

**OKLAHOMA
HORSE RACING
COMMISSION**

**BREEDING
DEVELOPMENT
FUND**

**JULY 1, 2005 THROUGH
JUNE 30, 2007**

OPERATIONAL AUDIT



Jeff A. McMahan

**Oklahoma State Auditor
& Inspector**

**Audit Report of the Oklahoma
Horse Racing Commission –
Breeding Development Fund**

**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 3A O.S. § 208.3.E, transmitted herewith is the audit report for the Oklahoma Horse Racing Commission – Breeding Development Fund 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
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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 – Breeding Development Fund (the Fund) 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. § 208.3.B.

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 Breeding Development Fund Special Account (the Fund) at the Oklahoma Horse Racing Commission 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 Fund receives monies from unclaimed tickets, breakage, gaming activities, and registration and transfer fees for Oklahoma-bred horses. The Fund's operations are governed by 3A O.S. § 208 through 208.3 and 3A O.S. § 263.H.

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 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.

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 process;
- 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 prepares 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;
 - 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 11A reconciliations to ensure the reconciliations were reviewed by someone other than the preparer, the reconciliations were mathematically accurate, traced and agreed to supporting documentation, and the reconciling items appeared reasonable;
 - Determining if vouchers were maintained in a secure location;
 - Determining if vouchers were pre-numbered and the sequence of the numbers was monitored;
 - Reviewing 60 voucher payments to ensure the voucher payee and amount traced and agreed to supporting documentation.

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.

Reconciliation to CORE Records

An effective internal control system provides for adequate reconciliation of accounting records. Management reconciles their agency special account to the State Treasurer's Office. However, they do not formally reconcile their agency special 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 agency special 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. § 208.3.B, which specifies the allowable expenditures from the Oklahoma Breeding Development Fund Special Account. The statute also authorizes the Commission to utilize up to ten percent (10%) of the Fund’s prior year’s receipts for administration of the Fund.

Conclusion

The Commission appears to be in compliance with 3A O.S. § 208.3.B.

Methodology

To accomplish our objective, we performed the following:

- Reviewed 60 payments from the Fund to ensure they were:
 - To provide purse supplements to owners of Oklahoma-bred horses;
 - To provide stakes and rewards to the owners of the winning Oklahoma-bred horses in certain horse races;
 - To provide stallion awards to the owners of Oklahoma stallions which are the sires of Oklahoma-bred horses if such horses win any race conducted at a race meeting;
 - To provide breeder awards to the owners of Oklahoma-registered mares which are the dams of Oklahoma-bred horses if such horses win any race conducted at a race meeting;
 - To provide monies for equine research through state institutions accredited for the same;
 - To provide monies for use in marketing, promoting and advertising the Oklahoma-Bred Program and the Oklahoma horse racing industry to the people of Oklahoma, the United States and abroad;
- Recalculated 10% of the previous year’s receipts to determine the maximum amount to be used for administrative expenses using OSF records;
- Compared the 10% administrative calculation to actual expenditures to ensure no more than 10% of the previous year’s receipts were used for the administration of the Fund;
- Reviewed payroll records to ensure funds were used for bred program personnel costs only.

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.” Review of payment information revealed the Commission may not be ensuring personal information is adequately protected. 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.



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