



STATE OF OKLAHOMA
OFFICE OF THE STATE AUDITOR & INSPECTOR

A
G
R
E
E
D

U
P
O
N

P
R
O
C
E
D
U
R
E
S

E
N
G
A
G
E
M
E
N
T

HORSE RACING COMMISSION

REPORT ON AGREED-UPON PROCEDURES

JULY 1, 2004 THROUGH JUNE 30, 2005



JEFF A. McMAHAN, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

Oklahoma Horse Racing Commission

Agreed-upon Procedures Report

For the Period

July 1, 2004 through June 30, 2005



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

July 10, 2006

TO THE OKLAHOMA HORSE RACING COMMISSION

Transmitted herewith is the agreed-upon procedures report for the Oklahoma Horse Racing Commission. The procedures we performed were conducted pursuant to 74 O.S., §212.

The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government that is accountable to the people of the State of Oklahoma.

We wish to take this opportunity to express our appreciation to the agency's staff for the assistance and cooperation extended to our office during the course of our engagement.

Sincerely,


JEFF A. McMAHAN
State Auditor and Inspector

Table of Contents

Mission Statement, Board Members, and Key Staff.....iii

Accountant’s Report on Applying Agreed-upon Procedures.....1

Other Information

Schedule of Receipts, Disbursements, and Changes in Cash – Fiscal Year 2005.....9

Mission Statement

To encourage agriculture, the breeding of horses, and generate public revenue through the forceful control of the highest quality commission-sanctioned racing that maintains the appearance as well as the fact of honesty and integrity in horse racing.

Commission Members

Randal Calvert, Esq. Chair
Roger Cole Vice-Chair
Gene Bledsoe, D.C. Secretary
Cassie Barkett, Esq. Member
Jim Bowers Member
Patrick Grimmett Member
Dean Spencer, D.D.S. Member

Key Staff

Constantin A. Rieger Executive Director
Bonnie Morris Assistant to the Administrator
Mel Webb Director of Law Enforcement
Robin Helt Fiscal Administrator
Gina Jones Licensing



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

We have performed the procedures enumerated below, which were agreed to by management of the Oklahoma Horse Racing Commission (Commission), solely to assist you in evaluating your internal controls over the receipt and disbursement process, the safeguarding of capital assets, and in determining whether selected receipts and disbursements are supported by underlying records for the period July 1, 2004 through June 30, 2005. This agreed-upon procedures engagement was conducted in accordance with standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We compared the Commission's internal controls over receipts and disbursements with the following criteria:
 - Accounting duties were segregated by functions into those who initiate or authorize transactions; those who execute transactions; and those who have responsibility for the asset, liability, expenditure, or revenue resulting from the transaction;
 - Receipts were issued for cash and/or checks received;
 - Incoming checks were restrictively endorsed upon receipt;
 - Receipts not deposited daily were safeguarded;
 - Voided receipts were retained;
 - Funds received from fees, fines, reimbursements, and sale of materials were deposited to the State's General Revenue Fund;
 - Receipts and disbursements were reconciled to Office of State Treasurer and Office of State Finance records;
 - Disbursements were supported by an original invoice;
 - Timesheets were prepared by employees and approved by supervisory personnel;

A component objective of an effective internal control system is to provide adequate segregation of duties. The Accountant at the Commission and the Chief License Clerks at the Commission's satellite offices are responsible for preparing the deposits from their locations and delivering the deposits to the bank without review from another employee. Without adequate segregation of duties, errors and irregularities could occur and not be detected in a timely manner. We recommend the Commission establish and implement segregation of duties to ensure the person responsible for preparing the deposits is not responsible for delivering the deposits to the bank.

Views of Responsible Officials – Segregation of duties to insure proper procedures are followed and the elimination of errors and irregularities are essential for all State Agencies. The Horse Racing Commission has made great efforts to apply this principle to duties within the agency with a very small staff. There are times when some duties can not be segregated due to the lack of additional or available staff. The Commission will continue these efforts with all processes and procedures.

The time period audited ends with June 30, 2005, since that time the Commission has implemented new processes that were not included in the audit period and does eliminate the possibility of human error and irregularities with processing of deposits which were the concerns of the SA&I. The new electronic receipt

program implemented in the fall of 2005 by the Commission records, calculates and prints daily receipts, daily reports and monthly reports for licensing and registry receipts. The Commission is in the developmental stages of adding miscellaneous and gaming receipts to this same process. Future research and development will be the electronic printing of necessary deposit slips. This does require specialized ink be used for printing deposit slips for the bank. Staff is researching this project for the future.

With respect to the other procedures described, there were no findings.

2. We compared the Oklahoma Horse Racing Commission's internal control over the safeguarding of capital assets with the following criteria:
 - Inventory records were maintained for capital assets costing \$500 or more;
 - Packing slips were compared to the purchase order when capital assets are received;
 - Inventory records were adjusted promptly when capital assets are acquired, retired, sold, or transferred;
 - Obsolete or unusable assets were disposed of through the Department of Central Services' Surplus Property Division;
 - Physical inventories were performed;
 - Differences between physical inventory counts and inventory records were resolved;

State of Oklahoma Administrative Code 580:45-1-5. Inventory control and accounting systems states; "(1)The State Agency will maintain an inventory accounting system which will reflect all property received, donated, and warehoused... Inventory records will be kept in conformity with generally accepted governmental accounting principles... (4) An annual physical inventory will be conducted for all property on hand; and inventory records will be adjusted to correspond with physical count upon approval of the State Agent." In addition, a basic objective of governmental generally accepted accounting principles is to provide accurate and reliable information.

During our documentation of internal controls, we noted the Commission does not perform an annual physical inventory of their capital assets. Additionally, assets that are added or retired from the Commission are not reflected on the listing of capital assets until the end of a given fiscal year. Errors and irregularities could occur and not be detected in a timely manner. We recommend the Commission conduct a physical inventory of capital assets on an annual basis as well as immediately update the capital asset listing when a change occurs.

Views of Responsible Officials – At the suggestion of the State Auditor and Inspector, the Commission will begin annual physical inventory of assets. Previously, the Commission staff has done inventory by divisions due to the small number of employees over several locations and a full physical inventory was conducted every few years. The Commission does maintain an inventory list of all assets. The Commission agrees the necessity of proper inventory controls and will begin a full physical inventory in August of 2006 for the Department of Central Services annual inventory report for which the Commission has annually participated. Commission staff will immediately update the capital asset listing when any changes occur.

With respect to the other procedures described, there were no findings.

3. We randomly selected 20 deposits and:
 - Compared the Treasurer's deposit date to agency deposit slip date to determine if dates were within one working day.
 - Examined receipts to determine if they were pre-numbered and issued in numerical order.
 - Agreed cash/check composition of deposits to the receipts issued.
 - Agreed the total receipts issued to the deposit slip.
 - Inspected agency receipts to determine whether receipts of \$100 or more were deposited on the same banking day as received.

- Inspected agency receipts to determine whether receipts of less than \$100 were deposited on the next business day when accumulated receipts equaled \$100 or after five business days, whichever occurred first.
- Inspected agency receipts to determine whether receipts were safeguarded.
- Compared the fund type to which the deposit was posted in CORE to the CAFR fund type listing for consistency;
- Compared the nature of the deposit to the account code description to determine consistency.

There were no findings as a result of applying the procedures.

4. We recalculated the required amount to be deposited to the State's General Revenue Fund and agreed it to the amount transferred to the General Revenue Fund.

There were no findings as a result of applying the procedures.

5. We randomly selected 60 vouchers and:
 - Compared the voucher amount and payee to the invoice amount and payee;
 - Compared the voucher amount and payee to the CORE system;
 - Compared the fund type to which the disbursement was charged in CORE to the CAFR fund type listing for consistency;
 - Compared the nature of the purchase to the account code description to determine consistency.

There were no findings as a result of applying the procedures.

6. We randomly selected 10% of the employees who appeared on the June 2005 payroll but not on the June 2004 payroll and observed the initial "Request for Personnel Action" (OPM-14) or equivalent form to determine it was signed by the appointing authority.

There were no findings as a result of applying the procedures.

7. We randomly selected 10% of the employees who appeared on the June 2004 payroll but not on the June 2005 payroll and:
 - Observed the final "Request for Personnel Action" (OPM-14) or equivalent form to determine it was signed by the appointing authority.
 - Observed the main payroll funding sheet for the month subsequent to termination to determine employee no longer appeared.

There were no findings as a result of applying the procedures.

8. We randomly selected 10% of the employees whose gross salary at June 2005 had increased since June 2004 (excluding legislative pay raises) and observed the "Request for Personnel Action" (OPM-14) or equivalent form to determine it was signed by the appointing authority.

There were no findings as a result of applying the procedures.

9. We randomly selected 10% (but no more than 20) of the employees from the June 2005 payroll and agreed the amount paid to the "Request for Personnel Action" (OPM-14) or equivalent form that was in effect for June 2005.

There were no findings as a result of applying the procedures.

10. We selected 10 assets from the capital asset listing and:
 - Visually inspected each asset to ensure its existence and that it was identified as property of the State of Oklahoma;
 - Compared the identification number on the listing to that shown on the asset.

According to 74 O.S. § 110.1E:

E. Rules that the Director of Central Services promulgates shall cause all tangible assets to be properly coded, tagged, or marked in such a manner that they may be readily identified as property of the State of Oklahoma and that statistical records may be maintained.

Based on procedures, we noted:

- One of the 10 capital assets selected did not have a tag identifying it as property of the State of Oklahoma;
- Two of the 10 capital assets selected did not have a serial number identified on the inventory list;
- One of the 10 capital assets selected could not be visually inspected because it was sent to surplus property yet was still on the capital asset list.

We recommend the Commission implement procedures to ensure all capital assets are properly coded, tagged, or marked in such a manner that they may be readily identified as property of the State of Oklahoma and accurate records be maintained.

Views of Responsible Officials - At the suggestion of the State Auditor and Inspector, the Commission will begin annual physical inventory of assets. Previously, the Commission staff has done inventory by divisions due to the small number of employees over several locations and a full physical inventory was conducted every few years. The Commission does maintain an inventory list of all assets. The Commission agrees the necessity of proper inventory controls and will begin a full physical inventory in August of 2006 for the Department of Central Services annual inventory report for which the Commission has annually participated. Commission staff will immediately update the capital asset listing when any changes occur. The Commission does tag assets with inventory stickers and will assure that they are clearly visible, and maintained for all future audits and inventories.

11. We selected 10 assets from the floor and:

- Traced them to the capital asset listing;
- Compared the identification number on the asset to that shown on the listing;
- Inspected the asset to determine it was properly identified as property of the State of Oklahoma.

According to 74 O.S. § 110.1E:

E. Rules that the Director of Central Services promulgates shall cause all tangible assets to be properly coded, tagged, or marked in such a manner that they may be readily identified as property of the State of Oklahoma and that statistical records may be maintained.

Based on procedures performed, we noted:

- Five of the 10 capital assets selected from the floor could not be traced to the capital asset listing because the asset was not included on the capital asset list;
- One of the 10 capital assets selected was traced to the capital asset listing based on the asset tag number; however, we noted the serial number of the asset was not recorded on the listing.

We recommend the Commission implement procedures to ensure all capital assets are properly coded, tagged, or marked in such a manner that they may be readily identified as property of the State of Oklahoma and accurate records be maintained.

Views of Responsible Officials - At the suggestion of the State Auditor and Inspector, the Commission will begin annual physical inventory of assets. Previously, the Commission staff has done inventory by divisions due to the small number of employees over several locations and a full physical inventory was conducted every few years. The Commission does maintain an inventory list of all assets. The Commission agrees the necessity of proper inventory controls and will begin a full physical inventory in August of 2006 for the Department of Central Services annual inventory report for which the Commission

has annually participated. Commission staff will immediately update the capital asset listing when any changes occur. The Commission does tag assets with inventory stickers and will assure that they are clearly visible, and maintained for all future audits and inventories.

12. We compared the Oklahoma Horse Racing Commission's internal controls over purchase cards with the following criteria:
- Purchase card policies and procedures were incorporated into the Commission's policies and procedures;
 - Purchase card Administrator, designated back-up Administrator, and Approving Official were established;
 - Purchase card Administrator, designated back-up Administrator, Approving Official(s), and purchase cardholders completed the training prescribed by the State Purchasing Director and signed the State of Oklahoma Purchase Card Employee Agreement form;
 - Cardholders submitted monthly transaction logs with supporting documentation which were reviewed and approved by the appropriate personnel;
 - Mandatory categories of controls and limits were established for each purchase card, i.e. credit limit, single purchase limit, and Merchant Category Code Group;
 - Controls were established to ensure that purchase cards are not used for prohibited purchases, i.e. travel, cash advances, motor fuel, etc....;
 - Duties, control responsibilities, and the appropriate channels of communication were established and communicated to purchase cardholders to report suspected improprieties regarding purchase card usage.

There were no findings as a result of applying the procedures.

13. We identified employees that are purchase card holders and determined the Commission retained the original employee signed copy of the State of Oklahoma Purchase Card Employee Agreement.

There were no findings as a result of applying the procedures.

14. We examined all purchase card transactions to determine:
- A credit limit (dollar amount per cycle) was established for each cardholder;
 - The dollar amount of each transaction did not exceed the single purchase limit of \$2,500;
 - Each purchase card was assigned an approved Merchant Category Code Group;
 - Any purchases from the same vendor on the same date for the same item, and whether in the aggregate, the card purchase limit was exceeded (i.e. split purchasing).

There were no findings as a result of applying the procedures.

15. We randomly selected 33 (20%) of the Commission's purchase card transactions and:
- Determined transactions were **not** for prohibited purchases:
 - Travel including, but not limited to, transportation, entertainment, food and beverages, travel agencies, and lodging.
 - Cash, cash advances, automatic teller machines (ATM).
 - Any transaction or series of transactions, which exceed the limits established on the individual purchase card.
 - Motor fuel or fluids.
 - Gift certificates.
 - Inspected transaction logs to determine they were supported by receipts and/or other supporting documentation and the cardholder and approving official reconciled the supporting documentation to the monthly memo statement;
 - Reviewed transaction receipts to determine if the use of the purchase card was limited to the employee whose name is embossed on the card;
 - Examined transaction logs to determine the log was reviewed and approved (signed) by the cardholder and the approving official;

- Reviewed receipts and/or other supporting documentation to determine they were annotated “Received”, signed, and dated by the receiving employee;
- Examined the receipt and/or supporting documentation to determine state sales tax was **not** charged during the transaction;
- Verified with the Department of Central Service that the Purchase card Administrators, back-up Administrators, Authorized Signers, Approving Officials, and Cardholders have successfully completed the Purchase Card Training conducted by the Department of Central Services prior to being issued purchase cards;
- Inspected transactions to determine if merchant preference was used by the Commission for certain merchants or types of contracts, i.e. statewide transactions;
- Determined documents were retained in accordance with the Commission’s procedures;
- Compared the nature of the purchase to the commission’s mission for consistency.

Sections 6.5 and 6.7.1 of the State of Oklahoma Purchase Card Procedures state:

6.5. Receipts for purchase. Receipts shall be obtained for purchases. If a receipt is not furnished by the merchant (as may be the case with a phone or internet order), an order confirmation or confirmation number should be obtained. If neither a receipt nor confirmation information is available, the transaction log entry shall serve as a receipt.

6.7.1. Goods or services received at the time of purchase. The receipt for purchase also serves as the receiving document. It should be annotated “Received” and signed and dated by the receiving employee. If the cardholder is also the receiving employee, a second employee shall verify that goods or services were received and also sign and date the receiving document. The combination purchase receipt/receiving document shall be attached to the transaction log.

Based on procedures performed, we noted:

- One of 33 transactions had no receipt or invoice;
- Ten of 33 transaction receipts were not marked “Received”, signed, and dated;
- Twenty-two of 33 transaction receipts were signed but were not marked “Received” and dated;
- One of 33 transactions was not listed on the transaction log.

We recommend the Commission implement procedures to ensure the P-Card holders comply with the requirements of section 6.5 and 6.7.1 of the State of Oklahoma Purchase Card Procedures.

Views of Responsible Officials - The time period for this SA&I audit extends through June 30, 2005. Since that time, agency staff has attended additional training for Purchase Card transactions and recorded keeping. Currently, staff marks all transactions “Received”, signed and dated. These procedures have been implemented in the fiscal year following the audit period.

With respect to the other procedures described, there were no findings.

We have also compiled a Schedule of Receipts, Disbursements and Changes in Cash from information obtained from the statewide CORE accounting system, which is presented in the “Other Information” section. The schedule, compiled for fiscal year 2005 in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants, has been included for informational purposes only. A compilation is limited to presenting financial information that is the representation of management. We have not audited or reviewed the accompanying Schedule of Receipts, Disbursements and Changes in Cash, and accordingly, do not express an opinion or any other form of assurance on it.

We were not engaged to, and did not, conduct an examination or a review, the objective of which would be the expression of an opinion or limited assurance on the cash, receipts, disbursements, and capital assets for the agency. Accordingly, we do not express such an opinion or limited assurance. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of the Oklahoma Horse Racing Commission and should not be used for any other purpose. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.



JEFF A. McMAHAN
State Auditor and Inspector

June 28, 2006

Other Information

**Oklahoma Horse Racing Commission
Schedule of Receipts, Disbursements, and Changes in Cash
For the Fiscal Year Ending June 30, 2005
UNAUDITED**

RECEIPTS:

State Appropriations	\$1,858,182
Breakage / Unclmd Ticket Forfit	1,138,221
Horse Racing Licenses & Fees	277,407
Horse Drug Testing Fee	256,282
Registration Fees	160,013
Other	105,254

Total Receipts 3,795,359

DISBURSEMENTS:

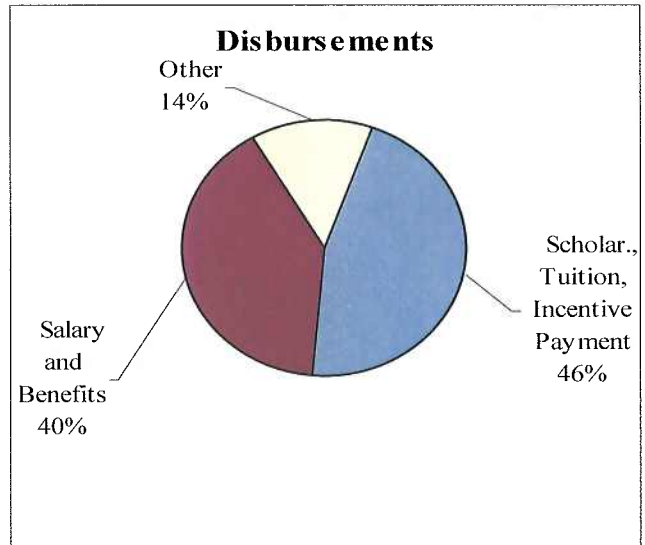
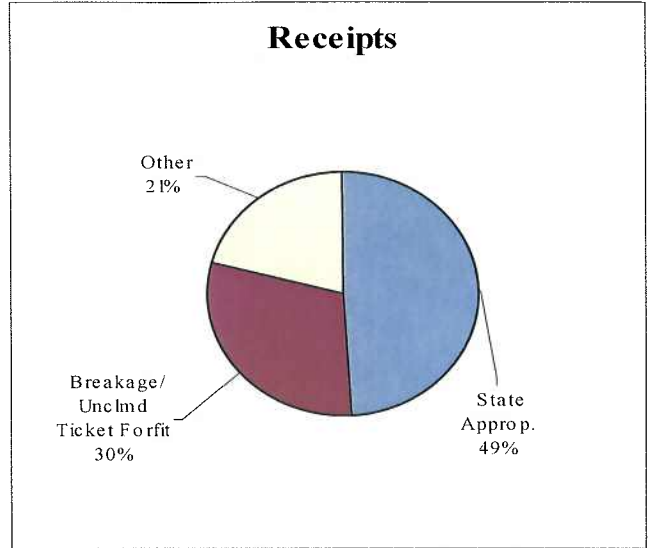
Scholar., Tuition, Incentive Payment	1,983,568
Salary and Benefits	1,734,026
Shop Expense	230,659
Misc. Admin.	125,625
Travel	100,563
Rent	71,205
Inter/Intra Agency Payments	32,298
General Operating	17,441
Professional Services	13,944
Maint., Special Sup., and Repair Exp.	10,752
Other	6,231

Total Disbursements 4,326,312

RECEIPTS OVER (UNDER)
DISBURSEMENTS (530,953)

CASH--Beginning of Year 1,516,579

CASH--End of Year \$ 985,626



See Accountant's Report

Schedule prepared solely for the information and use by the management of the Oklahoma Horse Racing Commission and not intended to be and should not be used by any other party.



Office of the State Auditor and Inspector

2300 North Lincoln Boulevard, Room 100
Oklahoma City, Oklahoma 73105-4896
(405) 521-3495

www.sai.state.ok.us