls is the performance of reconciliation of funds between the entity and external records. The reconciliation process is essential to ensure that accounting records are accurate, and that errors are detected and corrected in a timely manner.

Condition: Two deposits made into the bank account in August, 2011 were not posted in the Incompass System until 10 months later. Also, a deposit posted into the Incompass System in July, 2011 was not deposited until 18 days later.

Cause/effect: Because accounts were not reconciled, records were not accurate and cash balances could be over/understated.

Recommendation: A monthly reconciliation should be performed by the FMT and the horseman's bookkeeper for the operating account.

Management Response: TCPFA/FMT accounting has been advised that when it makes a deposit into the horseman's operating account after live racing has been completed and the horseman's bookkeeper is no longer present that it should also make the entry into the Incompass System. Additionally, the fund transfer must take place at the same time that the horseman's bookkeeper is notified that the funds will be transferred.

Untimely Deposits Resulted in NSF Charges

Criteria: A key component of internal controls is the performance of reconciliation of funds between the entity and external records. The reconciliation process is essential to ensure that accounting records are accurate, and that errors are detected and corrected in a timely manner.

Condition: Multiple instances were identified where the bank statements noted “Force over Balance” resulting in NSF charges on the Horseman’s Operating Account.

Cause/Effect: Because accounts are not reconciled and deposits are not timely, the horseman’s operating accounts may be overdrawn and could be charged insufficient funds charges.

Recommendation: We recommend a monthly reconciliation be performed by the FMT and the horseman’s bookkeeper to prevent any future overdrafts or insufficient funds charges.

Management Response: The only time that we are aware of NSF is when there is a delay from receiving Tribal Area Purse Funds. These funds are requested by TCPFA/FMT from the horseman’s groups; who then make a request to the OHRC; who then request a check from the state of Oklahoma; and when received is then mailed to TCPFA/FMT. On occasions one of these checks has been received many days after the meet is over and purses have been paid. Sometimes it is difficult to determine exactly how much money needs to be transferred from the Tribal Area Purse Account until near the end of the race meeting. Arrangements have been made with the bank that should there not be sufficient funds that they will still honor the checks as the TCPFA/FMT has sufficient charges funds on deposit in other accounts that can be used on a short time basis. It is our understanding that no NSF charges have been made to the horseman’s account or if made were reversed. The only fees we are aware of being charged were for placing a stop payment order for a particular check.

Auditor’s Response: FMT should request deposit of the funds in a timely manner to ensure no NSF charges occur. We recommend they continue to work with the bank to ensure no NSF charges occur, and document details and the ultimate resolution of any NSF charges noted from reconciliations. Also, it may benefit FMT to request the State send funds by EFT.

Checks Voided and Reissued

Criteria: An effective internal control system provides for accurate and reliable records and adequate review of supporting documentation.

Condition: Checks that were voided in the Incompass System were reprinted using the same check number as the original voided transaction.

Cause/Effect: Checks voided and reissued under the same number creates conflicting transactions and could cause errors and irregularities to occur and not be detected in a timely manner.

Recommendation: FMT or the horseman's bookkeeper should retain all voided checks, and issued any replacement checks with a different number.

Management response: In the past this was a function that was permitted in the Incompass System and we realize the confusion that it might cause. I (horseman's bookkeeper) have not used this procedure for several years and am now voiding checks as you suggest.

Missing Check Numbers

Criteria: An effective internal control system provides for accurate and reliable records and adequate review of supporting documentation.

Condition: We noted numerous check numbers were missing in the Incompass system.

Cause/Effect: Checks not properly voided could cause inaccurate records, inaccurate cash balance and problems reconciling the account.

Recommendation: All checks numbers should be recorded in the Incompass system which allows for more accurate records and facilitates account reconciliation.

Management Response: All horseman's operating checks are kept in the TCPFA accounting vault and only delivered to the horseman's bookkeeper on an as needed basis. It is assumed that any missing checks were probably destroyed, unusable, or in error and the bookkeeper should have noted them as voided checks in the system.



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