



# **Oklahoma Horse Racing Commission**

## **Purchase Card Audit**

### **Audit and Internal Investigations**

Report Released December 2015

**Audit Performed by**  
JoRay McCoy, Audit Director  
Brittany Porter, Auditor

# Table of Contents

AUDIT HIGHLIGHTS.....	3
AUDIT FINDING SUMMARY .....	3
AUDIT OVERVIEW.....	4
DETAILED FINDINGS.....	4
APPENDIX.....	10
EXECUTIVE SUMMARY.....	11
TRANSMITTAL LETTER .....	12

*This publication is issued by the Office of Management and Enterprise Services as authorized by Title 62, Section 34. Copies have not been printed but are available through the agency website. This work is licensed under a Creative Attribution-Noncommercial-NoDerivs 3.0 Unported License.*

## AUDIT HIGHLIGHTS

### Oklahoma Horse Racing Commission – Purchase Card Program Audit Report released (Dec. 22, 2015)

---

#### Why We Conducted This Audit

This report provides information on the compliance of the agency's purchase card program with the state purchase card procedures and the strength and execution of the agency's approved internal control procedures.

#### What We Found

Based on our audit, we have determined the Oklahoma Horse Racing Commission has significantly complied with our audit objectives in relation to the agency's purchase card program. The agency has implemented internal controls and the controls appear to be operating effectively. We also determined the agency is significantly complying with the agency's internal purchasing procedures and state purchase card procedures. However, the following findings were identified.

#### AUDIT FINDING SUMMARY

*(Error rates are based on transactions reviewed.)*

**Finding 14-353-06:** The agency set up excessive amounts of authority orders and original authority order documentation was missing.

**Finding 14-353-02:** Approving official did not sign off on 50 percent of purchase card statements.

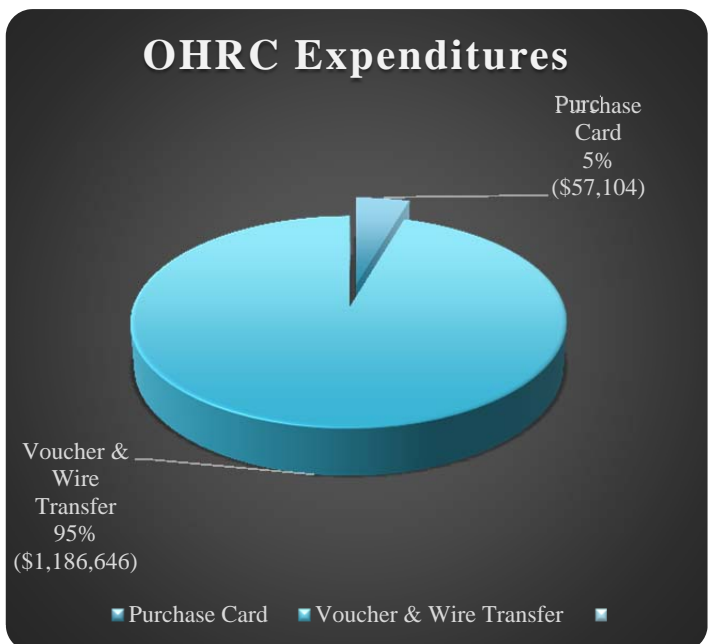
**Finding 14-353-01:** Seventy-one percent of transactions tested for products shipped did not show receiving documentation or packing slips.

**Finding 14-353-03:** Eighty-five percent of airfare transactions did not contain required information recorded with the transaction.

#### *Internal Purchasing Procedures*

**Finding 14-353-05:** The agency failed to submit internal purchase requests for any of their transactions.

**Finding 14-353-04:** Advanced written approval for five travel related transactions was not obtained.



## AUDIT OVERVIEW

This audit was performed pursuant to 74 O.S. §85.5.E. and the State of Oklahoma Purchase Card Procedures. Our audit was to determine if the agency's purchase card program was in compliance during the period of April 2, 2013 to Dec. 3, 2014. As of April 2, 2013, there were two purchase card holders and one approving official in the agency.

In total, the agency spent \$57,104.35 in purchase card transactions for the audit period. We reviewed 277 transactions for the audit period. Transactions reviewed for testing included purchases under \$5,000 and airfare transactions. We used the classical variable sampling method to randomly select our sample for testing. We exercised auditor judgment in adjusting the confidence level and expected proportion of errors in the population based on the risk assessment when applying the classical variable sampling technique. To ensure a sound statistical sample, a minimum sample size of 45 transactions was tested.

## DETAILED FINDINGS

### **Finding 14-353-06: Authority Orders**

**Condition:** During the audit, we performed procedures to ensure the agency has properly set up authority orders to encumber funds for the purchase card program. We were unable to determine if the agency properly encumbered funds. Our encumbrance testwork yielded the following notes:

- Records indicate there were 19 authority orders within the period. This exceeds the typical amount of one or two authority orders per fiscal year.
- Out of the 19 authority orders, the system indicated there were 48 change orders. The agency had 277 purchase card transactions during the audit period. This averages to one change order per six purchase card transactions.
- The agency provided documentation for seven original authority orders and 12 change orders. Documentation for 12 authority orders and 36 change orders was not provided to the auditors. We were unable to extract the 12 missing original authority orders from PeopleSoft financial system.

**Cause:** Unknown

**Effect or Potential Effect:** Encumbering excessive funds may compromise the overall budget set for the agency, therefore may limit certain areas of the budget due to underfunding. Also, by not maintaining original authority orders in acquisition files or scanned into PeopleSoft, the agency is unable to provide the original documentation.

**Criteria:** The State of Oklahoma Purchase Card Procedures **State Purchase Card Program Description 1.1** states in part:

State entities are encouraged to use the P-Card in lieu of purchase orders and authority orders. The P-Card can be used with any merchant that accepts Visa as a form of payment. It is intended that P-Cards be issued to selected State employees when the use of the P-Card will enhance State Entity effectiveness or economy of operation. If used to its potential, the P-Card Program will result in a significant reduction in the volume of purchase orders and related documentation including invoices and checks.

**Recommendation:** We recommend that the agency minimize the volume of authority orders and change orders in order for the purchase card program to be used effectively. In addition, we recommend the agency to upload original signed authority orders into PeopleSoft or maintain them in an acquisition file for recordkeeping.

**Management's Response**

**Date:** 9/24/2015

**Respondent:** Purchase card administrator

**Response:** Concur. After review of the finding, the Agency will immediately implement the recommendation of the Auditors and include those changes in the revised Agency Policy/Procedures.

**Corrective Action Plan**

**Contact Person:** Purchase card administrator

**Anticipated Completion Date:** Immediately (July 1, 2015)

**Corrective Action Planned:** After review of the finding, the Agency will immediately implement the recommendation of the Auditors and include those changes in the revised Agency Policy/Procedures. Beginning with FY-2016, staff will attach signed copies of Authority Orders to the PeopleSoft system and maintain a copy in the monthly p-card file for fast retrieval. Beginning on July 1, 2015 of this fiscal year (FY-2016) staff has begun to consolidate the number of Authority Orders used.

**Finding 14-353-02: Approving official duties**

**Condition:** During the audit, we verified the approving official signed the monthly cardholder statements. We reviewed 18 statements and noted nine (50 percent error rate) in which the approving official did not sign.

**Cause:** The agency has two cardholders and the cardholders' purchases were combined within one statement and printed at the end of the month. Both cardholders signed the statement and one of the cardholders is the approving official for the other. The remaining cardholder's approving official did not sign the statement as noted above.

**Effect or Potential Effect:** A lack of approval to reconcile cardholder statements creates an opportunity for unauthorized transactions to go by undetected.

**Criteria:** State of Oklahoma Purchase Card Procedures (effective July 1, 2014) **6.14 State Entity Approving Official(s) responsibilities** states in part:

- To indicate concurrence with the reconciled transactions, the State Entity Approving Official shall sign and date the end of cycle statement or sign off on the transaction in the Bank software. (Signature stamps are not acceptable, e- signature is acceptable.)

**Recommendation:** We recommend each cardholder print their own statement and have their approver sign and date the statement indicating their review. The purchase card holder ensures there is a process in place for review of cardholder statements at the end of the billing cycle and indicates completion by signature and date. This process should be monitored by the approving official.

**Management's Response**

**Date:** 08/17/2015

**Respondent:** Purchase card administrator

**Response:** The Agency recognizes the importance of review and approval by all parties involved.

***Corrective Action Plan***

**Contact Person:** Purchase card administrator

**Anticipated Completion Date:** 8/17/2015

**Corrective Action Planned:** The Agency has reviewed their procedures and will include signature lines on the cardholder statements by individual. The Recommendation by the auditors is being implemented immediately and included in the revised Agency Policy/Procedures for P-Card

**Finding 14-353-01: Receiving Documents**

**Condition:** During our audit, we tested 14 transactions to verify if proof of delivery was obtained for each purchase. Out of the sample tested, 10 of 14 transactions (71 percent error rate) did not show receiving documentation or packing slips.

**Cause:** A majority of items are drop-shipped making it difficult to obtain shipping documentation.

**Effect or Potential Effect:** There is no verification that goods were actually received at the agency when shipping documents are not obtained for every shipped purchase. The agency could be vulnerable to fraud, waste or abuse.

**Criteria:** State of Oklahoma Purchase Card Procedures (effective July 1, 2014) **6.10.2 Products shipped** states “A packing slip or proof of delivery obtained from carrier’s website must be obtained.”

**Recommendation:** We recommend the agency communicate:

- To all cardholders the importance of collecting and maintaining receiving documentation.
- To all anticipated receiving employees a process to ensure that receiving employees obtain and provide the cardholder with receiving documents.
- To all cardholders the ability to obtain shipping documentation through the carrier’s website or other means of electronic communication from the carriers.

In final, we recommend the agency create procedures to conduct monitoring activities to autonomously review the supporting documentation to determine continuing compliance with the purchase card requirements.

***Management’s Response***

**Date:** 09/24/2015

**Respondent:** Purchase card administrator

**Response:** Concur. After review of the finding, the Agency has immediately implemented the recommendation of the Auditors and will include those changes in the revised Agency Policy/Procedures.

***Corrective Action Plan***

**Contact Person:** Purchase card administrator

**Anticipated Completion Date:** Immediately

**Corrective Action Planned:** After review of the finding, the Agency has implemented the recommendation of the Auditors and will include those changes in the revised Agency Policy/Procedures. Prior to receiving Finding 14-353-01, staff had spoken to auditors about this

procedure. All staff have been notified and instructed that any item received by the agency, the fiscal department/p-card holders must be notified immediately for proper inspection and distribution of items. Staff has also been notified and instructed that any packing slips received at racetrack locations must be forwarded to fiscal department/p-card holders immediately to be retained with the agency's monthly p-card file.

### **Finding 14-353-03: Airfare transactions**

**Condition:** In the airfare category, we tested all seven transactions and six of those transactions (85 percent error rate) did not contain information in the notes section of the Works program. The required information is traveler's name, employee ID number, itinerary number, date of travel and purpose of travel; for travelers who are authorized non-state personnel, include traveler's name, justification for travel, to and from destination and dates.

**Cause:** Entering required information into the Works program is one of the multiple duties the cardholder is assigned. Therefore, the cardholder was unable to provide due diligence on this task because of the other job duties assigned.

**Effect or Potential Effect:** If an airline transaction becomes questionable, the notes field provides details about the authorization of the purchase card transaction that would assist with validating the purchase.

**Criteria:** State of Oklahoma Purchase Card Procedures (effective July 1, 2014) §6.13.2.1 Travel Acquisitions states in part:

- The following information shall be listed in the Bank's transaction system. Some of the information is automatically populated due to Airlines and Lodging Establishments registering as Level 3 vendors; however, the airlines and lodging establishments have 30 days to provide the Level 3 information. Therefore, the P- Cardholder is responsible for ensuring the following information is included and may have to enter all of it in the Description field under "Allocation":
- **Airline purchases:**  
Traveler's name, employee ID number, itinerary/confirmation number, date of travel, and purpose of travel; for travelers that are authorized non-state personnel, include the traveler's name; the justification for the travel, to and from destination; and, dates of travel.

**Recommendation:** We recommend the agency implement a process to ensure comments are added in the notes field of the Works system for all airfare transactions by the cardholder. The procedures do not allow someone other than the cardholder to enter the information in the notes field for the airfare transaction.

#### ***Management's Response***

**Date:** 08/17/2015

**Respondent:** Purchase card administrator

**Response:** Concur. After review of the finding, the Agency will immediately implement the recommendation of the Auditors and include those changes in the revised Agency Policy/Procedures.

#### ***Corrective Action Plan***

**Contact Person:** Purchase card administrator

**Anticipated Completion Date:** 08/17/2015



**Corrective Action Planned:** After review of the finding, the Agency will immediately implement the recommendation of the Auditors and include those changes in the revised Agency Policy/Procedures. The Staff has also asked that all future out-of-state trips be included on Commission Agenda's for approval. The Agency has not travel out-of-state very often in the past due to budget restraints. Only travel was for mandatory training for the Stewards, inspections of Gaming Laboratories, and National Board Meetings.

### **Finding 14-353-05: Purchase requests**

**Condition:** During the audit, we tested 34 transactions in our sample and all the transactions (100 percent error rate) indicated that no purchase request was submitted as required by the agency's internal purchasing procedures.

**Cause:** Purchase card holder explained that the reason this procedure is not enforced is because it is no longer relevant and is outdated to their agency.

**Effect or Potential Effect:** The potential effect is minimal due to the agency no longer implementing this procedure in the internal rules.

**Criteria:** Internal Purchasing Procedures (**Oklahoma Horse Racing Commission Internal Purchasing Rules III Purchasing Process D.**) "Purchasing process of less than \$750: Purchase Request is submitted on an appropriate Commission Request form."

**Recommendation:** We recommend the agency update their internal purchasing procedures to remove the procedure if it is no longer useful.

#### ***Management's Response***

**Date:** 08/17/2015

**Respondent:** Purchase card administrator

**Response:** Concur. After review of the finding, Staff notes that the Agency's P-Card Procedures are outdated and immediate need of revision

#### ***Corrective Action Plan***

**Contact Person:** Purchase card administrator

**Anticipated Completion Date:** 09/01/2015

**Corrective Action Planned:** After review of the finding, Staff notes that the Agency's P-Card Procedures are outdated and immediate need of revision. After speaking to DCS/OMES and Auditors, it was noted that many of the issues noted were caused by the outdated procedures. Staff has begun the revision of P-Card Procedures to mirror that of the State P-Card Procedures.

### **Finding 14-353-04: Airfare**

**Condition:** During the audit, we tested all seven airfare transactions. Out of that testwork, five transactions (71 percent error rate) indicated that the travel P-card holder (entity travel coordinator) did not obtain written approval from their state entity approving official or designated back-up prior to making a purchase of airfare or lodging as required by the agency's internal purchasing procedures.



**Cause:** Agency cardholders seldom travel.

**Effect or Potential Effect:** By not obtaining written approval, this could lead to abuse of travel and invalid airfare purchases.

**Criteria:** **Oklahoma Horse Racing Commission Internal Purchasing Rules XI State Travel P- Card Purchasing Program** states in part: “The Travel P/Card Holder (Entity Travel Coordinator) shall obtain written approval from their State Entity Approving Official or designated back-up **prior** to making a purchase of airfare or lodging”.

**Recommendation:** We recommend the agency reevaluate their internal procedures to decide if this procedure is still relevant. If so, then it is necessary for the agency to communicate the importance of receiving pre-authorization for airfare purchases.

***Management’s Response***

**Date:** 9/24/2015

**Respondent:** Purchase card administrator

**Response:** Concur. After review of the finding, the Agency will immediately implement the recommendation of the Auditors and include those changes in the revised Agency Policy/Procedures.

***Corrective Action Plan***

**Contact Person:** Purchase card administrator

**Anticipated Completion Date:** Immediately

**Corrective Action Planned:** As state in Finding 14-353-03, after review of the finding, the Agency will immediately implement the recommendation of the Auditors and include those changes in the revised Agency Policy/Procedures. The Staff has also asked that all future out-of-state trips be included on Commission Agenda’s for approval. The Agency has not travel out-of-state very often in the past due to budget restraints. Only travel was for mandatory training for the Stewards, inspections of Gaming Laboratories, and National Board Meetings. Commissioners have been briefed on this situation and understand that all future out-of-state travel must be approved by the Commission prior to traveling.

## APPENDIX

### Methodology

- Interviews were conducted with the agency's staff members.
- Internal controls over the purchase card program were documented and evaluated.
- A statistical sample of transactions from cardholders was examined.
- Overall program compliance with the State of Oklahoma Purchase Card Procedures and rules promulgated thereto were evaluated.

### Sampling

The population for substantive test work was 277 transactions totaling \$57,104.35. We used a classical random record sampling process to extract a random sample of transactions below the \$5,000 threshold. In addition, four transactions were selected at the auditor's discretion and tested against selected attributes.

	<u>Transactions</u>	<u>Amount</u>
<u>Total Expenditures</u>	277	\$57,104.35
Reverse Transactions	(6)	\$0.00
Agent Fees	(8)	-\$160.00
Negative Transactions	(2)	\$1,129.10
<u>Filtered Population</u>	261	\$58,073.45
<u>Subpopulation</u>		
Airfare	7	\$3,658.60
Lodging	0	\$0.00
Under \$5,000	254	\$54,414.85
Greater than \$5,000	0	\$0.00
<u>Total</u>	261	\$58,073.45
<u>Samples</u>		
Under \$5,000	34	\$12,548.48
Airfare	7	\$3,658.60
Auditor's Discretion	4	\$1,059.89

# EXECUTIVE SUMMARY

**Organization:** Oklahoma Horse Racing Commission

**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 commissioned-licensed racing and gaming.

**History and Overview:** State Question 553 (Initiative Petition 315) adopted at an election held Sept. 21, 1982, authorized the pari-mutuel system of wagering on horse races in Oklahoma. The Oklahoma Horse Racing Act, Title 3A, Chapter 2 of the Oklahoma Statutes, was enacted with an emergency provision and became effective March 22, 1983. The function of the agency is to regulate state-sanctioned horse racing. State Question 712 adopted by an election held on Nov. 2, 2004, authorized the State-Tribal Gaming Act. The act allows commission-licensed racing facilities who meet statutory criteria to have authorized gaming within the enclosure of the racetrack.

## Agency Information

The agency is made up of 42 full-time unclassified employees according to the [Oklahoma Agencies, Boards and Commissions Book](#) as of Sept. 1, 2014.

### Commissioners

Ran Leonard, CHAIR  
Keith Sanders, VICE-CHAIR  
Mel Bollenbach, SECRETARY  
Becky Goumaz, MEMBER  
Stanton Harrell, ESQ., MEMBER  
Phillip Kirk, MEMBER  
Joe Lucas, MEMBER  
Monty Marcum, MEMBER  
Kinsey Money, ESQ., MEMBER

### Key Staff: (During the audit period)

**Constantin A. Rieger**, Executive Director

**Robin Helt**, Fiscal Administrative Officer and Purchase Card Administrator

# TRANSMITTAL LETTER

## **TO KELLY CATHEY, INTERIM EXECUTIVE DIRECTOR, AND OKLAHOMA HORSE RACING COMMISSION**

With this letter, we transmit the report of the Oklahoma Horse Racing Commission purchase card program audit for the period April 2, 2013 to Dec. 3, 2014.

We performed the audit to ensure the Oklahoma Horse Racing Commission purchase card program as administered by the Office of Management and Enterprise Services is compliant with laws and regulations.

The accompanying report presents our findings and recommendations, as well as management's responses and corrective action plans. This report is available to the public on the Office of Management and Enterprise Services' website, <http://www.ok.gov/OSF/Audit>.

Respectfully,

Carol McFarland  
Director, Performance and Efficiency Division