

OHRC – Bred Fund
Internal Control Activities Over Expenditures
For the period of July 1, 2015 through June 30, 2022

Before beginning your assessment of internal controls, you should read the narrative information included in this form and have an understanding of the concepts and theories included.

The **purpose of this form** is to document your understanding of internal control that is significant within the context of the audit objectives. Internal control consists of five interrelated components: control environment, risk assessment, control activities, information and communication, and monitoring. In this form you will document and assess control activities significant to your objective; the other four components should also be considered as applicable when assessing internal control risk.

For controls considered significant within the context of the audit objectives, you should plan and perform audit procedures to assess internal control to the extent necessary to address the audit objectives. (*GAO 8.49*) This form is designed to allow you to assess whether internal control has been properly designed and implemented, and if so, to then assess the effectiveness of those control activities.

Procedures you may use to obtain an understanding of internal control include inquiries, observations, inspection of documents and records, review of other auditors' reports, and direct tests. The procedures you perform will vary among audits based on audit objectives and audit risk. The extent of your procedures will vary based on the audit objectives, known or potential internal control risks or problems, and your knowledge about internal control gained in prior audits. Overall you should ensure you collect and document sufficient, appropriate evidence to support your assessments.

A deficiency in internal control exists when the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect, or correct on a timely basis (1) impairments of effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective is not met.

An important aspect of assessing internal controls is distinguishing between the agency's processes and controls. Understanding these differences will help you design appropriate audit procedures to obtain your understanding of internal control.

Processes: The processing of information is transformative in nature, meaning data or information is changed as a result of a process. For example, an agency may process its sales transactions from its gift shop, and one of the steps in the process may involve preparing an invoice based on the number of items sold and the price per item. The extension of unit prices by number of units sold is a process. When information is processed, the risk of misstatement is introduced. For instance, the calculation of an invoice may be based on incorrect prices.

Controls: In contrast to a process, the primary objective of a control is not to transform information but rather to detect or prevent misstatements that may be introduced as a result of performing a process. For example, if one of the "things that could go wrong" in preparing an invoice is the use of an incorrect price, a procedure by the agency involving the check of invoices to make sure that correct prices have been used is a control.

See examples of [control activities](#)

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Step 1: In the Control Activities box below, **document your understanding of the process(es) relevant to the control activity component for your objective.**

The remaining four components (control environment, risk assessment, information and communication, and monitoring) are documented and assessed separately if significant to your objective **A.01** and should be considered in Preliminary Internal Control Risk (see step 5) as well as your Conclusion. Keep in mind the control components noted as significant to your objective at **0500.01**, and ensure you obtain an understanding sufficient to enable you to assess and conclude upon any components related to the process documented in this memo.

Step 2: Identify and bold the process related to each key control identified.

A key control is one that would allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct on a timely basis (1) impairments of effectiveness or efficient of operation (the focus of this memo), (2) misstatements in financial or performance information, or (3) noncompliance with provisions of laws, regulations, contracts, or grant agreements.

Key controls are those controls necessary to achieve the entity’s control objectives and provide reasonable assurance of achieving the entity’s objectives. They often have one or both of the following characteristics:

- Their failure may significantly affect the achievement of the entity’s objectives yet not reasonably be detected in a timely manner by other controls.
- Their operation may prevent or detect other control failures before they have an opportunity to become significant to the achievement of the entity’s objectives. (GAO 8.48)

NOTE: Information systems controls are often an integral part of an agency’s internal control. Therefore, when obtaining an understanding of internal control significant to the audit objectives, you should also determine whether it is necessary to evaluate information systems controls. See GAO 8.59-8.67.

Should the agency have another information system significant to the audit objective, you should evaluate the design, implementation, and/or operating effectiveness of such controls. This will require you to obtain a sufficient understanding of IS controls within the context of the objective, plan procedures to obtain sufficient, appropriate evidence, and test IS controls to the extent necessary to address the objective. (GAO 8.59-.62) As needed, develop additional procedures within this memo or in the *Audit Program* **3000.01**. If this requires expert assistance or reliance on the work of outside auditors (such as SAI’s IT Audit team), include this update in the *Audit Scope & Independence Memo Addendum* at **2000.03**.

We did not identify an information system significant to the audit objectives. Therefore, none was assessed.

Control Activities (Steps 1 & 2)
Objective: Determine whether non-payroll expenditures are independently reviewed and approved in line with the previous audit recommendation and GAO <i>Standards for Internal Control</i> .
Information gathered during the planning process OKBred Manual: 0310.12a
Payments from the Breeding Fund are for the following: <ul style="list-style-type: none"> • Owners & Breeders of Bred Horses • Marketing & Equine Research (about \$25,000 annually agreed with by the Horsemen) • Care of retired & unwanted OKBred racing stock • 15% is for payroll which is transferred to Fund 205 for OKBred Administration. (Based on review of the SRD’s at 0370.01 through 0370.07, Fund 205 received \$674,844.01 in revenue transfers or \$96,406.29 annually, and \$670,815.69 in expenditures or \$95,830.81 annually.)
We discussed Voids that appear on the Breeding Fund expenditure database report from Binkley (see at 0350.12). Shawn noted that he believes most of the voids that occur are prior to any check being printed and are corrected but appear on the report anyway. The prior workpapers includes information about voided checks being locked away in a safe, however since Shawn’s time at the Agency (2017) he has not heard of that.
Note: We met with Shawn in August 2022, based on our conversation with Shawn we have concerns regarding the voided checks. The employee that was responsible for printing the checks has recently left the agency and it was noted by Shawn she was let go for poor performance. Shawn also noted that after she was terminated, he went into her office and found some voided checks. We specifically asked Shawn if he ran a voided check report from the Binkley, we watched Shawn try to find the voided check report in the system, he then noted he does not run the report. ✓ On April 6, 2023 we had a phone call with Shawn to follow up on any concerns or risks he has noted regarding checks. According to Shawn, because of some outside personnel issues (not related to checks) he felt like some extra review of the employee’s work was needed. Shawn assigned a person to pull out 10% of the checks and reconcile them back to the Chart in the System. Shawn also noted that he does not know if there is a voided check

Purpose: Document understanding and assessment of internal control activities; see Audit Program step 8 at **3000.01**

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report that can be ran from the Binkley system. He believes that IT would have to create a query for this type of report. However, Shawn noted that he runs the Audit Report monthly from the Binkley System, this report contains a listing of all the checks, which includes voided checks. According to Shawn, the voided check amount is 0.00. See the audit report at [E.06](#).

According to Shawn, concerning the Audit Report review, Shawn downloads each month, then goes in and balances with the bank statement. Shawn has done this for every month of each year that he has been at the agency (Shawn was hired in 2017). Shawn has paper copies (last 2 years are kept in his office, then after 2 years they go to storage) along with all the back up. For digital, Shawn has all the reports without the backup scanned in.

Payments to Owners of Oklahoma-Bred Horses

Per 3A O.S. § 208.3.B, payments are made to provide purse supplements to owners of Oklahoma-bred horses, to provide stakes and rewards to owners of winning Oklahoma-bred horses in certain races, and to provide stallion or breeder awards to the stallions and mares who were sire and dam (parents) to the winning horses.

Each racetrack creates the Program (see example at [E.02](#) ✓) for all races occurring on a race date. The Steward (race official) assigned to the race compares the Program with the Binkley horse files to ensure they are truly Oklahoma-Bred horses, then write any changes or make any corrections on the Program and then sends it to the main office for further review and comparison to the horse files in the Binkley database. This main office review is performed by the Oklahoma Bred Registration department (Audit Period OK Bred Registrar Linda Earley -Audit Period – October 2022).

The race Steward documents the horses that ran in the race, the horses' race numbers and registration numbers, and other race-related information. **At the top of the program the steward indicates the finishing order by horse number, and he then signs the program.** ^{Control 1} The reviewed Program for the August 28, 2020 race at Remington Park included the Steward's signature, Richard Bickel. The final signed Program with the noted horse placements in red ink is reviewed by the Steward and compared to the Binkley horse files, then sent to the OKBred department at the main office. OKBred Registration takes the Program and race information provided by the Steward and compares this to the horse files in Binkley. Payment and race information is entered into Binkley by OKBred then creates a Chart (see example at [E.03](#) ✓). Once the Chart is created it then goes into a workflow to be reviewed by the other OKBred registration clerk to proof before finalizing for payment. After this review, the Chart is sent to the OKBred Claims Supervisor (Audit Period Claims Supervisor Krista Smith – no longer at agency as of August 2022) for payment. After Krista left the agency, Budget and Finance Manager Shawn Richmond took over her duties, and Shawn began training Rechelle Pickens, Registrar Assistant to take over these duties, but this occurred after the audit period.

If there are any issues with the horse files such as lacking paperwork, ownership, etc. a "hold" is placed in the horse's file in Binkley and that payment is not made. The Chart also documents any hold as well.

After the Chart has been finalized for payment, Breeding Fund Expenditures are performed in-house with the Agency creating their own checks. At the end of each month Krista Smith Claims Processing Supervisor (no longer at Agency), currently Shawn Richmond, and in the future once trained Rechelle Pickens, registrar assistant, sends a secure file to the Oklahoma State Treasurer's office (OST) with each vendor name, the amount, and check number that the Agency plans to send out. The Agency sends these checks out once every Thursday.

Binkley has all vendor information saved. Shawn at the end of the month downloads all the Binkley data into an excel spreadsheet (Agency used to use Lotus spreadsheets). Shawn uses this spreadsheet, Statewide Accounting (SWAS) Reports the Summary of Receipts and Disbursements and OST Activity report to fill out Form 11 and reconcile the Breeding Fund.

In Summary:

The clerk enters payment into the Binkley System for horse race winners. Currently Shawn prepares the checks to be sent out and sends them to OST. It should be noted Krista did this during the audit period. Shawn is also responsible for reconciling the check to the OST Report.

The ideal control here is that someone independently reconciles the Payment/Race Information Entered in the Binkley System to the OST Payment Activity Report. This would be Shawn, but he is now filling in for the Claims Supervisor.

Payments for Marketing and Equine Research

Per 3A O.S. § 208.3.B, payments are made to provide monies for equine research through state institutions and to provide monies for use in marketing, promoting and advertising the Oklahoma-Bred Program and the Oklahoma horse racing industry.

According to Shawn Richmond, invoices for this program are received by the OKBred Claims Supervisor (Audit Period Claims Supervisor Krista Smith – no longer at agency) by mail or email. When they are received, they are added to the OKBred excel spreadsheet.

Mr. Richmond noted that marketing expenses are approved by the horseman groups each year. The groups approve up to \$25,000 for Thoroughbred and up to \$25,000 for the Oklahoma Quarterhorse Association. The OKBred Claims Supervisor reviews each to make sure they are an accurate invoice and that the related Thoroughbred or

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Quarterhorse \$25,000 limit has not been reached. The main commission office receives the magazines in which each advertisement/marketing information appear and reviews them to ensure they appear there. The invoices are not initialed, only logged on the spreadsheet with payment information.

The OKBred Claims Supervisor approves all research expenses and invoices accordingly up to the limit set by the horseman's groups Control. The limit is up to \$50,000 combined for the horseman's groups. The Claims Supervisor compares the invoices to Necropsy Reports (Autopsy type procedure they do on the horses for "research") to ensure the invoice is correct. No initials are placed on these invoices, only included in the excel spreadsheet along with payment information. The OK Bred Claims Supervisor (Shawn after Krista's departure) monitors the fund to ensure adequate amounts are available.

Krista Smith, OKBred Claims Supervisor performed all in-house check creation for the Audit period for these expenses. Mr. Richmond noted that during the audit period he began to have the Commission's front desk support personnel review 10% of the vouchers created by Krista to help ensure that all payment information is correct. A copy of the check reviewed is initialed and stored in the agency files. Note: This was not performed during the full audit period. Shawn noted this began after Krista began to seek employment elsewhere and the quality of her daily tasks began to decline at the main office. According to Shawn, a log is used for tracking all vouchers as well as information being entered into Binkley, such as voucher number, vendor, name, etc. Copies of all vouchers are saved in the office file. **Note: This was not performed during the audit period but has been implemented since the current engagement began.**

OKBred Claims Supervisor prepares the vouchers for mailing, then gives them to the Director of Operations, Shawna Gore to be mailed Control.

If an error on a voucher is noticed after the voucher is printed it is voided in the database and the voucher has void written on it. The voided check is stored in the office files Control.

Vouchers are signed by the Executive Director and the Commission Chair. These signatures are electronically printed on the checks Control.

At the end of each month Krista Smith, Claims Processing Supervisor (no longer at Agency), currently Shawn Richmond, and in the future once trained Rechelle Pickens, registrar assistant, sends a secure file to the Oklahoma State Treasurer's office (OST) with each vendor name, the amount, and check number that the Agency plans to send out. The Agency sends these checks out once every Thursday. **Shawn also noted that an email is sent to OST stating the amount along with a list the voucher numbers being sent. The emails and files are saved on the Agency server** Control.

Shawn at the end of the month downloads all the Binkley data into an excel spreadsheet (Agency used to use Lotus spreadsheets). Shawn uses this spreadsheet, Statewide Accounting (SWAS) Reports the Summary of Receipts and Disbursements and OST Activity report to fill out Form 11 and reconcile the Breeding Fund.

Shawn noted that most expenditures are posted by him in the State Accounting System, and some are posted by OMES, if it is an OMES Expenditure. We noted any possible mitigating control by an independent review or reconciliation isn't currently occurring because of Shawn's duties.

In Summary:

Invoices come in and are approved by the Claims Supervisor, however this not formally done, then they are added to an excel spreadsheet.

Yes, everything that is paid out of the Oklahoma Bred Fund is done through Binkley. During the audit period, it would have been Krista Smith. Currently it is Rechelle Pickens.

Payments for the Care of Retired and Unwanted Oklahoma-Bred Racing Stock

By rule, the Executive Director (Audit Period Kelly Cathey), receives invoices for care of retired and unwanted OK Bred Stock. Information included with these invoices includes everything listed in Oklahoma Administrative Rule 325:75.1.21 (see at [E.04](#)). The Administrative Rules state:

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-\$250 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-\$200 per month, per horse, or an amount within a range established annually by the Commission's Executive Director.

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The executive director reviews and approves these invoices according to 325:75.1.21 Control. The Director does not initial the invoices but he enters the invoice information in the agency excel spreadsheet along with payment information.

The OK Bred Claims Supervisor monitors the fund to ensure adequate amounts are available while the Executive Director monitors the fund to ensure that no more than 50% of the funds accounted for the purpose of caring for pensioned stock. Kelly submitted payment requests every quarter to Krista Smith, OKBred Claims Supervisor using the Thoroughbred Retirement Report. See example at [E.05](#). ✓

In Summary:

See the payment processes below to see how payments occur. The Director looks at the invoices for retired horses but does not formally approve them. The director enters the payments on the excel spreadsheet. See the spreadsheet at [E.05](#).

Everything that is paid out of the Oklahoma Bred Fund is done through Binkley. During the audit period, it would have been Krista Smith. Currently it is Rechelle Pickens.

Voucher Processing

Krista Smith, OKBred Claims Supervisor performed all in-house check creation for the Audit period. Mr. Richmond noted that during the audit period he began to have the Commission's front desk support personnel review 10% of the vouchers created by Krista to help ensure that all payment information is correct and comparing to Chart information. A copy of the check reviewed is initialed and stored in the agency files. Note: This was not performed during the full audit period. Shawn noted this began after Krista began to seek employment elsewhere and the quality of her daily tasks began to decline at the main office.

According to Shawn, a log is used for tracking all vouchers as well as information being entered into Binkley, such as voucher number, vendor, name, etc. Copies of all vouchers are saved in the office file. **Note: This was not performed during the audit period but has been implemented since the current engagement began.**

OKBred Claims Supervisor prepares the vouchers for mailing, then gives them to the Director of Operations, Shawna Gore to be mailed Control.

If an error on a voucher is noticed after the voucher is printed it is voided in the database and the voucher has void written on it. The voided check is stored in the office files Control.

Vouchers are signed by the Executive Director and the Commission Chair. These signatures are electronically printed on the checks Control.

At the end of each month Krista Smith, Claims Processing Supervisor (no longer at Agency), currently Shawn Richmond, and in the future once trained Rechelle Pickens, registrar assistant, sends a secure file to the Oklahoma State Treasurer's office (OST) with each vendor name, the amount, and check number that the Agency plans to send out. The Agency sends these checks out once every Thursday. **Shawn also noted that an email is sent to OST stating the amount along with a list the voucher numbers being sent. The emails and files are saved on the Agency server** Control.

In Summary:

There are different individuals who review invoices for other different payment types, but none of them formally approve the invoices. Various individuals enter the payment that needs to be made on an excel spreadsheet. This excel spreadsheet is used by the person who needs to print out checks, that person has changed throughout the audit period. There is a different excel spreadsheet that lists all of the vouchers that are going out. (this process began after the audit period). Shawn sends a listing of the vouchers to OST and he is the one that reconciles the Binkley System to OST.

Reconciliation

Shawn at the end of the month downloads all the Binkley data into an excel spreadsheet (Agency used to use Lotus spreadsheets). Shawn uses this spreadsheet, Statewide Accounting (SWAS) Reports the Summary of Receipts and Disbursements and OST Activity report to fill out Form 11A and reconcile the Breeding Fund Control 1.

According to Shawn, Shawna posts the total amount of expenditures made from the Breeding Fund, and some are posted by OMES, if it is an OMES Expenditure.

Check Information

The electronic signature is automatically placed when printing the checks. The only person with credentials to access that in Binkley is Rechelle Pickens along with management: Shawn Richmond and Shonna Gore. We spoke with Shawn on the phone further along in the audit process, he noted that there was no oversight on the physical checks themselves during the audit period. He noted that the checks were being kept in Rechelle's office and he was not ensuring the check numbers were in sequential order.

Step 3: List the key controls identified in the narrative in the Internal Control Assessment Table and label each significant process in the narrative with the corresponding control number. Rows may be added to the table as needed.

Purpose: Document understanding and assessment of internal control activities; see Audit Program step 8 at [3000.01](#)

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Step 4: In the Internal Control Assessment Table, **develop and perform procedures to determine whether each key control identified is properly designed and implemented.**

Design & Implemented

Keep in mind that as of April 2021, the standards have removed some requirements related to specific assessment of design, implementation, and operating effectiveness of controls, and more generally state that we must “plan and perform audit procedures to assess internal control to the extent necessary to address the audit objectives.” Existing instructions to allow us to assess all three facets of control execution have been retained in this memo, but if an alternate form of assessment is appropriate for your engagement, the memo can be edited, or explanatory notes added. Be sure to discuss with your reviewer.

Audit procedures should be performed to determine whether controls over the process have been designed and implemented. These procedures will generally be “walk-through” type procedures to confirm the process and documentation the agency has described, including:

- Inquiry of management and others with the agency
- Observation of activities
- Inspection of records, documents, or tangible assets

When **inquiry of appropriate entity personnel** is used as a procedure, you should consider asking more than one person about the process. For example, if the agency head reviews and approves the claims, you may want to discuss the process with the agency head, and also with the person responsible for processing the claims to see if the agency head ever returns or questions claims. You should also consider combining this test with another procedure to provide more reliable audit evidence (e.g. examine a few paid claims from the audit period to confirm evidence of the review).

When **observation** is used as a procedure, you should consider the following factors when determining the reliability of audit evidence: 1) people tend to perform duties differently when being watched, and 2) the observation may not be occurring during the audit period. As a result, you may want to consider combining this test with another procedure to provide more reliable audit evidence. For example, if an employee states that they sign a form as indication of their review, you may scan a few forms from the audit period for evidence of the signature.

When **inspection of records, documents, or tangible assets** is used as a procedure, the number of records, documents, or tangible assets to be reviewed is based on auditor judgment.

The procedures to be performed to assess a control’s design and implementation are also based on auditor judgment.

Step 5: Assess the Preliminary Internal Control Risk, considering the information in your narrative, your experience gathering that information, any agency-wide control assessments being performed at **A.01**. **You may begin designing your testwork and sampling approach in order to test operating effectiveness at this time but be sure to obtain approval from your reviewer before performing that testwork.**

If you have already found that a key control is **not** properly designed/implemented at the agency, this risk is automatically high and you can move on to assessing a potential mitigating control or developing your finding. Also keep in mind that if one control is not operating but the resulting risk is mitigated by an alternate control, the alternate control is likely your **key control**. This assessment process may be iterative and your table may need to be updated as you refine your understanding of the agency’s true controls or lack thereof.

Step 6: For those controls determined to be properly designed and implemented, develop and perform procedures to determine whether the control is operating effectively. Record them in the Internal Control Assessment Table.

Operating Effectiveness

Determining the nature of your tests means deciding what type of test you will perform. The types of audit procedures available for obtaining audit evidence about the effectiveness of controls include:

- Inquiries of appropriate entity personnel
- Inspection of documents, reports, or electronic files indicating performance of the control
- Observation of the application of the control
- Re-performance of the application of the control by the auditor

In determining the extent of a test of controls, consider the frequency of the performance of the control, the audit period, and the associated audit risk. Refer also to the discussions of **inquiry, inspection, and observation** as forms of evidence earlier in this memo.

Group testing a sample of items (such as reviewing all transactions from one quarter or one month) is **not** adequate audit evidence to ensure a control is operating effectively throughout the audit period. Items tested should be selected from throughout the entire audit period.

Also note that generally, the procedures necessary to understand the design and implementation of controls are not sufficient to also test the operating effectiveness of controls. For example, obtaining audit evidence about the

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implementation of a manually operated control at a point in time does not provide audit evidence about the operating effectiveness of the control at other times during the period under audit. However, following are two exceptions:



- Controls that are automated to the degree that they can be performed consistently, provided that the auditor is satisfied that IT general controls (if applicable) operated effectively during the period.
- Controls that operate only at a point in time rather than continuously throughout the period. For example, if the client performs an annual physical inventory count, your observation of that count and other procedures to evaluate its design and implementation provide you with evidence that you consider in the design of your testing procedures.

Step 7: In the Internal Control Assessment Table, **conclude on the operating effectiveness of controls as they relate to your objective.**

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Internal Control Assessment Table:

Refer to instructions for each step listed throughout the memo.

Significant Control (Step 3)	Designed & Implemented (Step 4)	Initial & Date		Operating Effectiveness (Step 6)	Initial & Date	
		Auditor	Supervisor		Auditor	Supervisor
<p>Control 1: Breeding Fund Expenditures are independently reviewed, approved, and reconciled.</p>	<p>Procedures: Discuss with agency personnel and review reconciliations to determine if Breeding Fund expenditures are independently reconciled.</p> <p>Results and Conclusion: Shawn at the end of the month downloads all the Binkley data into an excel spreadsheet (Agency used to use Lotus spreadsheets). Shawn uses this spreadsheet, Statewide Accounting (SWAS) Reports the Summary of Receipts and Disbursements and OST Activity report to fill out Form 11A and reconcile the Breeding Fund (PeopleSoft Class Funding 8353B).</p> <ul style="list-style-type: none"> • Bred Horse Owner Payments The clerk enters payment into the Binkley System for horse race winners. Currently Shawn prepares the checks to be sent out and sends them to OST. It should be noted Krista (Claims Supervisor) did this during the audit period. Shawn is also responsible for reconciling the check to the OST Report. • Marketing and Equine Research Payments Invoices come in and they are approved by the Claims Supervisor, just not formally, then they are added to an excel spreadsheet. Payments are entered into the Binkley System. During the audit period, it was Krista Smith that performed this, Currently it is Rechelle Pickens, Registrar Assistant. • Retired/Unwanted Bred Stock Payments 	 04/19/23	 05/11/23	No further procedures will be performed.		





Purpose: Document understanding and assessment of internal control activities; see Audit Program step 8 at [3000.01](#)

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Significant Control (Step 3)	Designed & Implemented (Step 4)	Initial & Date		Operating Effectiveness (Step 6)	Initial & Date	
		Auditor	Supervisor		Auditor	Supervisor
	<p>The Director looks at the invoices for retired horses but does not formally approve them. The director enters the payments on the excel spreadsheet. Payments are entered into the Binkley System. During the audit period, it was Krista Smith that performed this, Currently it is Rechelle Pickens, Registrar Assistant.</p> <p>There are different individuals who review invoices for the various payment types, but none of them formally approve the invoices. The various individuals enter the payment that needs to be made on an excel spreadsheet.</p> <p>Most expenditures are posted by Shawna in the State Accounting System, and some are posted by OMES, if it is an OMES Expenditure.</p> <p>Vouchers are signed by the Executive Director and the Commission Chair. <u>These signatures are electronically printed on the checks for this fund.</u></p> <p><i>The Budget and Finance Manager currently has the responsibility for posting payments in the State Accounting System, handling the checks, and performing the month end expenditure reconciliation.</i></p> <p><i>This control is not properly designed and implemented. ✓</i></p>					
<p>Control 2. Vouchers are independently Reconciled to the Oklahoma State Treasury Report.</p>	<p>Procedures: Discuss with agency personnel to determine who can approve vouchers (has access to electronic signature) and who reconciles the vouchers to reports from the State Accounting System (Treasury Activity Statement).</p> <p>Results and Conclusion:</p> <p>The excel spreadsheet noted in the section above is used to print out checks for the Bred Horse Payments.</p>	 04/19/23	 05/11/23	No further procedures will be performed.		

Purpose: Document understanding and assessment of internal control activities; see Audit Program step 8 at [3000.01](#)

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Significant Control (Step 3)	Designed & Implemented (Step 4)	Initial & Date		Operating Effectiveness (Step 6)	Initial & Date	
		Auditor	Supervisor		Auditor	Supervisor
	<p>Currently Shawn prepares the checks to be sent out and sends them to OST. It should be noted Krista (Claims Supervisor) did this during the audit period.</p> <p>The electronic signature is automatically placed when printing the checks. The following individuals have access to the signature in the Binkley System:</p> <ul style="list-style-type: none"> ➤ Rechelle Pickens ➤ Shawn Richmond ➤ Shonna Gore <p>Monthly Shawn runs the Audit Report from the Binkley System. Monthly Shawn sends the listing of the vouchers to OST, and he is also the one that reconciles the Vouchers in the Binkley System to the Treasury Activity Statement report.</p> <p>In addition, the agency does not specifically review the voided check report from the Binkley System. Reportedly the Audit Report noted above does include voided checks but the agency is unable to ensure that it would catch all voided warrants given that the voided check report is not compared to the Audit Report.</p> <p>The Budget and Finance Manager has access to print vouchers and apply the Electronic Signature and is also responsible for reconciling the Vouchers from the Binkley System to the Treasury Activity Statement.</p> <p><i>This control is not properly designed and implemented. ✓</i></p>					
Preliminary Internal Control Risk (Step 5)		Initial & Date		Operating Effectiveness Conclusion (Step 7)	Initial & Date	
		Auditor	Supervisor		Auditor	Supervisor
Any other internal control components considered significant to this objective are documented at A.01 . Take the information and assessments in that memo into consideration while assessing risk here. (If the assessments are ongoing, proceed with the information collected so far, and review your assessment here once you have concluded.)		 05/16/23	 05/16/23	Evaluate the significance of any deficiencies detected within the context of the audit objective, and conclude on the overall effectiveness of controls:	 05/16/23	 05/24/23

Purpose: Document understanding and assessment of internal control activities; see Audit Program step 8 at [3000.01](#)

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Significant Control (Step 3)	Designed & Implemented (Step 4)	Initial & Date		Operating Effectiveness (Step 6)	Initial & Date	
		Auditor	Supervisor		Auditor	Supervisor
<p>Given our consideration of the other control components and our assessment of the design and implementation of internal controls in this memo, we assess preliminary internal control risk as high.</p> <p>This assessment is used to assist in determining the sufficiency of evidence needed, such as sample sizes, for testing operating effectiveness. When determining sample sizes for tests of control effectiveness, use the <i>Sample Plan</i> template at 3000.20.</p>				<p>Based upon the testwork performed, it appears the significant controls are not operating effectively. ✓</p> <p><i>Ensure your methodology relevant to this conclusion is included in the report template at 0200.01.</i></p>		

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Step 8: Evaluate the Internal Control Activity Component.

CONTROL ACTIVITY COMPONENT ASSESSMENT	
<p>Evaluate the control activity component considering the information and procedures documented above.</p> <p>See A.01 for more general information about the other control components and underlying principles.</p> <p>Keep in mind that 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 principle is not applied effectively, then the respective component cannot be effective. If a principle or component is not effective, or the components are not operating together in an integrated manner, then an internal control system cannot be effective.</p>	Is the component designed and operating effectively?
<p>Is the Internal Control Activities component operating at this agency?</p> <p>Consider the applicable principles. These may also help guide your recommendations:</p> <ul style="list-style-type: none"> • Principle #10: Management should design control activities to achieve objectives and respond to risks. 	No ✓
<p>If the procedures documented in this memo indicate a deficiency in any other control component, document it at A.01. This information should also be considered in the written report.</p>	

Step 9: Evaluate deficiencies and conclude on audit evidence.

FRAUD						
Control 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
<p>Control 1-Breeding Fund Expenditures are independently reviewed, approved, and reconciled.</p>	<p>Due to changes in personnel the Budget and Finance Manager is responsible for handling the checks and performing the month end expenditure reconciliation. The Budget and Finance Manager could make an inappropriate payment without detection.</p>		<p>No indicators of fraud have come to our attention. ✓</p>			

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<p>Control 2- Vouchers are independently Reconciled to the Oklahoma State Treasury Report.</p>	<p>The Budget and Finance Manager has access to print vouchers and apply the Electronic Signature and is also responsible for reconciling the Vouchers from the Binkley System to the Treasury Activity Statement.</p> <p>In addition, the agency does not specifically review the voided check report from the Binkley System</p> <p>The Budget and Finance Manager (or the Claims Supervisor who printed the checks during the audit period) could have initiated inappropriate checks without detection.</p>	<p>We do have concerns related to vouchers given that the Voided Check Report was not being reviewed by Management. However, we did not see any specific indicators fraud had occurred. We will provide the agency with recommendations to address these risks in the finding below. ✓</p>		
<p>Is there a significant risk that officials have or could have overridden internal controls? (GAO 8.71-.74)</p>	<p>If Yes, →</p>	<p>Design procedures to determine whether fraud has likely occurred and, if so, determine its effect on audit findings. (GAO 8.72-.76)</p>	<p>Conclusion & Workpaper Reference</p>	
<p>No. We did not note any evidence of significant risk factors that would indicate officials have or could have overridden internal controls.</p>				

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)

OVERALL ASSESSMENT OF AUDIT EVIDENCE

<p>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)</p>	
<p>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)</p>	
<p>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)</p>	<p>We determined the evidence used for a basis of our conclusion of the operating effectiveness of controls related to expenditures was sufficient and appropriate in supporting our conclusion. ✓</p>

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Auditor: Signoff/Initial & Date	 05/17/23	Supervisor: Signoff/Initial & Date	 05/24/23
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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 10: 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 identified internal control 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.

Auditors Note:

During the process of writing our finding additional information regarding the printing of the checks was discussed with Shawn, the Budget and Finance Manager. According to Shawn, he had planned on taking over the responsibility of printing the checks after the previous Claims Supervisor had quit, however Shawn was able to train the new Claims Supervisor and did not have to complete this task. According to Shawn, he is the backup for the Claims Supervisor and has the ability to print checks but he noted this is not something he has to do as they just wait for the Claims Supervisor to return to work and do it. However, we noted the risk still exists given that Shawn has the ability to print checks, reconcile the checks, and sends the payments to OST to be made.

General 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.

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 decision makers.

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 Bred Horses. 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 specifically from the Binkley system. The Budget and Finance Manager's ability to print checks, while he reportedly did not do so 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.

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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 review should include the Voided Check Report. Documentation of the reviews should be retained for audit purposes.

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.