

OKLAHOMA HORSE RACING COMMISSION

JULY 1, 2005 THROUGH
JUNE 30, 2007

OPERATIONAL AUDIT



Jeff A. McMahan

Oklahoma State Auditor
& Inspector

**Audit Report of the
Oklahoma Horse
Racing Commission**

**For the Period
July 1, 2005 through June 30, 2007**



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

May 14, 2008

**TO THE EXECUTIVE DIRECTOR OF THE OKLAHOMA
HORSE RACING COMMISSION**

Pursuant to 74 O.S. § 212, transmitted herewith is the audit report for the Oklahoma Horse Racing Commission for the period July 1, 2005 through June 30, 2007. 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,

A handwritten signature in blue ink that reads "Michelle R. Day".

Michelle R. Day, Esq.
Deputy State Auditor and Inspector

Mission Statement

The Oklahoma Horse Racing Commission 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 Commission-licensed horse racing and gaming.

Board Members

Gene Bledsoe, DC	Chair
Patrick Grimmett	Vice-Chair
Cassie Barkett, Esq.	Secretary
Mel Bollenbach	Member
Jim Bowers	Member
Randy Calvert, Esq.	Member
Wayne Carter	Member
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Key Staff

Constantin A. Rieger	Executive Director
Robin Helt	Fiscal Administrative Officer
Jeff Kelly	Accountant



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

Jeff A. McMahan
State Auditor and Inspector

**TO THE EXECUTIVE DIRECTOR OF THE OKLAHOMA
HORSE RACING COMMISSION**

We have audited the Oklahoma Horse Racing Commission (the Commission) for the period July 1, 2005 through June 30, 2007. The objectives of this audit were to determine if:

- The Commission's internal controls provide reasonable assurance that revenues and expenditures were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations;
- The Commission complied with 3A O.S. 263.L;
- Recommendations included in prior engagements were implemented.

As part of our audit, we obtained an understanding of internal controls significant to the audit objectives and considered whether the specific controls have been properly designed and placed in operation. We also performed tests of certain controls to obtain evidence regarding the effectiveness of the design and operation of the controls. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We also obtained an understanding of the laws and regulations significant to the audit objectives and assessed the risk that illegal acts, including fraud, violation of contracts, grant agreements, or other legal provisions could occur. Based on this risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the laws and regulations. However, providing an opinion on compliance with these laws and regulations was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

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.

A handwritten signature in blue ink that reads "Michelle R. Day".

Michelle R. Day, Esq.
Deputy State Auditor and Inspector

April 28, 2008

Background

The Oklahoma Horse Racing Commission (the Commission) was created to regulate the multiple aspects of state-sanctioned horse racing at four race tracks. The Commission is also responsible for issuing gaming licenses to organizations that conduct authorized gaming at race track locations, as well as to employees whose work is conducted at the gaming facilities in the state of Oklahoma.

The Commission's operations are governed by:

- 3A O.S. § 200 through 209;
- 3A O.S. § 262 through 265, and 268.

Oversight is provided by a nine-member Commission appointed by the Governor with the advice and consent of the Senate. At least one member must be experienced in the horse industry and is appointed from the state at large. The Commission pays for its operations primarily through state appropriations.

Table 1 summarizes the Commission's sources and uses of funds for fiscal years 2006 and 2007.

Table 1-Sources and Uses of Funds for FY 2006 and FY 2007

Sources:	2006	2007
State Appropriations	\$2,360,406	\$2,618,538
Horse Racing Licenses and Fees	1,075,752	1,012,298
Participating Tribe Gaming	3,163,035	8,403,349
Breakage/Unclaimed Ticket	2,229,686	3,707,638
Registration Fees	199,495	207,906
Other	<u>331,052</u>	<u>184,560</u>
Total Sources	<u>\$9,359,426</u>	<u>\$16,134,290</u>
Uses:		
Personnel Services	\$2,342,130	\$2,589,091
Travel	155,775	161,059
Miscellaneous Administrative	420,938	396,176
Shop Expense	314,798	378,184
Office Furniture and Equipment	36,448	34,099
Scholarship, Tuition, Incentive Payments	3,858,625	10,886,781
Other	<u>176,709</u>	<u>198,048</u>
Total Uses	<u>\$7,305,423</u>	<u>\$14,643,438</u>

Source: Oklahoma CORE Accounting System.

Objective 1 – Determine if the Commission's internal controls provide reasonable assurance that revenues and expenditures were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations.

Conclusion

The Commission's internal controls generally provide reasonable assurance that revenues and expenditures were accurately reported in the accounting records, and financial operations complied with applicable finance-related laws and regulations. However, several areas, as noted below, need to be strengthened.

Methodology

To accomplish our objective, we performed the following:

- Reviewed 62 O.S. § 7.1 - **depositing requirements for agency clearing accounts and agency special accounts**;
- Documented internal controls related to the receipting and expenditure processes;
- Tested controls which included:
 - Determining if checks were endorsed immediately upon receipt;
 - Determining if receipts were stored in a secure location prior to deposit;
 - Determining if the person who prepared the deposit was independent of the receipting process;
 - Reviewing 60 deposits from the period to ensure the monies were deposited within one day of receipt;
 - Reviewing 60 deposits from the period to ensure the deposit was correctly posted into CORE within one day of being deposited at the bank;
 - Reviewing 36 deposits made by the race tracks to ensure they were reviewed by a person independent of the preparer;
 - Determining the Commission's clearing account was reconciled on a monthly basis by a person independent of the cash receipting process;
 - Reviewing six OSF-Form 11 reconciliations to ensure the reconciliation was reviewed by someone other than the preparer, the reconciliations were mathematically accurate, traced and agreed to supporting documentation, and reconciling items appeared reasonable;
 - Reviewing 25 expenditure claims to ensure they were properly authorized. This included ensuring the invoice supported the payment, the invoice was mathematically accurate, the correct account code was used, and the expenditure was reasonable for the agency's mission;
 - Determining if the employee responsible for receiving warrants from OSF was independent of the posting and approval process.
- Reviewed 3A O.S. § 204.1A, 3A O.S. § 204.1B, 3A O.S. § 204.2.E, 3A O.S. § 205.2.K, and 3A O.S. § 282.D and performed procedures to ensure funds were transferred from the Board's clearing account to the state general fund and agency revolving funds at least once per month.

Observations

Code of Ethics

It is an agency's responsibility to create a culture of honesty and ethics and to clearly communicate acceptable behavior and expectations of each employee. Such a culture is rooted in a strong set of core values that provides the foundation for employees as to how the agency conducts its business. During our assessment of internal controls, we noted the Commission has not developed and implemented an official written policy addressing ethical behavior in the workplace. Without a written policy and procedure in place, employees may not be aware of management's expectations regarding ethical behavior.

Recommendation: We recommend the Commission develop a written policy regarding ethical behavior in an effort to reduce the possibility of unethical behavior occurring. Once developed, the policy should be distributed to all current employees and procedures should be implemented to provide the policy to all new employees.

Views of Responsible Officials: The Commission strongly agrees with the recommendation of the State Auditor and Inspector. Employees will be directed in what is expected of them as representatives of the State, the Commission, the Industry and their job duties. Such policies and procedures will be developed and included in the Agency's Personnel Manual and to reflect the mandate of O.S. Title 3A, Section 203.7. When new employees are

hired, this section of the Oklahoma Horse Racing Act has been discussed in length. In future orientations the policy and this section of the statute will be highlighted.

§ 203.7. Purpose and intent of act--Rules and regulations

In the interest of the public health, safety, and welfare, it is hereby declared to be the purpose and intent of the Oklahoma Horse Racing Act to vest in the Commission plenary power to promulgate rules and regulations for the forceful control of race meetings held in this state. The rules and regulations shall:

1. encourage agriculture and the breeding of horses in this state; and
2. maintain race meetings held in this state of the highest quality and free of any horse racing practices which are corrupt, incompetent, dishonest, or unprincipled; and
3. dissipate any cloud of association with the undesirable and maintain the appearance as well as the fact of complete honesty and integrity of horse racing in this state; and
4. generate public revenues.

Endorsement of Checks

62 O.S. § 7.1.C.2.c states, “All checks received must be restrictively endorsed immediately upon receipt.” Checks received at the Shepherd Mall office for gaming licenses are endorsed at the time of the deposit rather than immediately upon receipt. Without proper endorsement, checks could be stolen and not deposited into the Commission’s accounts.

Recommendation: We recommend the Commission implement procedures to ensure all checks received are immediately endorsed upon receipt.

Views of Responsible Officials: The Commission understands the concern of the State Auditor and Inspector to properly endorse incoming revenue and agrees with the recommendation. This particular revenue is coming directly to the Commission’s Law Enforcement Division for processing, then forwarded to the Commission’s Fiscal Division for deposit. A deposit stamp has been purchased and forwarded to the Law Enforcement Division with instructions for procedure.

Securing Funds Prior to Deposit

An effective internal control system provides for adequate safeguarding of assets. Based on conversation with the Chief Licensing Officer at Remington Park, the post office box is checked at the end of the day and funds received are maintained in her custody until she arrives at the track the next morning. Misappropriation of assets could occur.

Recommendation: We recommend monies be removed from the Remington Park post office box during the day and returned immediately to the track for receipting and depositing.

Views of Responsible Officials: The Commission understands the necessity of Securing Funds Prior to Deposit. Commission supervisors will review license clerk schedules and procedures. The Commission Staff plans to change the schedule to pick-up mail in the mornings but to continue to deposit funds nightly at the bank. This might mean a slight change in operating hours at those facilities.

Segregation of Duties

An effective internal control system provides for adequate segregation of duties. Based upon discussion with the Commission’s Accountant, he is responsible for:

- Receipting some monies received by the agency;
- Preparing the clearing account reconciliation;
- Preparing the deposit;
- Making the deposit.

Based upon discussion with personnel at the satellite locations, one person is responsible for:

- Receipting monies received at the track;
- Preparing the deposit;
- Making the deposit.

In addition, personnel at the satellite locations have the ability to erase the record of badges being issued. This could allow personnel to accept money for a badge, issue the badge, and delete the transaction so no error would be noted when the system is compared to the license system.

Without adequate segregation of duties, errors and improprieties could occur and not be detected in a timely manner.

Recommendation: We recommend the Commission implement procedures at the main office to allow for proper segregation of duties such as removing the accountant's receipting duties and ability to void receipts. The Commission should also implement procedures to provide for an independent timely review of the deposit to the receipting log. Due to the staffing limitations at the satellite locations, we recommend the Commission consider implementing mitigating controls for the track deposits to assist in preventing and detecting errors in a timely manner. This could include modifying the badge system comparison to the licensing information so that track employees do not have the ability to alter transactions, and performing a more detailed review of the satellite offices' voided transactions.

Views of Responsible Officials: The Commission understands the State Auditor and Inspector's concerns of segregation of duties. The Commission will review our current procedures to address the recommendations. The Commission does have an extremely small staff in all areas and segregation of duties is limited. The Commission has requested in the past additional funding and personnel in the areas of Licensing and Fiscal, but due to funding restraints this request has not been filled. The Commission will make every effort to further secure and review those transactions.

Posting Deposits to CORE in a Timely Manner

An effective internal control system provides for prompt recording of accounting transactions. Satellite offices mail deposit information to the main office to be reviewed and then recorded into CORE. Of the 36 satellite office deposits reviewed, 11 were not posted into CORE timely (within five business days). The average span between the bank deposit date and the CORE journal date for these 11 deposits was nine days. The Office of State Treasurer will not sweep outside bank accounts until the information has been input into CORE. If deposit information is not reported timely, the state may not be maximizing its interest income. In addition, the agency's available cash balance is not updated until the information is posted into CORE.

When deposits are not timely reported, the agency's available cash balance could be misstated.

Recommendation: We recommend the Commission review its current procedures and determine what changes need to be made in the process to allow for timelier recording of the deposit information into CORE for the satellite offices.

Views of Responsible Officials: The Commission understands the concerns of the State Auditor and Inspector. As discussed with SA&I personnel, deposits are entered into the State CORE system upon receipt. License offices do not enter information into the CORE system. That is the responsibility of the Fiscal Department. At that time, the Accountant can review the deposit and corresponding report. Many times, once a daily report is mailed from the license office, it will take several days to reach the main Commission office; this could delay entering information into the CORE system. Commission Staff will make every effort to have these reports mailed and inputted in a timely manner.

Reconciliation to CORE Records

An effective internal control system provides for adequate reconciliation of accounting records. Management reconciles their clearing account to the State Treasurer's Office. However, they do not formally reconcile their clearing account to CORE records. Without an official reconciliation to CORE, transactions that were inadvertently not posted or posted incorrectly may go undetected.

Recommendation: We recommend management develop a formal process for reconciling their clearing account to CORE on a monthly basis. This should include a detailed review by someone other than the preparer.

Views of Responsible Officials: The Commission understands the need for reconciliation of records. As we have discussed with SA&I staff, currently there are no forms for reconciliation of records to the CORE system. This is a procedure that is currently under development by CORE/Office of State Finance. Commission Staff has been in contact with the Office of State Finance for guidance. Commission Staff will be developing their own forms and procedures to accommodate this recommendation.

Objective 2 – Determine if the Commission complied with 3A O.S. § 263.L, which requires monies received from casinos within 20 miles of a race track to be distributed by the horse breed purse committees as follows: 50% Thoroughbred Horses, 40% Quarter Horses, and 10% Paint and Appaloosa.

Conclusion

The Commission appears to be in compliance with 3A O.S. § 263.L.

Methodology

To accomplish our objective, we performed the following:

- Reviewed 3A O.S. § 263.L;
- Obtained and reconciled the Commission's records of the participating tribe revenue and expenditures to OSF's records;
- Reviewed calculation of the amounts set aside for each horse breed to ensure it agreed with the state statute and was mathematically accurate;
- Reviewed 16 payments from the participating tribe revenues to ensure the amounts expended agreed to the requests per the purse committees.

Objective 3 – Determine if recommendations from prior engagements were implemented.

Conclusion

The prior period's report contained four recommendations that were considered significant within the context of the audit objectives. It appears only one was implemented.

Methodology

To achieve our objective, we performed the following:

- Documented and reviewed controls for the receipting and deposit process to determine if duties were being properly segregated at the Shepherd Mall and satellite offices (see Objective 1's observations);
- Discussed with Commission personnel if an annual physical inventory count had been performed since our last audit;

- Discussed with Commission personnel procedures performed to ensure 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;
- Discussed with Commission personnel procedures performed to ensure the asset listing is immediately updated when changes occur;
- Discussed with Commission personnel procedures performed to ensure accurate capital asset records are maintained;
- Reviewed 15 P-Card transactions to ensure they were in compliance with the P-Card procedures.

Observations

NOTE: The Office of the State Auditor's report issued on July 10, 2006 should be read in conjunction with the observations noted below. The report may be accessed at www.sai.state.ok.us.

Capital Assets

According to Commission personnel, a physical inventory count has not been performed since our last audit. In addition, no procedures have been performed to ensure all assets are properly coded, tagged, or marked in such a manner that they may be readily identified as property of the State of Oklahoma, nor have procedures been performed to ensure capital asset records are immediately updated when changes occur.

Recommendation: We recommend the Commission perform the following:

- Perform an annual physical inventory of their capital assets as soon as possible. While performing the physical inventory count, procedures should be performed to ensure all assets have been properly coded, tagged, or marked in such a manner that they may be readily identifiable as property of the State of Oklahoma;
- Establish and implement procedures to ensure new assets are properly tagged at the time they are received by the Commission;
- Establish and implement procedures to ensure capital asset records are immediately updated when changes occur.

Views of Responsible Officials: The Commission understands the necessity to inventory capital assets of the State. The Commission Staff is currently developing plans and procedures for a complete inventory this year to comply with State Auditor and Inspector's recommendations.

Other Items Noted

Securing Sensitive Data

The State of Oklahoma's Information Security Policy, Information and Guidelines states in part: "...The confidentiality of all information created or hosted by a State Agency is the responsibility of that State Agency...The objective of the owning State Agency is to protect the information from inadvertent or intentional damage, unauthorized disclosure or use..." This policy includes "any data or knowledge collected, processed, stored, managed, transferred or disseminated by any method." A security review of electronic personal information revealed data is not being properly secured. Sensitive information may be obtained by unauthorized individuals and misused.

Recommendation: We recommend management establish an adequate system of control to ensure the confidentiality of all information is maintained.

Views of Responsible Officials: The Commission strongly agrees with the necessity of Securing Sensitive Data. Commission Staff continuously revise internal software, intranet and procedures to secure the Commission's data. The Commission has made a budget request for additional funding for new equipment and software, but at this time the request has not been addressed. Staff will continue to review and make additional changes as necessary.

Cell Phone Policy

The Commission maintains a "Policy on Use of Electronic Communication Systems" which all employees are required to sign upon employment with the agency. Cell phone invoices are reviewed by the Fiscal Administrative Officer for any abuse of this policy; however, no formal policy exists documenting who is authorized to have a cellular phone or determination of the plan to be purchased.

Recommendation: We recommend written policy be developed, implemented and communicated to Commission personnel which, at a minimum, includes:

- Personal use (allowable, limitations on frequency);
- Need of a phone based on job duties;
- Type of phone required based on job duties;
- Size of plan (minutes/features required).

Views of Responsible Officials: The Commission understands the necessity of a Cell Phone Policy. Such policies and procedures will be developed and included in the Agency's Personnel Manual.

Usage of Leased Cars Policy

The Commission leases 3 vehicles from the Department of Central Services. Management stated the agency employees know the cars are not to be used for personal use; however, no formal written policy has been established.

Recommendation: We recommend written policy be developed and communicated to Commission personnel which, at a minimum, includes:

- Personal use;
- Documentation of vehicle usage.

Views of Responsible Officials: The Commission agrees with the necessity of a Usage of Leased Cars Policy. Such policies and procedures will be developed and included in the Agency's Personnel Manual. Staff is informed during orientation that State Vehicles are not for personal use. Vehicle use logs are currently utilized in each vehicle.



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