



OKLAHOMA HORSE RACING COMMISSION – BREEDING FUND

Operational Audit

For the period July 1, 2015 through June 30, 2022

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Oklahoma Horse Racing Commission - Breeding Fund**

**For the Period
July 1, 2015 through June 30, 2022**



October 4, 2023

TO THE OKLAHOMA HORSE RACING COMMISSION:

We present the audit report of the Oklahoma Horse Racing Commission – Breeding Fund for the period July 1, 2015 through June 30, 2022. 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.

This report is 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.

Sincerely,

A handwritten signature in blue ink that reads "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR

**Oklahoma Horse Racing Commission – Breeding Fund
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Background

The Oklahoma Breeding Development Fund Special Account (the Breeding Fund) at the Oklahoma Horse Racing Commission (the Agency) is an incentive fund which increases income for Oklahoma horse racing and breeding enterprises. Purse supplements, stallion and broodmare awards are paid to owners and breeders of qualifying accredited Oklahoma-bred horses through a system of restricted and open company races at Oklahoma racetracks. The Breeding Fund receives monies for unclaimed tickets, breakage, gaming activities, and registration and transfer fees for Oklahoma-bred horses.

Oversight is provided by the nine-member Horse Racing Commission (the Commission). Commissioners serve terms of six years and are appointed by the governor.

Commissioners as of August 2023 are:

Keith Sanders.....	Chair
Dan Ira Pilcher.....	Vice-Chair
Bennett Anderson.....	Secretary
Kurt Murray.....	Member
Clint Brookover.....	Member
Dr. Bryant Craig.....	Member
George Robert Carter.....	Member
Suzanne Gilbert.....	Member
Brian Burget.....	Member

Other Information:

Binkley System: This is the Agency’s Internal Database that is used to track revenues, expenditures, and related activity, and is also used to print vouchers and produce reports that can be reviewed by management.

Turnover: During the audit period the agency experienced staff turnover and staff retirements. Our audit recommendations will be based on the Agency’s current processes given that will be the most beneficial and relevant information for management and other decision makers.

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Scope and Methodology

Our audit was conducted in response to 74 O.S. § 212, which requires the State Auditor and Inspector’s office to audit the books and accounts of all state agencies whose duty it is to collect, disburse, or manage funds of the state.

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.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period July 1, 2015 through June 30, 2022. To assess risk and develop our audit objectives, we held discussions with management, surveyed employees, and performed data analysis and prior audit follow-up. These procedures included:

- Reviewing revenue and expenditure data from the state accounting system and gathering information from Agency personnel to assess the related financial processes and trends for any notable risks.
- In concert with our planning for the full Agency audit, assessing personnel changes and reviewing a selection of payroll approval documentation for payroll changes that occurred during the audit period and gathering information regarding the payroll approval processes.
- Reviewing pertinent statutes and regulations and assessing related risks.

Three objectives were developed as a result of these procedures that relate to revenues and expenditures from the Breeding Fund as well as payments for pensioned and retired horses, as discussed in the body of the report. No other significant risks or findings were identified.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Internal Control Considerations

The Government Accountability Office (GAO) emphasizes the importance of internal controls at all levels of government entities. Their

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*Standards for Internal Control*¹ outline the five overarching components of internal control: the control environment, risk assessment, information and communication, monitoring, and detailed control activities. Any component considered significant to our audit objectives is assessed during our procedures and included as appropriate in this report.

The *Standards for Internal Control* underscore that an internal control system is effective only when the five components of internal control are operating together in an integrated manner. They also stress that documentation is a necessary part of an effective internal control system and is required to demonstrate its design, implementation, and operating effectiveness.

¹ *Standards for Internal Control in the Federal Government*, or the "Green Book," sets standards and the overall framework for an effective internal control system in federal agencies and is treated as best practices for other levels of government. Last update 2014, accessible online at <https://www.gao.gov/products/GAO-14-704G>.

OBJECTIVE I Determine whether effective internal controls are in place to ensure that revenues are deposited, in line with Government Accountability Office *Standards for Internal Control*.

Conclusion We determined that effective internal controls are not in place to ensure that revenues are deposited, in line with Government Accountability Office *Standards for Internal Control*.

Scope and Methodology To accomplish our objective, we performed the following:

- Documented our understanding of the revenue processes through discussion with management and review of documentation.
- Evaluated those processes and identified and assessed significant internal controls related to our objective.

FINDINGS AND RECOMMENDATIONS

Independent, Documented Deposit Reconciliation Needed Breeding Fund revenues are received and tracked on a mail log by the Secretary/Receptionist and receipted into the Binkley database by the Breeding Fund Registrar or one of two Registrar Assistants. The Budget and Finance Manager reportedly performs a reconciliation of activity from the Binkley database to reports from the state accounting system. However, because he is also responsible for receipting funds at the main office, preparing the deposit, and taking it to the bank, this is not an independent review. In addition, this review is not formally documented. The Director of Operations then posts the deposit in the state accounting system, delivers the deposit to the bank, and compares the bank receipt to the end of day totals posted in Binkley.

Without a reliable and independent reconciliation of Breeding Fund activity to bank deposits, errors could be made, or revenues misappropriated by the Budget and Finance Manager or Director of Operations.

According to GAO *Standards for Internal Control*:

- Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities.
- If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address risks in the operational process.
- Management should remediate identified internal control deficiencies on a timely basis.

Recommendation

An individual separate from the receipting and deposit processes should reconcile reports from the Binkley System to the mail log and deposits made to the bank. This could be accomplished by assigning someone other than the Budget and Finance Manager to handle receipting and deposits, or by having another authority figure, such as the Executive Director, perform the reconciliation. Documentation of the reconciliation should be retained for audit and accountability purposes.

Views of Responsible Officials

The agency agrees with the findings of the FY16-FY22 Breeding Fund Operational Audit and agency management has conducted meetings to ensure the audit recommendations are implemented in the agency's current deposit and receipting processes. The Budget & Finance Manager has been removed from the receipting and deposit duties. The OkBred Claims Supervisor has now taken over those duties, with the Director of Operations designated as the backup. The Budget & Finance Manager is designated to reconcile reports from the Binkley system to the mail log and deposits made at the bank. The agency will provide formal documentation by having the Executive Director sign and date the reconciled report. This formal documentation will be maintained in the agency's local network drive for access in future audits.

OBJECTIVE II Determine whether non-payroll expenditures are independently reviewed and approved in line with the previous audit recommendation and Government Accountability Office *Standards for Internal Control*.

Conclusion We determined that non-payroll expenditures are not independently reviewed and approved in line with the previous audit recommendation and Government Accountability Office *Standards for Internal Control*.

Scope and Methodology To accomplish our objective, we performed the following:

- Documented our understanding of the expenditure processes through discussion with management and review of documentation.
- Evaluated those processes and identified and assessed significant internal controls related to our objective.

FINDINGS AND RECOMMENDATIONS

Independent, Documented Review of Expenditures Needed

The majority of expenditures made from the Breeding Fund are for providing stakes and rewards to owners of winning Oklahoma-bred horses and related breeder awards for the stallion and mare parents of the winning horses. Race information is detailed on a program by a steward and entered into the Binkley System, creating a Winnings Chart, which is then reviewed by an independent registration clerk.

Invoices for marketing and equine research are reviewed by the Claims Supervisor, and the Director reviews payments for retired and unwanted horses (discussed further in the next section). However, these reviews are not formally documented. The payments are then entered into an Excel spreadsheet by the Claims Supervisor and the Director.

These expenditures are performed in-house with the Agency printing their own checks on a weekly basis. The Claims Supervisor uses the chart information to print the checks, and the Director’s and Commission Chair’s signatures are electronically printed on the checks. The Claims Supervisor is also responsible for sending a listing of the resulting payments to the Oklahoma State Treasury Department. The Budget and Finance Manager has the ability to print checks and serves as a backup for the Claims Supervisor. There were no formal controls for securing and tracking the blank checks during the audit period.

Monthly, the Budget and Finance Manager reconciles the Audit Report, listing the checks entered into the Binkley System, to the Oklahoma State Treasurer’s Activity Statement. However, he does not review the Voided Check Report from the Binkley system. The Budget and Finance Manager’s ability to print checks, while he reportedly did not do so

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during the audit period, affects the independence of his reviews. Without an independent reconciliation of the checks to Binkley records, including voided checks, any individual printing checks could initiate an inappropriate payment without detection.

According to GAO *Standards for Internal Control*:

- Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations, authorizations and approvals, physical control activities, and supervisory control activities.
- If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address risks.
- Management should remediate identified internal control deficiencies on a timely basis.

Recommendation:

A responsible individual independent from approving payments and printing checks should reconcile payments from the Binkley System and other payments spreadsheet to the Treasurer's Activity Statement. This could be accomplished by assigning someone other than the Budget and Finance Manager to serve as the backup to the Claims Supervisor (including removing access to print checks), so that the Budget and Finance Manager can provide independent oversight.

This reconciliation should include the Voided Check Report. Documentation of the reconciliation should be retained for audit purposes. The completed reconciliation, including the source documents, should be provided to the Commission, given the Executive Director's role in reviewing and approving payments for retired or unwanted horses.

As designed in the past at the Agency, blank checks should be stored in a secure location and the sequence of checks monitored and logged as they are used by an independent party. The record of checks used could be incorporated into the reconciliation process to ensure no checks are missing and voided checks are properly represented in the system.

In addition, individuals responsible for reviewing invoices for expenditures made from the Breeding Fund should formally document their approval and retain the documentation for audit purposes.

Views of Responsible Officials

The agency agrees with the recommendations from the State Auditor and Inspector's Office. The Budget & Finance Manager has been removed from having access to print checks so independent oversight can be provided. The Director of Operations will serve as backup to the OkBred

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Claims Supervisor. The Budget & Finance Manager will reconcile payments from the Binkley system and other payments spreadsheet to the Treasurer's Activity Statement along with the voided check report to ensure no checks are missing and are properly represented in the system. Blank checks are stored in the office of the Budget & Finance Manager. The completed reconciliation, including the source documents will be provided to the Commission Chair to serve as oversight for the Executive Director's role in reviewing and approving payments for retired and pensioned horses.

In addition, approvals for all invoices for expenditures made from the Breeding Fund will be formally documented via email and scanned into the agency's local network drive for access in future audits.

OBJECTIVE III Determine whether expenditures from the Oklahoma Breeding Development Fund Special Account are allowable in accordance with OK Administrative Code 325:75-1-21.

Conclusion The Agency complied with most key aspects of OAC 325: 75-1-21. However, the Agency was not able to provide evidence of approvals from the horsemen's representative organizations for calendar years 2017 or 2022. We also strongly recommend the Agency collect and retain detailed and timely invoices regarding horse care to ensure their payments are accurate. See further discussion in our finding below.

OAC 325: 75-1-21 authorizes the Commission to award monies from the Oklahoma Breeding Development Fund Special Account for the purpose of caring for retired and unwanted Oklahoma-Bred racing stock, through horse adoption and pension programs.

Scope and Methodology

To accomplish our objective, we performed the following:

- Documented our understanding of the relevant expenditure processes through discussion with management and review of documentation.
- Reviewed annual horsemen’s representative organization approvals for entities requesting payments from the Oklahoma Breeding Development Fund Special Account for the audit period.
- Reviewed audit period spreadsheets that tracked payments from the Oklahoma Breeding Development Fund Special Account to ensure they were approved by the director and that the payments did not exceed allowable limits set in Administrative Code 325:75-1-21.

FINDINGS AND RECOMMENDATIONS

Improved Documentation Supporting Program Payments Needed

Per Oklahoma Administrative Code 325: 75-1-21, the official horsemen's representative organization must request that retired and pensioned horse programs receive funds on an annual basis. The Executive Director determines whether a requested entity is eligible to receive funding and the amount of funds each entity receives, within certain parameters.

Repeat Finding

We reviewed available documentation for the audit period programs and payments related to this objective. The payments were within the ranges and total amounts allowed by Administrative Code², and the horsemen’s organization approvals were evident for most audit period years.

² See Administrative Code [OAC 325:75-1-21](#) for detailed rules regarding the program.

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However, the Agency could not provide documentation of the horsemen’s organization requests for calendar years 2017 or 2022, so we cannot confirm compliance with OAC 325: 75-1-21 for those years.

In addition, we noted that during the audit period the approved adoption and pension program vendors provided quarterly reports of eligible horses. The executive director approved payments for horses for the corresponding quarter by adding them to a spreadsheet, which was then used to create the reimbursement. The Agency was only able to provide the supporting documentation sent in by the programs for some quarters during the audit period. For the quarters that are missing, we were unable to determine whether the documents were truly missing or if there was no activity for the quarter, and OHRC staff was also unable to confirm this information as the audit period Executive Director has left the agency.

The Director’s approval as reflected in the spreadsheet creation suggests the Agency complied with Administrative Code requirements; however, supporting documentation should be retained as evidence that these were appropriate expenditures, especially given the Director’s control over this approval process.

Recommendation:

We recommend the Agency consistently collect and retain:

- The annual requests reflecting horsemen’s organization approval of horse adoption and pension entities.
- Reimbursement request/horse care documentation provided by those entities as the basis for payments.

In addition, to ensure that all payments are appropriate and are accounted for, the spreadsheet used to track the program payments should also reflect when there is truly no activity for the program for certain quarters.

Views of Responsible Officials

The agency has added the Budget & Finance Manager as a recipient for all requests pertaining to the horsemen’s organization. The Budget & Finance Manger will store all requests on the agency’s local network drive for access in future audits. Quarterly invoices from each approved entity for the retirement program will also be stored on the agency’s local network drive.

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Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov