



OKLAHOMA HORSE RACING COMMISSION

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**

**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 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

Background

The Oklahoma Horse Racing Commission (the Agency) encourages agriculture, the breeding of horses, the growth, sustenance, and development of live racing, and generates public revenue through the forceful control, regulation, implementation, and enforcement of commissioned-licensed racing and gaming.

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

Commission members as of August 2023 are:

- Keith Sanders..... Chair
- Dan Ira Pilcher..... Vice-Chair
- Bennett AndersonSecretary
- 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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The following table summarizes the Agency's sources and uses of funds for fiscal years 2021 and 2022 (July 1, 2020 through June 30, 2022).

Sources and Uses of Funds for FY 2021 and FY 2022

	2021	2022
Sources:		
Licenses, Permits, Fees	\$ 7,103,540	\$ 2,863,064
Other Revenues (incl. additional fees)	1,312,032	7,227,393
Taxes	1,303,909	1,135,084
Fines, Forfeits, Penalties	243,517	197,638
Total Sources	\$ 9,962,998	\$ 11,423,179
Uses:		
Incentive Payments/Awards	\$ 3,367,295	\$ 8,746,333
Personnel Services	2,697,448	2,681,460
Professional Services	541,344	344,096
Administrative Expenses	185,595	234,881
Travel	29,829	58,326
Property, Furniture, Equipment	71,074	41,990
Transfers and Other Disbursements	-	18,611
Total Uses	\$ 6,892,585	\$ 12,125,697

Source: Oklahoma statewide accounting system (unaudited, for informational purposes only)

**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 objective, we held discussions with management, surveyed employees, and performed data analysis and prior audit follow-up. These procedures included:

- Reviewing revenue, expenditure, and asset-related data from the state accounting system and gathering information from Agency personnel to assess the related financial processes and trends for any notable risks.
- Reviewing the Agency's HR All Actions Report from the state accounting system to assess personnel changes.
- 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 inventory listings and discussing the inventory process with staff.
- Reviewing pertinent statutes, regulations, and contracts, and assessing related risks.

Two objectives were developed as a result of these procedures, one related to revenues and the other related to the disbursement of funds to the Purse Committees, as discussed in the body of the report. No other significant risks or findings were identified.

We utilized sampling of transactions to achieve our objectives. To ensure the samples were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

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 *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

Lack of Independent, Documented Deposit Reconciliation

Repeat Finding

The Budget and Finance Manager at the main office is responsible for receipting funds into the Binkley database, preparing the deposit, and taking it to the bank. Employees at the Agency's horse racing track locations have these same responsibilities at their respective sites.

The Budget and Finance Manager reportedly performs a monthly reconciliation of activity from the Binkley database to reports from the state accounting system. This is not an independent review of deposits as the Budget and Finance Manager handles the funds. He also reportedly receives deposit documentation from track personnel and compares it to a daily deposit report from the Binkley System. Neither of these reconciliations is formally documented and they therefore could not be verified.

Without a reliable and independent reconciliation of activity reports to bank deposits, errors could be made, or revenues misappropriated, at the main office and at the tracks.

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 the risk of fraud, waste, or abuse in the operational process.
- Management should remediate identified internal control deficiencies on a timely basis.

Recommendation

As recommended in our previous audit, an individual separate from the receipting and deposit processes should reconcile reports from the Binkley System to the deposits made at the bank. This may require removing the Budget and Finance Manager from receipting and deposit preparation duties to preserve his independence, or having an alternate authority figure, such as the Executive Director, perform the reconciliation. Documentation of the reconciliations should be retained for audit purposes.

Views of Responsible Officials

The agency agrees with the findings of the FY16-FY22 operational audit and agency management has conducted meetings to ensure the audit recommendations are implemented into the agency's current deposit and entry processes. The Budget & Finance Manager has been removed from the receipting and deposit duties. The 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 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 the agency is distributing funds to purse committees in accordance with statute 3A O.S. § 263(L).

Conclusion We determined the agency was distributing funds to purse committees in accordance with statute 3A O.S. § 263(L) in fiscal years 2018 through 2022. However, due to a lack of documentation, we were unable to confirm compliance in fiscal years 2016 and 2017.

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

- Documented the process for purse committee approvals and disbursements from the Participating Tribe Fund during the audit period through discussion with staff and review of relevant documentation.
- Tested the Participating Tribe Fund payments made during the audit period by randomly sampling 42 of the 263 payments from the period (16% of expenditure claims) and reviewing documentation to ensure the payments were supported by timely requests from the appropriate purse committees.
- Reviewed Budget and Finance Manager’s Participating Tribe Fund distribution spreadsheet and ensured the distribution calculation was correct for thoroughbred, quarter horse, and paints/appaloosas for the audit period. Note there is no finding related to the calculation.

FINDINGS AND RECOMMENDATIONS

No Documentation of Approval for Payments from FY 2016, 2017 Every month, each participating tribe submits payments derived from gaming revenues to the Participating Tribe Fund. Statute 3A O.S. § 263(L) requires these funds be placed as directed by the purse committees² and that the purse committees meet at least sixty days prior to the beginning of a calendar year to provide directions for placement of the purse funds. Monthly the Budget and Finance Manager notifies the three purse committees of the amount of funding available in the Participating Tribe Fund. Revenues for each of their breeds are given to qualifying racetracks to be included in purses for races. We selected a random sample of payments from the fund as detailed in our methodology above. Payments tested for fiscal years 2018-2022 were supported by appropriately timed purse committee distribution letters as

² Purse committees are composed of official elected horsemen representing each horse breed: thoroughbred, quarter horse, and paint/appaloosa.

required by statute. However, we could not conclude as to the compliance of payments selected from FYs 2016 and 2017 as the Agency did not retain or did not receive the relevant documentation.

Without proper documentation we cannot confirm expenditures from the Participating Tribes fund were approved by the purse committees or that the Agency complied with 3A O.S. § 263(L).

Recommendation

The Agency should ensure the purse committees have approved all expenditures from the Participating Tribe Fund before the payment is made, in compliance with statute 3A O.S. § 263(L), and retain documentation of the purse committees' approvals.

Views of Responsible Officials

In addition to the Executive Director, the Budget & Finance Manager will now be on the recipient list to receive the approval letters. There will be no expenditures from the Participating Tribe Fund without prior approval from the purse committees. The Budget & Finance Manager will retain all formal documentation on the agency's local network drive for access in future audits.

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S·A·I
STATE AUDITOR & INSPECTOR



Cindy Byrd, CPA | State Auditor & Inspector

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