

**OHRC – Bred Fund Advisory Council Expenditures
Compliance Assessment Memo
For the period of July 1, 2015 through June 30, 2022**

Objective or Program Step

Document the **specific goal of your procedures** for ease of reference. This is likely documented at [3000.01](#), but include other information as needed, such as specific guidance from the agency or your supervisor.

Objective: Determine whether expenditures from the Oklahoma Breeding Development Fund Special Account are allowable in accordance with Oklahoma Administrative Code (OAC) 325:75-1-21.

Criteria

Document the **specific criteria you will be using to evaluate the agency's performance (e.g. statute number and language)**. Ensure this is as narrow and targeted as possible to the specific risk you identified in objective development.

Ideally, your criteria have already been defined and vetted during objective development. If you need to use alternate or additional criteria, consider modifying your objective and completing the required notifications.

According to **OAC 325:75-1-21** (selected sections quoted here):

(2) Two general types of care programs may receive funding for the purpose of caring for retired or unwanted Oklahoma-Bred racing stock:

(A) Adoption Programs under which Oklahoma-Bred race horses are rehabilitated and/or rehabilitated and retrained for other uses, such as, but not limited to, polo, dressage, hunter/jumper, and pleasure riding. The purpose and goal of such programs is the adoption of the horse by third parties after rehabilitated and/or retraining; and

(B) Pension Programs, for the care and "pasturing" of retired or unwanted race horses who, because of their health or condition, are incapable of being rehabilitated/retrained and adopted.

(5) The following procedures will be used by the Commission in awarding monies from the Oklahoma Breeding Development Fund Special Account for the purpose of caring for retired and unwanted Oklahoma-Bred racing stock:

(A) No non-profit entity will be eligible to receive monies from the Oklahoma Breeding Development Fund Special Account for the purpose of **caring for retired and unwanted Oklahoma-Bred racing stock during any calendar year** unless the official **horsemen's representative organization for a participating breed request that the entity receive such from the Special Account during the calendar year**. Requests by the official horsemen's representative organization must be made on an **annual basis** and no matter when made will only make the non-profit entity eligible during the calendar year in question, assuming all other requirements are met by the non-profit entity.

(B) The Commission's **Executive Director shall determine whether a non-profit entity and its program are eligible** to receive funding for the purpose of caring for retired and unwanted horses. Further, the **Executive Director shall determine the amount of funds that each eligible and participating entity shall receive, based upon the number of eligible Oklahoma-Bred horses being cared for or to be cared for by the non-profit entity and how much funding is available, using the following funding parameters:**

(i) **No more than fifty percent (50%) of funds made available in the Oklahoma Breeding Development Fund Special Account for the purpose of caring for retired or unwanted Oklahoma-Bred racing stock can be used to care for pensioned horses,** horses that because of their health or condition are not being rehabilitated and/or retrained for adoption;

(ii) Funding for horses in an **Adoption Program, between \$200 per month, per horse, or an amount within a range established annually by the Commission's Executive Director;**

(iii) Funding for horses in a **Pension Program, between \$150 per month, per horse, or an amount within a range established annually by the Commission's Executive Director.**

Process and Related Documentation

Document the **agency's process relevant to your compliance assessment**. Review documentation and otherwise verify the information as needed. Include reference links to any key support documentation.

According to Shawn Richmond, Budget and Finance Manager, Kelly Cathey, **Executive Director**, was responsible for **approving retirement/rehabilitation facilities, receiving and approving paperwork documenting the retired horses from the approved retirement vendor, adding the horse to the Retirement Spreadsheet used as an invoice, and requesting and authorizing payments**. Kelly submitted payment requests every quarter to Krista Smith, OKBred Claims Supervisor using the Thoroughbred Retirement Report.

Thoroughbred fees used to fund the retirement program are tracked on the agency REGISTRATION FEES. TB RETIREMENT SPREADSHEET totaling \$617,045 (50% totaling \$308,522 available for the program) (see FY16-FY22 spreadsheet at [F.04](#)). Breeding Fund Expenditures and payments made to the approved

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Thoroughbred Retirement vendors are tracked on the agency EXPENDITURES spreadsheet totaling \$203,040.80 (see FY16-FY22 Expenditures_ACLCopy at [F.05](#)).

Pensioned Horses are tracked on separate spreadsheets. Horse and Hound Rescue at [F.06](#) and Oklahoma Thoroughbred Retirement Program at [F.06](#) are the two vendors from the audit period with pensioned horse spreadsheets. ✓ Shawn was able to locate a .pdf version of the pensioned horse lists for Rockin G Equine (at [F.09](#)) and Thoroughbred Athletes Inc (at [F.10](#)). The .pdf appears to be incomplete and only documents the 1st quarter of 2019, 3rd quarter of 2019, 3rd quarter of 2020, and first quarter of 2020.

The payments made at [F.09](#) and [F.10](#) are for horses in the adoption portion of the retirement program. Shawn further related that there were no payments made for this program in FY16 due to the Agency trying to get the program back in order and the money established again since it was diminished when Kelly Cathey came in.

Auditors Note: We called Shawn to determine if the PDF documents that we noted above to be incomplete were truly incomplete or if there were simply no payments for that quarter. According to Shawn, he is unsure himself because of the way Director Kelly was tracking the horses. Shawn also noted for some years there may be no pensioned horses. It just depends on the year as the horses do go into retirement after being pensioned for one year.

According to Shawn, he and the new director are working to understand the rules and are now tracking things better. Shawn noted the next audit period should have better documentation.

During the audit period the vendors used for retired horses did not send in formal invoices requesting payment. They submitted paperwork to document what horses they had in their care and which program they were in, either adoption or pension. Mr. Cathey then added these vendors to the spreadsheet listing the horse's name, whether they were pension or adoption, and the cost per horse. The spreadsheets appear to list adoption dates for the horses and pro-rated costs for adopted horses. At the end of the quarter, Kelly Cathey totaled the amount for the quarter then submitted to the claims supervisor the TB Retirement Report and saved a .pdf version of the excel list for each vendor including a breakdown of each individual horse in the vendor's care. However, the horse registration number is not included in the excel or .pdf files, only the horse's name and whether the horse was in the adoption or pension program. The TB Retirement Report sent to Krista only contains the quarter and year, vendor name, funds received, number of horses adopted, and number of horses in the program.

While this process does not necessarily violate the literal language of the statute, we will recommend to the agency ensure they gather adequate documentation pertaining to the horses to ensure that payments are accurate. **See finding at the end of this memo.**

Annual Requests for Funding from the Breeding Fund:

Regarding the requirement in the admin code **OAC 325:75-1-21** that states "horsemen's representative organization for a participating breed request that the entity receive such from the Special Account during the calendar year". We spoke with the Budget and Finance Manager concerning the requests for funding by the organization, he was unaware if this was being done so he brought this up at the Board Meeting in June 2023. Shawn was informed that the Director of the Thoroughbred Racing Association did send the Director of Horse Racing formal letters requesting Funding annually. See the requests letters below:

- 2016 [F.11](#)
- 2017 Missing
- 2018 [F.13](#)
- 2019 [F.14](#)
- 2020 [F.15](#)
- 2021 [F.17](#)
- 2022 Missing
- 2023 [F.16](#)

We reviewed the letters that were provided by Shawn and noted that we were missing the annual letters for calendar years 2017 and 2022. We followed up with Shawn and he informed us the letters for 2017 and 2022 could not be located.

Risk Assessment

Assess the agency's risk of noncompliance with the outlined criteria, given your knowledge at this point, e.g. low, moderate, or high.

Detail the factors considered in this assessment, such as existing internal controls, the complexity of the criteria, prior audit findings, relevant comments from staff or surveys, and the materiality of agency activity impacted. Use this assessment to assist you in developing testing procedures and determining appropriate sample sizes.

Based on our discussions with relevant personnel identified above, review of relevant documentation, and review of the criteria listed above, we have assessed the risk of non-compliance related to the Oklahoma Bred Retirement Program at **low**. ✓

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Planned Testing Procedures

Outline how you plan to test for compliance, given the above information and risk assessment, and submit to your reviewer for approval. Include reference links to any key documentation.



To determine the agency’s compliance with OAC 325:75-1-21, we will review each of the facilities that received payments under the retirement program, the horsemen’s organizations’ approvals, and documentation of the director’s request for payment made to the rehabilitation facilities and ensure the following:

1. For each facility: ✓
 - The breed association’s official spokesperson requested and approved the facility for each calendar year in which payments were made;
 - The Facility was approved for funding by the Executive Director.

2. For each payment listed under the program:
 - The payment amount was within the amounts set by the Executive Director: [we confirmed with Shawn that these amounts were accurate throughout the audit period] ✓
 - Ensure the payment amount did not exceed \$200 per month per horse for horses in the Adoption program July 1, 2015 through June 30, 2022;
 - Ensure the payment amount did not exceed \$150 per month per horse for horses in the Pension Program from July 1, 2015 through June 30, 2022.

3. Ensure the payments for pensioned horses (**F.06** and **F.07**) did not exceed 50% of the thoroughbred funds made available in the Oklahoma Breeding Fund Special Account (Thoroughbred Retirement Fund) from thoroughbred registry fees.

4. Ensure the overall retirement program payments did not exceed 50% of thoroughbred fees received. ✓

Auditor Sign-Off	 3/17/23
Reviewer Sign-Off	 05/12/23

Results

Discuss the results of your testing procedures, including reference links to any key documentation. Note whether any exceptions were identified, and whether a written finding or other communication to the agency will result.

Completeness: There was a total of 84 payments made during the Audit period totaling \$203,040.80, see ACL Log at **F.03**. See consideration of completeness and data reliability at **F.08**. ✓

1. We spoke with and confirmed with Shawn Richmond OHRC Budget and Finance Manager, that the following are the only four vendors that receive the Thoroughbred Retirement funds that the Bred Fund Advisory Council has approved during the audit period, and the Executive Director approved funding for these facilities.
 - Horse and Hound
 - Thoroughbred Athletes
 - Oklahoma Thoroughbred Retirement Program
 - Rockin G Equine

As explained in the narrative above, we requested copies of the horsemen’s organizations’ approvals for these entities for each calendar year, and no such approval was available for 2017 or 2022. **This will result in a finding, see conclusion below and finding at the end of this memo.**

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2. We reviewed the director's spreadsheet at [F.04](#) and the example pension spreadsheets at [F.06](#), [F.07](#), [F.09](#) and [F.10](#). All payments are within the amounts set by the Executive Director. ✓
3. We totaled the fees per year through the final date the agency made payments from the Breeding Fund for the Retirement program (June 30, 2022), then calculated 50% of the fee revenue as permitted by Administrative Code.

See testwork at the bottom of the RegFeeDistRpt2015107 tab at [F.04](#). Payments for pensioned horses did not exceed 50% of thoroughbred funds. ✓
4. Using the same data as in step 3, we determined that as of June 30, 2022 fees paid for pensioned horses according to agency records did not exceed the statutory limit of 50% of program expenditures. See testwork at bottom of RegFeeDistRpt20150107 tab at [F.04](#). ✓

Conclusion

Conclude as to whether the agency complied with the significant criteria outlined earlier. If a written finding is necessary, develop it using the outline at the end of this form. When appropriate, this conclusion should mirror the relevant audit objective and be included in your audit program and report.

The agency complied with most key aspects of OAC 325: 75-1-21. However, the Agency was not able to provide copies of entity 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 the finding below and in our report draft at [0200.02](#). ✓

See successive pages for evidence evaluation, additional risk consideration, and finding development.

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Evaluating Audit Evidence:

COMPONENTS/PRINCIPLES
Specify the component the identified deficiencies relate to. GAO 9.33 stresses that an internal control system is effective if the five components of internal control are effectively designed, implemented, and operating, and are operating together in an integrated manner. If a component is not effective, or the components are not operating together in an integrated manner, then an internal control system cannot be effective.
If you identified any deficiencies, consider whether they impact the operating effectiveness of control components (or principles/control activities) noted as significant to your objective at 0500.01 . If necessary, note the impacts here or at A.01 .
If the procedures documented in this memo indicate a deficiency in any other control component, document it here or at A.01 . This information should be considered when developing findings or other report language.

FRAUD						
Deficiency:	Does the Deficiency Create an Opportunity for Fraud to Occur? <i>(GAO 8.71, 8.73-.74)</i>	If Yes, →	Are there Indicators that fraud has occurred or is Likely to have occurred? <i>(GAO 8.71-.72, 8.75)</i>	If Yes, →	Design procedures to determine whether fraud has likely occurred and, if so, determine its effect on audit findings. <i>(GAO 8.72-.76)</i>	Conclusion & Workpaper Reference
The agency is not in compliance with Oklahoma Administrative Code (OAC) 325:75-1-21.	Yes, without adequate supporting documentation for retired horses, inappropriate payments could be made from the retirement program.		None were noted.			
Is there a significant risk that officials have or could have overridden internal controls? <i>(GAO 8.71-.74)</i>				If Yes, →	Design procedures to determine whether fraud has likely occurred and, if so, determine its effect on audit findings. <i>(GAO 8.72-.76)</i>	Conclusion & Workpaper Reference
None identified.						

Regarding waste & abuse: Because the determination of waste and abuse is subjective, auditors are not required to perform specific procedures to detect waste or abuse in performance audits. However, auditors may consider whether and how to communicate such matters if they become aware of them. Auditors may also discover that waste or abuse are indicative of fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements. *(GAO 8.119)*

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OVERALL ASSESSMENT OF AUDIT EVIDENCE

Appropriateness: the measure of the quality of evidence that encompasses the relevance, validity, and reliability of the evidence used for addressing the audit objectives and supporting findings and conclusions. *(GAO 8.91, 8.102-.107)*

Sufficiency: a measure of the quantity of evidence used to support the findings and conclusions related to the audit objectives. Sufficiency is dependent on the appropriateness of the evidence. *(GAO 8.92, 8.99-.101)*

Conclude on whether the overall sufficiency and appropriateness of audit evidence provides a reasonable basis for our conclusion on operating effectiveness and, if applicable, conclusions related to fraud risks. *(GAO 8.108-.110, see also 8.90-.107)*

We believe we have gathered sufficient and appropriate evidence to support our conclusion on this objective.

Auditor: Signoff/Initial & Date	 05/12/23	Supervisor: Signoff/Initial & Date	 06/29/23
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Note that a further and final assessment of risk and evidence is performed at the conclusion of audit procedures; see End of Audit Assessment at [2000.01](#).

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Step 9: Based on the evidence evaluated as sufficient and appropriate on the previous page, develop and document reportable findings below. (See *GAO 8.116-.131, 9.18 and 9.24* for guidance)

In developing your finding, be sure to evaluate the significance of any identified deficiencies **within the context of the audit objectives**. Keep in mind that deficiencies are evaluated both individually and in the aggregate, giving consideration to the correlation among deficiencies. This evaluation should include consideration of magnitude of impact, likelihood of occurrence, and the nature of the deficiency. (*GAO 8.54-.56*) Our conclusions, findings, and related recommendations serve as documentation of this evaluation.

Write your finding in a narrative format, making the situation, resulting risk, underlying cause, and applicable criteria as clear as possible to report users. Avoid auditor jargon and unnecessary information.

Description for the background section:

Oklahoma Administrative Code 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.

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.

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 code [footnote with link to admin code in report so people can see details, or list our procedures more fully in methodology], and the horsemen's organization approvals were evident for most audit period years. 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 if 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 if there is truly no activity for the program for certain quarters.

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