

Report on the Reconciliation of the Oklahoma Bred (OKBred) Account

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Introduction

A comprehensive reconciliation of the Oklahoma Bred (OKBred) account began in May 2025. The objective of this project was to determine the accurate balance of the OKBred fund as of June 30, 2025, and to evaluate the internal controls and processes associated with the management of the account. As part of this work, financial data and operational reports were requested and obtained from the following agencies:

- Oklahoma Horse Racing Commission (OHRC)
- Oklahoma State Treasurer (OST)
- Oklahoma State Auditor & Inspector (OSAI)
- Office of Management and Enterprise Services (OMES)

Early in the process, it became clear that the OKBred account's operational structure lacked sufficient financial controls, system support, and interdepartmental oversight. These weaknesses directly contributed to reporting inconsistencies and increased the opportunity for error and potential fraud.

This report presents the results of the reconciliation, significant findings, and recommended actions to strengthen the integrity of the OKBred financial processes going forward.

Overview of Current Processes and System Limitations

OHRC manages the OKBred account using the Binkley system—a software platform with minimal internal controls that has not been actively supported or updated for several years. OHRC does not have the capability to independently administer the system; instead, an OMES representative is required to run reports, maintain system functionality, and export data.

Key process observations:

- OHRC employees issue checks internally and also prepare deposits for the bank.
- Despite handling deposits and issuing checks, OHRC does **not** receive the bank statements.
- OST receives the bank statements and matches cleared checks only to a list of check numbers provided by OHRC.
- The matching process does *not* include verification of payee names. Since OHRC provides OST with an editable spreadsheet, the payee and amount fields could be altered without detection, creating a significant control vulnerability.
- Prior to this reconciliation, no comprehensive review existed to match actual cleared checks to the original authorized payees.

While the initial scope of this project was not to investigate potential fraud, the weaknesses identified necessitated testing procedures designed to provide reasonable assurance that improper or unauthorized payments could be detected.

Procedures Performed

The following steps were taken to reconcile the account and validate check activity:

1. **Obtained Check Registers and Cleared Check Lists**
 - Check data was exported from Binkley by OMES.
 - OST provided the listing of all checks that cleared the bank.
 2. **Compared Issued vs. Cleared Checks**

This comparison identified:

 - Outstanding checks (including stale dated that have not been cancelled or voided)
 - Cleared checks missing from the Binkley register
 - Amount discrepancies
 - Checks with mismatched or missing payees
 3. **Analyzed Physical Check Images**

Access to OST's imaging system allowed review of actual cleared checks, including:

 - Payee name
 - Dollar amount
 - Issue date
 - Endorsements
 4. **Random Sample Testing**

Selected checks from the review period were evaluated for accuracy and compliance. Multiple anomalies were found.
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Significant Findings

1. Checks With Missing or Incorrect Payee Information

The following checks represent instances where payee information was either missing entirely from OHRC records or did not match the payee who actually received the funds:

- **#269185** – Issued 1/12/23, paid to *Reliance Ranches* for \$4,800 (not listed on any OHRC report)
- **#269391** – Issued 3/22/23, paid to *Emily Fay Shearer* for \$1,650 (OHRC listed payee as *Joseph Bysong*)
- **#270968** – Issued 5/24/23, paid to *Nona Buley* for \$857 (not listed on any OHRC report)
- **#278940** – Issued 10/30/24, paid to *Philip Young* for \$2,041 (OHRC listed payee as *Gerardo Martinez*)
- **#279593** – Issued 11/27/24, paid to *Shelly Weaver* for \$300 (not listed on any OHRC report)

These discrepancies highlight a breakdown in the integrity of the check issuance and reporting process.

2. Dollar Amount Variances Totaling \$893,112

Between January 1, 2022 and June 30, 2025, the aggregate amount of checks that cleared the bank was **\$893,112 higher** than the amounts reported in Binkley. This variance represents a cumulative unreconciled discrepancy between bank-cleared activity and amounts recorded in the Binkley system for the period reviewed.

Because the Binkley system did not record these excess dollar amounts, it was not possible to determine which race dates or race numbers the additional funds were intended to cover.

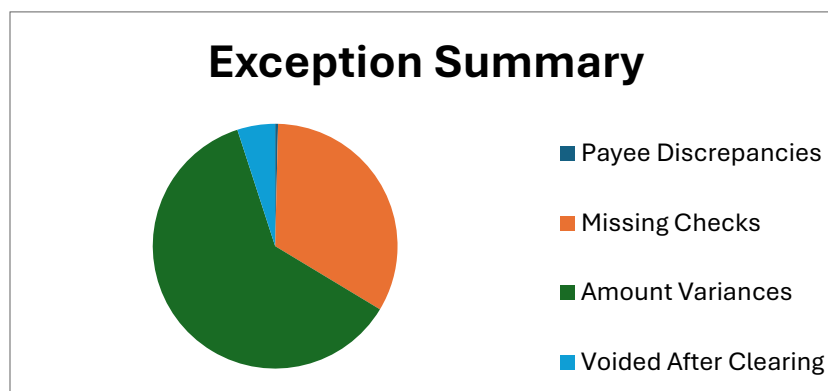
3. Checks Voided in Binkley After Clearing

A total of **65 checks**, amounting to **\$118,532**, were marked as “cancelled” (voided) in the Binkley system and reflected as \$0 disbursements, despite having previously been paid by the bank. This discrepancy between bank payment records and Binkley entries resulted in a **\$118,532 understatement** of recorded disbursements.

This issue represents an extreme control deficiency, as it allows cleared payments to disappear from the agency’s internal records.

4. Out-of-Sequence and Missing Checks

During the review of issued and cleared checks, numerous instances were identified where checks were out of sequence or entirely missing from the Binkley reports. Check sequences are a fundamental control mechanism, and gaps or unexplained breaks in numerical order indicate that checks may have been issued without proper authorization or recording. In several cases, checks that cleared the bank were not listed in any OHRC report, further complicating the reconciliation process and increasing the risk that unauthorized or improper payments could be made without detection. Missing or out-of-sequence checks create a significant vulnerability to both error and fraud, as they limit the agency’s ability to ensure completeness of disbursements, verify proper oversight, and maintain a reliable audit trail.



Reconciliation Methodology and Assumptions

Due to substantial data inconsistencies, the account balance as of June 30, 2025 required several calculated assumptions. These were developed using the most reliable data sources available:

- Amount differences between cleared and reported checks were allocated to breeds on a prorated basis using Binkley's reported payouts.
- Administrative expenses were distributed equally among all breeds.
- Only the actual cleared check amounts were used in the reconciliation.
- All checks—including those that were cancelled but cleared—were included in the analysis. Since these checks were cancelled in Binkley, there is no longer breed or amount information available to use for the reconciliation.
- Additional activity such as PTC transfers and miscellaneous breed allocations was verified through reports from the OHRC Shedrow website.
- Deposits were reconciled using correct amounts reported by the tracks and registration/fee records when Binkley values were incorrect.

Based on these procedures, the **estimated adjusted OKBred account balance on June 30, 2025 is \$9,598,981** (outstanding checks are included in the calculation) and the **actual balance is \$9,790,348** (outstanding checks are excluded in the calculation).

As part of the reconciliation, the OKBred account balances were also analyzed and adjusted by breed to reflect the actual cleared amounts rather than the reported amounts from Binkley. The adjusted balances are as follows: **Thoroughbred \$1,315,767, Quarterhorse \$10,237,910, and Paints and Appaloosas (\$1,644,797)**. In addition, there is **\$118,532 that could not be allocated to any breed**. These funds represent the checks that were cancelled in Binkley after they had cleared the bank. Because the checks were voided, the supporting information indicating the original amounts and associated breeds was no longer available, preventing accurate allocation. This highlights a key reconciliation challenge and underscores the need for improved record retention and tracking of voided transactions.

OKBred Account Reconciliation

	<u>TB</u>	<u>QH</u>	<u>P&A</u>	<u>Unallocated</u>	<u>Total</u>
12/31/21 Balance as reported by OHRC:					
Fair Meadows	116,227	125,812	82,938		324,977
Remington Park	121,997	3,285,454	377,119		3,784,571
Will Rogers Downs	208,933	191,367	30,906		431,207
	<u>447,158</u>	<u>3,602,633</u>	<u>490,963</u>		<u>4,540,754</u>
<i>Plus Deposits:</i>					
2022					
Fair Meadows	328,816	291,029	62,568		682,413
Remington Park	2,872,730	3,799,540	320,545		6,992,815
Will Rogers Downs	838,229	595,570	65,510		1,499,310
Registrations & Fees	60,500	122,533	18,683		201,715
2023					
Fair Meadows	437,247	235,061	65,398		737,705
Remington Park	2,846,686	3,992,034	316,005		7,154,725
Will Rogers Downs	1,041,265	593,325	66,562		1,701,152
Registrations & Fees	68,875	124,533	13,938		207,345
2024					
Fair Meadows	420,075	131,804	48,768		600,647
Remington Park	2,876,826	3,841,723	323,377		7,041,926
Will Rogers Downs	993,180	205,099	60,362		1,258,642
Registrations & Fees	49,425	128,038	24,338		201,800
2025					
Fair Meadows	876,098	26,098	10,434		912,629
Remington Park	1,706,869	2,364,429	200,492		4,271,790
Will Rogers Downs	924,260	160,565	17,953		1,102,778
Registrations & Fees	27,550	89,855	10,940		128,345
<i>Less Checks Issued and Cleared (includes Outstanding Checks):</i>					
1/1/22-12/31/22	4,202,019	2,799,863	1,001,543		8,003,425
1/1/23-12/31/23	4,506,069	2,889,793	1,098,072		8,493,934
1/1/24-12/31/24	4,626,458	2,963,743	1,112,667		8,702,868
1/1/25-6/30/25	2,257,157	1,483,421	578,173		4,318,751
<i>Less Checks cancelled but cleared:</i>					
1/1/22-12/31/22				23,184	23,184
1/1/23-12/31/23				38,495	38,495
1/1/24-12/31/24				34,553	34,553
1/1/25-6/30/25				22,300	22,300
6/30/25 Ending Balance, Adjusted (includes outstanding checks)	1,224,087	10,167,047	(1,673,621)	(118,532)	9,598,981
<i>Outstanding Checks:</i>					
1/1/22-12/31/22	10,039	16,331	3,801		30,171
1/1/23-12/31/23	25,467	20,097	11,791		57,355
1/1/24-12/31/24	47,699	25,807	12,829		86,335
1/1/25-6/30/25	8,475	8,628	403		17,506
6/30/25 Ending Balance, Actual (ouststanding checks excluded)	1,315,767	10,237,910	(1,644,797)	(118,532)	9,790,348

Recommendations for Process Improvement

1. Discontinue Receipt of Cash

Cash receipts present substantial risk and should be eliminated in favor of more secure payment methods.

2. Implement a Modern Accounting and Operating System

Binkley is outdated, unsupported, and structurally inadequate. A new system should include:

- Automated audit trails
- Required dual approval for check issuance
- User-level access controls
- Integrated bank reconciliation functionality

3. Require Daily, Segregated Deposits by Revenue Stream

OKBred deposits should be separate from general OHRC deposits, and further separated by:

- Registration fees
- Payments received from tracks
- Other fee categories

Daily deposits should tie directly to daily activity reports.

4. Strengthen Segregation of Duties

The staff person responsible for issuing checks should not perform or review monthly bank reconciliations.

5. Implement Regular Payee Verification

Before OST performs its cleared-check match, OHRC should review a sample of checks to verify:

- Payee name
- Amount
- Valid check sequence

Actual physical (or imaged) checks should be compared to the list sent to OST.

6. Strengthen Check Controls

To reduce the risks associated with out-of-sequence and unaccounted-for checks, the agency should implement stricter controls over check issuance and monitoring. This includes requiring documented justification for any deviation from sequential ordering, performing monthly check-sequence audits, and

ensuring all checks—voided, unused, spoiled, or reissued—are logged and retained in a centralized record. Additionally, an automated check-tracking system should be deployed to prevent the issuance of checks outside the approved sequence and to flag any gaps for immediate investigation. These measures will improve accountability, strengthen financial oversight, and significantly reduce the opportunity for unauthorized or undocumented payments.

Conclusion

Reconciling the OKBred account was exceptionally complex due to the fragmented nature of the information maintained across multiple agencies and systems. No single report contained all the data necessary to verify transaction amounts, payees, check purposes, or deposit sources. Instead, relevant information was dispersed among reports from OHRC, OST, OMES, and track filings—each using different formats, varying levels of detail, and inconsistent data fields. In many cases, figures that should have matched across reports did not, requiring additional verification through check images, external documentation, or manual recalculation. As a result, the reconciliation process required extensive cross-referencing, reconstruction of transaction activity, and judgment to resolve discrepancies that could not be reconciled through system-generated data alone. This lack of consolidated, accurate reporting significantly increased the time, complexity, and risk associated with determining the true financial position of the OKBred account.

The reconciliation of the OKBred account revealed substantial weaknesses in financial reporting, system reliability, and internal controls. Despite these challenges, the account balance as of June 30, 2025 was reasonably estimated to be **\$9,598,981**.

Addressing the systemic and procedural issues identified in this report is vital to ensuring transparency, safeguarding funds, and restoring confidence in the management of the OKBred program.