Secretary of State

State of Oregon

OREGON STATE FAIR AND EXPOSITION CENTER

Special Review

Audits Division

-

Secretary of State

State of Oregon

OREGON STATE FAIR AND EXPOSITION CENTER

Special Review

Audits Division

No. 98-06

February 27, 1998

The Honorable John Kitzhaber
Governor of Oregon
State Capitol
Salem, Oregon 97310

Robert R. Vernon, Director
Oregon State Fair and Exposition Center
2330 17th Street NE
Salem, Oregon 97310-0140

The 1997 Legislature approved a budget for the Oregon State Fair and Exposition Center for fiscal year 1997-98 only rather than a biennial budget for 1997-99. The budget subcommittee requested the Joint Legislative Audit Committee consider an audit of the fair to review agency performance, including its programs, administrative practices, resources and expenditures, and the future viability of the fair.

The Oregon Audits Division, in conjunction with the Legislative Fiscal Office and the Department of Administrative Services, devised a plan to address the legislative concerns expressed by the budget subcommittee. The Audits Division would address those regarding accounting structure and management controls; the Legislative Fiscal Office and the Department of Administrative Services would review management structure, fair activities, facilities, and self-sufficiency. At its September 10, 1997, the Joint Legislative Audit Committee approved the proposed plan.

Specifically, the Oregon Audits Division objectives were to:

(1) Determine if financial structures are in place to monitor expenditures and revenues for the annual state fair and for individual exposition events.

(2) Determine if an adequate budget structure is in place to ensure that reasonable budgets are developed, monitored, and appropriately adjusted.

(3) Determine if financial structures are in place to comply with bond covenants.

(4) Determine if adequate controls are in place to ensure transactions and key events are clearly documented and that access to records is limited to authorized individuals.

255 Capitol Street NE • Suite 500 • Salem, Oregon 97310 • (503) 986-2255
Audits.hotline@state.or.us
http://www.sos.state.or.us/audits/audithp.htm

(5) Determine if adequate controls are in place to ensure that transactions and other significant events are authorized and executed only by staff acting within the scope of their authority and are promptly and properly recorded and classified.

(6) Review management practices and financial information for compliance with applicable statutes and administrative rules. Determine if adequate management controls are in place for fair programs and for contracting, licensing, staffing, and payroll activities.

(7) Determine if the management structure ensures separation of duties in authorizing, processing, recording, and reviewing transactions.

We conducted our audit in accordance with generally accepted government auditing standards. To accomplish the above objectives, we reviewed relevant statutes and laws, interviewed fair personnel, obtained and examined fair accounting records and documentation, and reviewed various other documents and information maintained by the fair and by other entities. This audit report contains the results of our audit, which covers the policies and procedures in place at the fair during the period of October 1997 through December 1997 and during past periods as necessary to provide context.

OREGON AUDITS DIVISION

John N. Lattimer
Director

Fieldwork Completion Date:
January 22, 1998

TABLE OF CONTENTS

Page

SUMMARY vii

INTRODUCTION 1

ORGANIZATION AND FUNCTIONS 1

FINANCIAL ACTIVITIES 1

SCOPE AND METHODOLOGY 3

AUDIT RESULTS

INTERNAL CONTROL AND FINANCIAL STRUCTURES 5

BUDGET STRUCTURE 7

BOND COVENANTS 10

COMPLIANCE WITH LAWS AND REGULATIONS AND MANAGEMENT CONTROLS 12

FOLLOW-UP ON PRIOR AUDIT FINDINGS 15

REPORT DISTRIBUTION 20

COMMENDATION 20

AGENCY’S RESPONSE TO THE AUDIT REPORT 21

SUMMARY

BACKGROUND

During 1996 and 1997, the Oregon State Fair and Exposition Center (fair) experienced financial difficulties and the Emergency Board increased the fair's expenditure limitations by $903,000 and $493,627, respectively. Due in part to these financial difficulties, the 1997 Legislature approved a budget for the fair for fiscal year 1997-98 only rather than a biennial budget for 1997-99. The budget subcommittee requested that the Joint Legislative Audit Committee consider an audit of the fair to review agency performance.

The Oregon Audits Division, in conjunction with the Legislative Fiscal Office and the Department of Administrative Services, devised a plan to address the legislative concerns expressed by the budget subcommittee. The plan split the issues into those to be reviewed by the Audits Division and those to be reviewed by the Legislative Fiscal Office and the Department of Administrative Services. At its September 10, 1997, the Joint Legislative Audit Committee approved the proposed plan.

AUDIT PURPOSE

Our objectives were to audit the fair's financial structures put in place for expenditures, revenues, and bonds; budget structure; internal control over transactions and significant events; management controls in place for contracting, licensing, staffing, and payroll activities; and compliance with applicable statutes and rules.

AUDIT RESULTS

The fair did not comply with two bond requirements and can improve some management controls and procedures. Specifically, we noted the following:

- **Segregation of Duties of Temporary Employees.** For the annual state fair, the fair employs about 20 temporary superintendents who are responsible for managing about 800 temporary fair workers. The superintendents' responsibilities include reviewing applications, hiring and managing employees, and approving timesheets. By granting the superintendents so much authority without sufficient compensating controls in place, the opportunity exists for the potential creation of "ghost" employees.

- **Cost Allocation.** The fair could provide more useful and accurate cost information on annual state fair and non-fair activities. The fair charges a large portion of its fixed costs to non-fair activities even though they may actually apply to the annual state fair. As a result, the fair is not reporting an accurate analysis of the financial results of annual fairs versus non-fair activities.

- **Bond Rate Covenant.** The bond rate covenant requires the fair to generate a certain amount of revenue based on certain expenses incurred. The fair's fiscal year 1997 revenues were insufficient by $70,000.

- **Bond Audit Requirement.** The fair did not comply with Oregon Revised Statute, Chapter 286, Section 135, which requires the fair to have an annual audit of its bond program or obtain an exemption from the Department of Administrative Services from this requirement.

- **Contracting Methods.** The statutes give the fair the latitude to determine whether it should make an agreement, license, permit, or contract with an entity. The fair does not adequately document its decision to use one contracting method versus another and it does not have written policies and procedures that specify which contracting method is recommended under certain circumstances. As a result, the fair may be treating similar entities differently, which could expose the fair to unnecessary legal and contractual issues.

- **Overtime Authorization.** The fair does not have written guidelines for overtime approval and authorization. Most of the fair's overtime occurs during the annual state fair. We reviewed overtime for August 1997 and noted that an employee recorded 296 hours of overtime in addition to working 168 hours of regular time. The overtime was approved after-the-fact on the employee's timesheet. Inadequate policies and procedures increase the potential for misuse and payment of inappropriate or unnecessary overtime.

- **Staffing.** The opportunity may exist for the fair to improve the utilization of its resources and staff. The fair attributes insufficient staffing and resources to preventing it from improving upon and implementing policies and procedures. As a result, several issues, including cost allocation and overtime authorization, are not being addressed. The fair may benefit from an operational study of the utilization of its staff and resources.

AGENCY RESPONSE

The fair agrees with the majority of our audit findings and recommendations. The fair's director does not entirely concur with our finding pertaining to segregation of duties of temporary employees, but will implement our recommendation for additional controls.

INTRODUCTION

ORGANIZATION AND FUNCTIONS

The Oregon State Fair and Exposition Center (fair) hosts the annual state fair and operates a facility rental program during the remainder of the year. The duties and functions of the fair are established in Oregon Revised Statute, Chapter 565. The objectives and purposes of the fair are to disseminate knowledge concerning, and to encourage the growth and prosperity of all agricultural, stock raising, horticultural, mining, mechanical, artistic and industrial pursuits in this state, including the racing of animals.

The fair director and a staff of 32 authorized positions are responsible for fair management and operations. A five-member Oregon State Fair Commission provides advice and assistance to the director on matters regarding fair operations. Members of the commission are appointed by the Governor and serve four-year terms. The fair director is appointed by the Governor and serves as the fair's chief executive and administrator. Robert R. Vernon has served as the fair director since his appointment in May 1995.

FINANCIAL ACTIVITIES

For the most part, the fair operates as a self-supporting revenue-raising agency of state government. About 78 percent of the fair's revenue is derived from the annual state fair and the remainder is derived from exposition events. Sources of annual state fair revenues include daily admission and concert ticket sales, food and beverage concessions, and commercial exhibit licenses. During the remainder of the year, exposition event revenue is earned through fees charged for the use of the fair's various facilities, such as the two exhibit halls. For the fiscal year ended June 30, 1997, the fair's operating revenues were $6 million and its operating expenses were $6.8 million.

BACKGROUND

Emergency Board

At the January 26, 1996, Emergency Board meeting, the fair requested an increase of $903,000 in its Other Funds expenditure limitation for organizational improvements and to meet audit requirements. The new fair director had developed a business plan with goals and performance expectations. The plan contained a reorganization, identified high priority maintenance projects, and recommended two new positions, an Operations Director and Events Manager. These changes were designed to create clear lines of authority and accountability in fair operations. The Emergency Board approved the increase along with approving the proposed two new positions.

In late 1996 the fair faced difficulties in meeting its revenue projections. Subsequent to the 1996 annual state fair, the fair recognized that its expenditures would exceed its limitation. For the remainder of the biennium, the fair reduced expenditures to the minimum it deemed necessary. At the January 10, 1997, Emergency Board meeting an additional increase of $493,627 in the fair's Other Funds expenditure limitation was approved for operating costs, with the understanding that the Department of Administrative Services would continue to monitor the fair's financial status. During the current biennium, the Department of Administrative Services continues to monitor the fair's financial condition to ensure that the fair's ending balance is not being depleted.

Legislative Concerns

As a result of the financial difficulties and public controversy surrounding the fair, the 1997 Legislature approved only a one-year budget for the fair rather than the usual biennial budget. In addition, the Legislature requested the Joint Legislative Audit Committee to consider an audit of the fair's operations and its fiscal viability. Furthermore, a budget note was added requiring the fair to return to the Emergency Board prior to July 1998 to report on the fair's operations and the outcome of any audit. The 1997 Legislature stated concern about:

(1) the adequacy of the fair's accounting structure;

(2) the adequacy of its management controls;

(3) the fair's financial self-sufficiency;

(4) its facility needs; and

(5) whether the fair's activities are congruent with statutory direction and legislative expectations.

SCOPE AND METHODOLOGY

The Oregon Audits Division, in conjunction with the Legislative Fiscal Office and the Department of Administrative Services, devised a plan to address the legislative concerns expressed by the budget subcommittee. The Audits Division would address those related to accounting structure and management controls; the Legislative Fiscal Office and the Department of Administrative Services would review management structure, fair activities, facilities, and self-sufficiency. At its September 10, 1997, the Joint Legislative Audit Committee approved the proposed plan. Specifically, the Oregon Audits Division was to fulfill seven audit objectives: four objectives related to internal control and financial structures in place at the fair, a fifth objective pertained to the adequacy of the fair's budget structure, a sixth involved the financial structures in place to comply with bond covenants, and the seventh objective pertained to compliance with laws and regulations and management controls over contracting, licensing, staffing, and payroll.

To accomplish the above seven objectives, we reviewed relevant statutes and laws, interviewed fair personnel, obtained and reviewed fair accounting documentation, and reviewed various other documents and information maintained by the fair and by other entities. Our review covered the policies and procedures in place at the fair during October 1997 through December 1997 and during past periods as necessary to provide context.

We performed the audit in accordance with generally accepted government auditing standards. We limited our review to the areas specified in this section of the report. The specific audit objectives, audit methodology, and conclusions are presented in the AUDIT RESULTS section of this report.

AUDIT RESULTS

Based on procedures performed for the seven audit objectives, we noted two areas of noncompliance and other areas that could be improved. The Oregon State Fair and Exposition Center (fair) did not comply with two bond requirements and can improve controls and procedures over temporary employees, cost allocation, contracts, overtime, and staffing.

INTERNAL CONTROL AND FINANCIAL STRUCTURES

Audit Objectives

- Determine if financial structures are in place to monitor expenses and revenues for the annual state fair and for individual exposition events.
- Determine if adequate controls are in place to ensure transactions and key events are clearly documented and that access to records is limited to authorized individuals.
- Determine if adequate controls are in place to ensure that transactions and other significant events are authorized and executed only by staff acting within the scope of their authority and are promptly and properly recorded and classified.
- Determine if the management structure ensures separation of duties in authorizing, processing, recording, and reviewing transactions.

Methodology

The audit procedures we performed to gain an understanding of the fair's internal controls and financial structures, included the following:

- Interviewed fair staff;
- Ascertained how the fair assigns authority and responsibility for operating functions and regulatory requirements;
- Reviewed the fair's organizational structure;
- Reviewed applicable laws and rules, policies and procedures;

- Reviewed methods and records the fair has established to (1) identify, assemble, analyze, classify, record, and report transactions, events, and conditions; and (2) maintain accountability for assets, liabilities, revenues, and expenses;

- Reviewed methods and records the fair has established to ensure (1) transactions and events are documented, authorized, promptly and properly recorded, and executed only by staff acting with the scope of their authority; (2) access to records is limited to authorized staff; and (3) adequate separation of duties in authorizing, processing, recording, and reviewing transactions.

- Examined financial structures to determine if adequate accounts are used to ensure proper recording and detail to separately track revenues and expenses for the annual state fair and for exposition events;

- Reviewed documents that fair management uses to monitor fair activities;

- Documented our understanding of internal controls and financial structures; and

- Tested annual state fair and exposition event transactions to determine whether internal controls were actually in place.

Our audit scope was limited to reviewing the adequacy of internal controls and financial structures. Thus, we did not audit amounts reported by the fair in its financial report for the fiscal year ended June 30, 1997, nor did we audit the amounts the fair allocates to the annual state fair and to exposition events.

Results

In general, we found that the fair currently has adequate financial structures and internal accounting controls in place. We did note that the following area could be improved.

<u>Segregation of Duties of Temporary Employees</u>

The fair could improve the separation of duties of some temporary employees. Prior to each annual state fair, the fair employs about 20 superintendents, who are temporary employees responsible for managing some of the annual state fair's programs, and about 800 temporary fair workers. The permanent fair staff who are responsible for managing the superintendents limit their management to budget concerns and allow the superintendents to operate their assigned programs as they choose. The superintendents are each given a budget and are expected to hire temporary staff and purchase services and supplies as deemed necessary for their own fair program. For example, for the 1997 annual state fair the superintendent for the poultry program was responsible for managing a budget of $28,159. The superintendent hired 20 temporary staff at a cost of $23,698 and incurred $4,461 in other purchases.

We noted that the superintendents are granted broad authority over the employment and management of temporary staff. The superintendents' responsibilities include reviewing applications, hiring and managing employees, approving timesheets, and handing out most payroll checks on the payday that occurs during the annual state fair. By giving the superintendents so much authority without sufficient compensating controls in place, the opportunity exists for the misuse of funds due to the potential creation of "ghost" employees.

The fair does implement a compensating control, but it does not appear adequate to limit the potential for misuse of funds. During the fair, the temporary employees are paid twice. The first pay period occurs when less than half of the temporary staff are employed. The fair's internal auditor selects a sample and distributes those payroll checks to verify that the employees actually exist; the superintendents hand out the remaining checks. The second pay period includes a larger number of temporary employees. Verification procedures are not performed on the existence of these employees by the internal auditor; these checks are mailed to temporary employees.

We recommend that the fair either limit the authority of the superintendents or implement a compensating control for the second pay period similar to that performed during the first pay period.

BUDGET STRUCTURE

Audit Objective

Determine if an adequate budget structure is in place to ensure that reasonable budgets are developed, monitored, and appropriately adjusted.

Methodology

To gain an understanding of the fair's budget process for the annual state fair and for exposition events, we inquired and obtained information from fair staff on the following:

- How and when budgets are prepared and by whom;
- Level of detail and data used to prepare budgets;
- Accounts established to track budgets; and
- Monitoring procedures in place to compare actual to budget amounts.

To determine the adequacy of the fair's current budget structures, we reviewed the basis for current budget amounts; reviewed the budget setup in accounting records to determine if it adequately allows for monitoring of expenditures and revenues; reviewed appropriateness, adequacy, timeliness, and reasonableness of budget monitoring activities; reviewed support for and reasonableness of budget adjustments; and examined budget to actual comparisons prepared by the fair.

It was not within our audit scope and, thus, we did not review budget allocations to ensure that actual expenses were appropriately allocated between the annual state fair and exposition events.

Results

The fair has an adequate budget structure in place to ensure that reasonable budgets are developed, monitored, and appropriately adjusted. The current budget was developed using appropriate budgeting techniques and appears to be based on reasonable revenue and expenditure assumptions and projections. In addition, current control activities appear to be sufficient to provide reasonable, appropriate, and timely budget monitoring.

The fair's current account structure and project costing methodology, implemented in May 1997, enhances the fair's ability to timely track revenues and expenditures to specific events and to the annual state fair. The fair's prior accounting system, coupled with the fair's in-house based revenue and expenditure tracking system, also appeared to have provided sufficient information to enable fair management to adequately track and monitor budgets.

The financial difficulties faced by the fair in 1996 appear to be due to weak management controls and to increases in the 1996 annual state fair expenditures rather than to weaknesses in budget structure. Prior budget monitoring activities appeared to have been very informal: (1) spending limits were not communicated to fair staff; (2) managers were not expected to track expenditures for their respective cost centers; and (3) monitoring of most expenditures consisted of after-the-fact reporting. Furthermore, seeking to improve the 1996 annual state fair revenues, the fair incurred additional expenditures to enhance family entertainment, customer services, maintenance, and security. The 1996 fair revenues did not increase as planned to offset these increased expenditures. As a result, the fair exceeded its budget limitation and made a request to the Emergency Board in January 1997 to increase its expenditure limitation by $493,627.

According to fair management, they made concerted efforts during the 1997 annual state fair to closely monitor expenditures. Managers were required to keep logs of all expenditures for their cost centers, including credit card purchases. Cost center budgets were formally communicated to managers with the directive to "keep expenditures within limits." In addition, the fair developed cash forecasts to assist managers in determining appropriate expenditure levels.

Cost Allocation

We did identify an opportunity for the fair to provide more useful and accurate information. The fair could utilize its existing budget structure to more accurately reflect actual costs incurred for the annual state fair and for non-fair activities. About 78 percent of fair revenues are from the annual state fair and the remaining 22 percent from non-fair or exposition events. The fair does not allocate fixed costs to the annual state fair. Most of these costs are charged to non-fair activities even though they may apply to the annual state fair. As a result, the fair is not reporting an accurate analysis of the financial results of annual state fairs versus non-fair activities. For example, the fair reported that the 1997 annual state fair was profitable and netted about $1.7 million. However, out of about $1.6 million in permanent staff payroll paid in calendar year 1997, the fair allocated only $186,124 to the 1997 annual state fair. The fair limited its payroll allocation of permanent staff to overtime and one month's base payroll.

According to fair staff, expenditures are very often difficult to identify as annual state fair and non-fair so most are charged as non-fair activities. In addition, they state that for comparative purposes with results of prior annual state fairs, they need to keep the allocation method the same. They also believe the fair does not have the staff resources required to develop an allocation method that is reasonable and provides for a more accurate financial analysis. However, based on discussions with fair staff, much of their time in the months prior to and subsequent to the annual state fair pertains to annual state fair activities and could be allocated to the state fair.

We recommend that the fair utilize its existing budget structure to provide more useful and accurate financial information on the annual state fair and on non-fair activities. At a minimum, the fair should estimate what fixed costs, including permanent staff time, should be allocated to the annual state fair and to non-fair activities. This estimate does not need to be based on extensive calculations. The fair needs to derive and document an allocation method that appears reasonable and reflects more accurate financial results.

BOND COVENANTS

Audit Objective

Determine if financial structures are in place to comply with bond covenants.

Methodology

To accomplish the audit objective, our audit procedures included the following:

- Interviewed fair staff;
- Reviewed applicable statutes and rules;
- Reviewed documents pertaining to the fair's 1996 bond issue;
- Identified significant bond requirements and determined whether the fair was complying with the requirements; and
- Examined fair accounting records for financial structures applicable to the 1996 bond issue.

Results

Based on our review, the fair did not comply with two bond requirements for its 1996 revenue bond issue. The fair's responsibilities pertaining to bonds are established in Oregon Revised Statutes, Chapters 565 and 286, and in its 1996 bond resolution document.

Bond Rate Covenant

The fair's bond resolution document for its 1996 revenue bond issue contains bond requirements and three covenants or promises: the liquidity, rate, and monitor covenants. The fair was not able to comply with the rate covenant, which requires the fair to establish fees and charges that will result in fiscal year revenues that at least equal operating expenses in that year plus 150 percent of the annual debt service due in that fiscal year. The rate covenant requires the fair to complete its fiscal year annual financial report by December 31 following the end of each fiscal year.

The fair completed its financial report for fiscal year ended June 30, 1997, by December 31, and on December 17, 1997, the fair notified the Audits Division, the Department of Administrative Services, the State Treasury, and the fair's bond insurer that it did not meet the coverage ratio required by the rate covenant. According to a calculation made by the fair's bond counsel, there was a revenue shortfall of about $70,000. As a remedy, the fair intends to comply with the rate covenant's requirement to engage a professional fair consultant by January 31, 1998, who is to recommend, not later than March 31, 1998, changes in the fair's operations, fees and charges which are estimated to produce sufficient revenues to meet the coverage ratio.

We recommend that the fair utilize the recommendations and guidance provided by the professional fair consultant.

Bond Audit Requirement

ORS 565.095, which pertains to the issuance of revenue bonds, states that the fair is to issue bonds in accordance with ORS 286. The fair did not comply with ORS 286.135, which requires the fair to request the Secretary of State to conduct a financial audit of its bond program at least annually or for the fair to obtain an exemption from this audit requirement from the Department of Administrative Services. According to fair staff they were unaware of this requirement. By not having their bond program audited on a periodic basis, the fair's financial statements may contain material misstatements that could mislead financial statement readers including bondholders.

We recommend that the fair comply with ORS 286.135. Since the fair does not intend to issue more bonds in the near future and its bond program is relatively small, we suggest they request an audit on a periodic basis and obtain exemptions from the audit requirement from the Department of Administrative Services during the other years.

COMPLIANCE WITH LAWS AND REGULATIONS AND MANAGEMENT CONTROLS

Audit Objective

Review management practices and financial information for compliance with applicable statutes and administrative rules. Determine if adequate management controls are in place for fair programs and for contracting, licensing, staffing, and payroll activities.

Methodology

We performed the following audit procedures for this audit objective:

- Identified and reviewed applicable statutes and rules, policies and procedures;
- Interviewed fair staff;
- Documented compliance review and understanding of management controls in place; and
- Tested transactions to determine if controls are in place.

Our audit scope was limited to the audit objective above. Thus, we did not audit the appropriateness of the fair's staffing levels during the annual state fair or during the year. The fair has 32 approved staff positions. In addition, they employ around 800 temporary staff throughout the year. We did not review operational activities to determine if full-time or temporary staffing levels were appropriate.

Results

Although we did not identify any instances of noncompliance, we did identify some management controls that can be improved. Management controls include the processes for planning, organizing, directing, and controlling program operations, and the systems for measuring, reporting, and monitoring program performance. Management controls also include the plan of organization, methods and procedures to ensure that (1) resource use is consistent with laws, regulations, and policies; (2) resources are safeguarded against waste, loss, and misuse; and (3) reliable data is obtained, maintained, and fairly disclosed.

Contracting Methods

The statutes give the fair the latitude to determine whether the fair should make an agreement, license, permit, or contract with an entity. While not an area of noncompliance, we did note that the fair does not adequately document its decision to form a contract versus a license, permit, or agreement. In addition, the fair does not have written policies and procedures that specify which contracting method is recommended under certain circumstances. As a result, the fair may be treating similar entities differently, which could expose the fair to unnecessary legal and contractual issues. ORS 565.080 requires the fair director to prepare, adopt, publish and enforce all necessary rules for the management of the fair and for guidance of its officers and employees. According to fair management, they intend to prepare and implement policies and procedures pertaining to contracting methods, but have not been able to due to limited resources.

We recommend that the fair establish and implement policies and procedures to ensure that adequate documentation is maintained on contracting decisions. In addition, we suggest the fair seek guidance from the Attorney General regarding the recommended use of the various contracting methods.

Overtime Authorization

The fair does not have written guidelines for overtime approval and authorization. Most of the fair’s overtime occurs during the annual state fair; therefore, we reviewed overtime for August 1997. In this month, 17 permanent fair employees recorded a total of 2,062 hours of overtime in addition to working their regular work hours; 10 employees recorded over 100 hours and 2 employees recorded over 200 hours of overtime. For example, one employee recorded 296 hours of overtime in addition to working 168 hours of regular time. The overtime was approved after-the-fact through supervisory approval of the employee's timesheet. Inadequate policies and procedures increase the potential for misuse and payment of inappropriate or unnecessary overtime.

We recommend the fair establish and implement policies and procedures to ensure that adequate and consistent documentation is maintained for overtime authorizations.

Staffing

The opportunity may exist for the fair to improve the utilization of its resources and staff. The fair attributes its inability to improve and implement policies and procedures to insufficient staffing and resources. As a result, several issues, including cost allocation and policies and procedures for contracting methods and overtime authorization, are not being addressed. The fair may benefit from an operational study of its existing staff and resources.

We recommend the fair consider having an operational study done of the utilization of its staff and resources.

FOLLOW-UP ON PRIOR AUDIT FINDINGS

This section reports follow-up action taken by the Oregon State Fair and Exposition Center (fair) management on findings presented in two prior Oregon Audits Division reports.

- Special Review issued September 1995, which included a review of 1994 money room operations, processes used to award and monitor licenses and other contractual agreements, and the issuance of complimentary tickets.
- Special Review issued November 1995, which included a review of 1995 money room operations and the procedures and recordkeeping for concert and admission tickets.

This section includes all follow-up action taken by the fair for findings presented in these two audits. We commend the fair for taking action to resolve these findings.

Prior Audit Findings	Audit Recommendations	Disposition
September 1995 Audit		
1. Legal agreements reviewed contained inconsistencies and ambiguities.	Work with the Attorney General to develop criteria to determine which legal agreements the Attorney General should review.	Resolved. The fair follows the Attorney General's new rules on contracts.
	Provide specific agreements and supporting documents to the Attorney General and resolve all identified issues. Written records of issue resolution should be maintained to provide guidance for future agreements.	Resolved. The fair provides specific agreements and supporting documents to the Attorney General to resolve any identified issues.
	Assign one person responsibility for reviewing all of the fair's legal documents, paying close attention to inconsistencies and ambiguities.	Resolved. The fair assigned one person to review all legal documents.

Prior Audit Findings	Audit Recommendations	Disposition
September 1995 Audit		
2. Certain laws and rules may have been violated by the processes the fair used to obtain capital improvements.	Deposit any moneys received from the issuance of licenses, including funds identified for capital improvements, into the Oregon State Fair and Exposition Center account in the State Treasury.	Resolved. The fair obtained Attorney General advice, which concurred with the audit recommendation. The fair deposits all moneys received from the issuance of licenses into its account in the State Treasury.
	Abide by all statutory requirements unless there is a sufficient business reason to obtain an allowable exemption.	Resolved. According to fair staff, they now abide by all statutory requirements for capital improvements.
3. Incorrect accounting of capital improvements resulted in noncompliance.	Determine the impact of this and similar transactions on the fair's financial statements and adjust prior period balances if the amount of misstatement is significant to the fair's reported financial position.	Resolved. The fair obtained Attorney General advice, which concurred with audit guidance on correct accounting for capital improvements.
	Obtain the Oregon State Fair Commission's approval on all capital projects in excess of $10,000.	Resolved. According to fair staff, the Commission approves all capital projects over $10,000.
	Include all capital improvement revenues and expenditures in biennial budgets.	Resolved. According to fair staff, they will include all capital improvement revenues and expenditures in their biennial budgets.

Prior Audit Findings	Audit Recommendations	Disposition
September 1995 Audit		
4. The fair's practice of issuing licenses to sponsors and commercial exhibitors based on seniority may be a violation of competitive bidding requirements.	The fair should comply with all statutory requirements unless there is sufficient business reason to obtain an allowable exemption from the Department of Administrative Services.	Partially resolved. For commercial exhibitor license agreements, the fair issues licenses based on first come-first served, compatibility of various exhibits with one another, and number of years an exhibitor has been with the fair. The fair is in the process of requesting legal guidance and guidance from the Department of Administrative Services regarding purchasing exceptions/exemptions for the sponsorships.
5. Terms in the Request for Proposal (RFP) for the entertainment director and carnival operator may limit competition.	Request advice from the Attorney General on whether the RFPs were too restrictive.	Resolved. The Attorney General found that these RFPs evoked no legal issues.
6. Monitoring of licenses and agreements made with sponsors was not sufficient to ensure that license fees were paid timely, licenses were signed and retained, and all terms were fulfilled.	The fair should ensure that license fees are paid timely and that all terms are fulfilled. The fair should charge interest or cancel licenses if payments are not received when due.	Resolved. The fair monitors sponsorship agreements and licenses to ensure requirements are fulfilled. Fair management opted not to charge interest or cancel licenses due to late payments.

Prior Audit Findings	Audit Recommendations	Disposition
November 1995 Audit		
1. All money room employees have unsupervised access to the unsecured cash in the money room vault.	The fair could remodel the money room to limit access to the vault with a two-piece door. The top half to be kept open to provide visibility to the vault and the lower half closed to restrict access.	Resolved. For the 1996 annual state fair, the fair remodeled the vault and added a two-piece door.
2. There is no vault cash log to account for cash brought into or taken out of the vault. It is not possible to determine the amount of cash that should be in the vault at any point in time, nor is it possible to determine who has removed cash from the vault.	Maintain a vault cash log.	Resolved. Starting with the 1996 annual state fair, the fair began maintaining a vault cash log. They hired a vault teller to maintain the log.
3. The nine money room employees operate out of communal cash boxes placed in a central location in the money room. All cash is commingled and missing cash could not be traced to a specific transaction or employee.	Each cashier should be given an individual cash box and held accountable for all cash handled and the central cash table could be eliminated.	Resolved. Starting with the 1996 annual state fair, the fair eliminated the central cash table and provided each cashier with an individual cash till.
4. Employees reconciling the ticket inventory to ticket sales have access to both ticket inventory and cash.	Revise cash handling procedures to not allow the employee who reconciles the ticket inventory to have access to cash.	Resolved. The employee who reconciles the ticket sales no longer has access to cash.

Prior Audit Findings	Audit Recommendations	Disposition
November 1995 Audit		
5. Physical arrangements in the money room increase the risk of errors or theft. Cashiers leave reconciled cash boxes unattended to use the only calculator available.	Counter space should be redesigned with dividers and a calculator added to each cashier's station.	Resolved. The fair added dividers between the counter space and provided each cashier with their own calculator.
6. The fair does not have procedures for enforcing the terms of licenses with exhibitors and concessionaires, which prohibit the sale of their special gate admission tickets.	Establish written policies and implement procedures to enforce penalties for unauthorized sales of tickets.	Resolved. According to the fair's internal auditor, the fair has so few occurrences of unauthorized sales of tickets that the fair has chosen to manage these on a case-by-case basis.
7. Due to reliance on the concert ticket contractor to determine ticket sales revenue, the fair has little or no assurance that reported ticket sales are accurate.	Include a contractual requirement of an audit of the contractor's system or perform its own audit of the contractor's controls and records.	Unresolved. The fair has not revised the contract language. Although the current contract allows the fair to audit the ticket contractor's records, the fair has not yet deemed an audit necessary.

REPORT DISTRIBUTION

This report is a public record and is intended for the information of the Oregon State Fair and Exposition Center's management, the governor of the state of Oregon, the Joint Legislative Audit Committee, the Oregon Legislative Assembly, and all other interested parties.

COMMENDATION

The courtesies and cooperation extended by officials and employees of the Oregon State Fair and Exposition Center during the course of the audit were very commendable and sincerely appreciated.

AUDIT TEAM

Nancy Buffinton-Kelm, CPA, CISA, Audit Administrator
Mary E. Wenger, CPA
Neal Weatherspoon, CPA
Sarah Edwards

AGENCY'S RESPONSE TO THE AUDIT REPORT

OREGON STATE FAIR
AND EXPO CENTER

February 11, 1998

Ms. Sharron Walker, Deputy Director
Secretary of State Audits Division
255 Capitol Street, Suite 500
Salem OR 97310

Dear Sharron:

I offer the following comments on the January 28, 1998 Special Review draft audit report and recommendations, as modified by your office subsequent to our February 3 meeting and faxed to me on February 4. In particular my comments reflect the following statement in the COMPLIANCE WITH LAWS AND REGULATIONS AND MANAGEMENT CONTROLS section:

"Although we did not identify any instances of non-compliance, we did identify some management controls that can be improved."

The State Fair and Exposition Center will make every effort to comply with the management control improvement recommendations contained in this audit, within the resources provided by the Governor and the Legislatively Adopted budget.

1. **Segregation of duties of temporary employees** I do not concur entirely with this finding. The finding deals with a potential for loss that cannot be measured. Yet I agree in principle with improving internal controls wherever feasible. I will implement your recommendation for additional compensating controls at the end-of-Fair [second] payroll. A sample of employee paychecks at the end of the 1998 Fair will be verified by our internal auditor.

Without evidence of ghost employees, or of any financial loss from the authority of temporary superintendents, this comment is not supported by fact. The Fair already has reasonable payroll controls to assure that only bona fide employees are paid, such as multiple signature requirements on timesheets, and separation of payroll preparation and execution. Additionally, permanent staff review actual timesheets during the annual Fair to verify hours worked, to assure that the employee is

2330 17th St. NE Salem, OR 97310-0140 503•378•3247/FAX: 503•373•1788

present at the work site, and to assure minors (ages 14-17) are working in accordance with state statutes and regulations. In many instances, permanent staff review the hiring of temporary employees by the superintendents.

2. **Cost Allocation** I agree with the analysis. Technical assistance will be sought from both the Secretary of State Audit Division and DAS Controller's Division, to design an accounting system. The objective will be to design accounting procedures, using SFMS functionality, that will allocate fixed costs equitably between Expo Events and the Fair. This must be done at a reasonable cost. I am unable to provide a projected completion date for this activity.

In addition, we will review the allocation of fixed cost in the "annual fair statements". These special statements have been prepared for the 1995 through 1997 Fairs. I will revise and reissue the statements if a larger portion fixed cost is found to be allocable to the Annual State Fair.

3. **Bond rate covenant, Bond Audit Requirement** I agree with the report findings. All reasonable recommendations of Markin Consulting, the retained financial consultant, will be implemented as soon as possible. I understand that these recommendations may also be incorporated into Phase Two of the Legislative Performance Audit, which may affect the pace of implementation.

I have already complied with ORS 286.135, and requested a waiver from DAS for the 1998 annual audit period of the 1996 Revenue Bonds.

4. **Contracting methods** I agree with the finding. The State Fair contracts coordinator and Director of Business Services will develop procedures to document decisions on contract types for State Fair business, by June 30, 1998.

5. **Overtime authorization** I agree with the finding. The recommendation to develop written procedures for the approval of overtime work will be implemented. Procedures will be in place by June 30, 1998. The Director of Operations has already issued a policy that requires overtime to be approved in advance. This "memo policy" will be incorporated in the above-noted written procedure.

6. **Staffing** I agree with this finding. It is probably always possible to improve upon the use of resources and staff. However, I suggest that the Legislative Performance Audit now being conducted satisfies your recommendation for a

further "operational study". I am unable to commit to any further analysis of the State Fair and Exposition Center.

Sincerely,

OREGON STATE FAIR & EXPOSITION CENTER

Robert R. Vernon
Director

FACTS ABOUT THE SECRETARY OF STATE AUDITS DIVISION

The mission of the Audits Division is to "Protect the Public Interest and Improve Oregon Government." The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

DIRECTORY OF KEY OFFICIALS

Director	John N. Lattimer
Deputy Director	Catherine E. Pollino, CGFM
Deputy Director	Sharron E. Walker, CPA, CFE

This report, which is a public record, is intended to promote the best possible management of public resources.

If you received a copy of an audit and no longer need it, you may return it to the Audits Division. We maintain an inventory of past audit reports. Your cooperation will help us save on printing costs.

Oregon Audits Division
Public Service Building
Salem, Oregon 97310

503-986-2255

We invite comments on our reports through our Hotline or Internet address.

Hotline: 800-336-8218
Internet: Audits.Hotline@state.or.us
http://www.sos.state.or.us/audits/audithp.htm

Auditing to Protect the Public Interest and Improve Oregon Government