

# AUDIT REPORT

## Oregon State Fair and Exposition Center: Change of Director Review



Bill Bradbury, Secretary of State  
John Lattimer, Director, Audits Division

### Summary

#### PURPOSE

This review was conducted in compliance with *Oregon Revised Statute 297.210*, which requires the Audits Division to perform an audit or review when the executive head of a state agency leaves that position for any reason.

Robert (Rusty) Vernon, who was appointed as the director of the Oregon State Fair and Exposition Center (Fair) on May 1, 1995, resigned from that position effective May 31, 2000.

#### RESULTS IN BRIEF

Some improvements should be made in how the state handles transitions between high-level administrators. The former director ceased performing the duties of director during the month of May 2000, but was asked to be available during this time for consultation. The former director received full salary and benefits for this month. This arrangement was not in writing and there was no expectation for an actual work product. While the arrangement made with the former director was permissible under current law, improvements to the transition process are needed.

In addition, we identified control improvements the Fair could make for fixed assets, travel claims, and computer access. We determined that the former director generally used state-issued credit cards, approved payroll disbursements, and entered personal service contracts in accordance with Fair and state policies during the six months prior to separation.

We noted other matters involving internal controls, which we have reported to the management of the Fair in a separate letter dated July 24, 2001.

#### RECOMMENDATIONS

**We recommend** that the Department of Administrative Services develop a formal policy addressing compensation and work responsibility issues during transitions between high-level administrators. This policy should ensure that the agreements are in writing, clearly spell out the duties and expectations during the transition period, and ensure that compensation is commensurate with the duties and expectations assigned.

**We recommend** that the Fair develop a procedure for tracking state assets assigned to employees, develop a listing of keys to all buildings, and perform an inventory to account for all keys outstanding.

**We recommend** that the Fair reiterate the travel policy to staff and request that employees fully document travel claims. Additionally, **we recommend** that the Fair review travel claims for compliance with this policy.

**We recommend** that the Fair develop procedures to document approval and removal of access to computer systems according to the duties and functions of each individual or in accordance with position descriptions.

#### AGENCY ACCOMPLISHMENTS

The Fair has resolved or is in the process of resolving multiple prior audit findings.

#### AGENCY RESPONSE

The Fair generally agrees with the recommendations.

### Background

The Oregon State Fair and Exposition Center (Fair) hosts the annual state fair and operates a facility rental program during the rest 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 about and 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 is appointed by the governor and confirmed by the Senate. 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.

### Audit Results

#### Lack of Statutory Guidance or State Policy Covering Director Transitions

The former director resigned from his position on April 27, 2000, with an effective separation date of May 31, 2000. He ceased to perform the duties of his position April 27,

but agreed to remain available for consultation during business hours during the month of May. According to the interim Fair director, she contacted the former director weekly regarding entertainment contracts and other matters, and he satisfied his responsibilities under this agreement. According to the Department of Justice, this arrangement was within the Fair's authority because it was of a limited duration and it appeared to fulfill the agency's immediate need.

At the time this agreement was made, there was no statutory guidance or formal state policy addressing compensation and work responsibility issues during transitions between high-level administrators. According to the director of the Department of Administrative Services, the arrangement was made in consultation with the Department of Justice and was done because it was a critical time of the year prior to the annual state fair and the former director was needed to consult on contract and vendor issues of which only he had knowledge.

While the former director was on call and was contacted weekly during May, we question the process used to make this arrangement in that the arrangement was not in writing, and there was no expectation of an actual work product. Further, the compensation paid during this period does not appear to be commensurate with the duties assigned.

In its review of this arrangement, the Department of Justice stated that, while the arrangement was within the Fair's authority, "...we would recommend some changes in how the matter were handled. For example, we are troubled by the apparent lack of contemporaneous written documentation of the terms of the arrangement, which makes it difficult to determine whether those terms were in fact satisfied by the former director. We would also

advise that any similar future arrangements clearly spell out expectations such as work location and hours of availability." The Department of Justice went on to say, "... we recommend that any future arrangements for the services of an outgoing director be for a brief time period, have duties and expectations clearly spelled out in a written agreement, and have payment established based upon the nature of the services being provided."

**We recommend** that the Department of Administrative Services develop a formal policy addressing compensation and work responsibility issues during transitions between high-level administrators. This policy should ensure that the agreements are in writing, clearly spell out the duties and expectations during the transition period, and ensure that compensation is commensurate with the duties and expectations assigned.

**Agency Response:** *We agree. The Department of Administrative Services and the Agency will consult with the Department of Justice to resolve this issue in an appropriate manner.*

## **Opportunities to Improve Process Controls**

### **Fixed Assets**

Our review included tests to determine whether the former director returned all assigned Fair property, including building keys, state-issued credit cards, a laptop computer, a pager, a cell phone, a television, and a hand-held radio. Because the Fair has not adopted policies or procedures for assigning assets to employees, the documentation of the assignment and return of these assets was inconsistent.

The Fair produced lists indicating the issuance and return of a key to the main office, a pager, a cell phone

and a hand-held radio. The Fair did not have documentation indicating issuance and return of keys to other buildings, state-issued credit cards, a laptop computer, and a television. Staff indicated that the state-issued credit cards were destroyed, but no documentation of a witness to the destruction was maintained. We were provided with documentation for cancellation of two of the three credit cards. We observed that the laptop computer and television were in the possession of the Fair.

While it appears that all of the assets assigned to the former director were either retained or destroyed, lack of a formal procedure for accounting for these assets increases the risk of misappropriation of assets. State rules recommend that assets be accounted for and classified.

**We recommend** that the Fair develop a procedure for tracking state assets assigned to employees, develop a listing of keys to all buildings, and perform an inventory to account for all keys outstanding.

### **Agency Response:**

- *We agree. The Agency will develop a procedure for tracking State's assets assigned to its employees.*
- *We agree. The Agency will develop a key management system and update its key inventory.*

### **Travel Claims**

During our review of the former director's travel claims and the claims he approved, we found a general lack of documentation substantiating the claims.

We reviewed 16 travel claims forms and found that nine did not conform to state policy. We found that \$1,759.89 out of \$5,476.91 travel expense reimbursements did not have documentation as required by state travel policy. The policy does not explicitly cite the type or

amount of documentation required in all cases. However, to indicate that the Fair is in compliance with the policy, documentation should exist to the degree that compliance is evident. We found the lack of documentation across multiple months and a range of employees, indicating that this is an agency-wide problem and that employees are not aware of the policy.

**We recommend** that the Fair reiterate the travel policy to staff and request that employees fully document travel claims. Additionally, **we recommend** that the Fair review travel claims for compliance with state policy.

**Agency Response:** *We agree. Travel claims will be audited to insure that they meet all the documentation requirements of the State's travel rules and collective bargaining agreement. Agency staff will be provided assistance on how to correctly complete travel expense claim forms.*

### Computer Systems Access

During our review to ensure that the former director's access to agency and state computer systems were properly cancelled upon resignation, we found that the Fair could improve its systems security controls.

While Fair personnel said that the former director's access to the Fair's system was removed and he had no access to statewide systems, there are no checklists or other

documentation to support removal of access. There also are no procedures or documentation for the approval of individual access.

Without controls in place to restrict access to the Fair or state systems, it is possible for data, programs, and other electronic applications to be corrupted or accessed by unauthorized individuals. State rules recommend that agencies provide adequate protection for information technology resources and develop internal procedures that address security for their stand-alone and shared computing resources.

**We recommend** that the Fair develop procedures to document approval and removal of access to computer systems for all employees according to the duties and functions of each individual or in accordance with position descriptions.

**Agency Response:** *We agree. The Agency will consult with the Information Resources Management Division of the Department of Administrative Services regarding issues of computer system's security. The Agency will develop written procedures and documentation for approval, access, and removal of individuals using the Agency's computer systems.*

### Results of Other Areas Reviewed

We determined that the former director generally used state-issued

credit cards, approved payroll disbursements, and entered personal service contracts in accordance with Fair and state policies during the six months prior to separation.

### Follow Up to Prior Findings

This section reports follow-up actions taken by the Fair for previously unresolved findings presented in three prior audits.

- 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 record keeping for concert and admission tickets.
- Special Review issued January 1998, which included a review of monitoring expenditures and revenues for the annual state fair, budget structure, bond covenants, documentation and control over access, compliance with statutes and administrative rules and separation of duties.

We commend the Fair for taking action to resolve or partially resolve these findings.

<b>Prior Audit Findings</b>	<b>Audit Recommendations</b>	<b>Disposition</b>
<b>September 1995 Audit</b>		
1. The Fair's practice of issuing licenses to sponsors and commercial exhibitors based on seniority may be a violation of competitive bidding requirements.	Comply with all statutory competitive bidding requirements unless there is sufficient business reason to obtain an allowable exemption from the Department of Administrative Services.	Resolved. The Oregon Revised Statute governing the Fair was revised in 1999 to allow for sponsorships not subject to competitive bidding requirements. The Fair issues licenses to commercial exhibitors based on first come–first served, compatibility of various exhibitors, and the number of years an exhibitor has had with the fair. Staff maintains that these practices do not violate competitive bidding requirements.
<b>November 1995 Audit</b>		
2. 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 an audit of the contractor's controls and records.	Resolved. The contract now includes language to allow an audit by the State and its agencies, the Secretary of State Audits Division, the federal government and their duly authorized representatives.
<b>January 1998 Audit</b>		
3. Superintendents are granted broad authority over employment and management of temporary staff without compensating controls in place.	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.	Partially Resolved. The Fair is working to implement a procedure to distribute a sample of time sheets to temporary employees during the annual state fair and verify identification of those employees. Also, the internal auditor visits superintendents to review payroll records.
<b>September 1995 Audit</b>		
4. In the Fair's cost allocation process, fixed costs are not allocated to the annual state fair, resulting in inaccurate financial information.	Use the existing budget structure to provide more useful and accurate financial information on annual state fair and non-fair activities.	Partially Resolved. The Fair now allocates a more reasonable amount of payroll and utilities costs to the annual state fair. However, interest expense, depreciation and amortization are among the fixed costs still not allocated to the annual state fair.
5. The Fair did not meet the coverage ratio required by the rate covenant in the requirements of the Fair's 1996 revenue bond issuance.	Utilize the recommendations and guidance provided by the professional Fair consultant.	Partially Resolved. The Fair did not meet the coverage ratio as of June 30, 1998; however, the Fair is in the process of implementing the consultant's guidance.
6. The Fair did not comply with <i>Oregon Revised Statute</i> 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.	Request an audit on a periodic basis and obtain exemptions from the audit requirement from the Department of Administrative Services during the other years.	Partially Resolved. The Fair requested and received oral exemptions from the audit requirement from the Department of Administrative Services. We recommend that these exemptions be maintained in writing.

Prior Audit Findings	Audit Recommendations	Disposition
7. The Fair does not adequately document its decision to use one contracting method versus another, nor does it have written policies and procedures specifying which contracting method is recommended under certain circumstances.	Establish and implement policies and procedures to ensure that adequate documentation is maintained on contracting decisions.  Seek guidance from the Attorney General regarding the recommended use of the various contracting methods.	Partially Resolved. The Fair implemented a policy dated July 20, 1998, detailing which contracting method is recommended under differing circumstances. This policy also outlines the documentation that should be maintained with the various contract types. However, procedures have not yet been created.
8. The Fair does not have written guidelines for overtime approval and authorization.	Establish and implement policies and procedures to ensure that adequate and consistent documentation is maintained for overtime authorizations.	Resolved. The Fair follows the overtime policy of the Department of Administrative Services. This policy requires approval of overtime. As additional controls, the Fair also strictly monitors the budgets of each program and the internal auditor visits superintendents to review payroll records.
9. The Fair attributes insufficient staffing and resources to preventing it from improving upon and implementing policies and procedures.	Consider having an operational study done of the use of its staff and resources.	Resolved. Report 98-4 by the Joint Legislative Audit Committee (JLAC) titled, <i>Program Evaluation of the Oregon State Fair and Exposition Center</i> states, "The Fair's human resource management is adequate but process documentation and practices are inconsistent." JLAC recommended that the Fair consider establishing a part-time technician position or look within the Fair for technical support of the human resource program. A staff member's job duties have been changed to include creating and implementing policies that supplement state policies.

**Objectives, Scope and Methodology**

This review was conducted in compliance with *Oregon Revised Statute 297.210*, which requires the Audits Division to perform an audit or review when the executive head of a state department leaves that position for any reason. Our review objectives were to assure that the Fair took appropriate actions to protect state assets upon the former director's separation.

Specifically, we:

- Reviewed payroll disbursements to the former director to determine if there were any unusual payments during his

final six months of service. We determined whether the former director was properly removed from the department payroll. We also reviewed vacation time accrued and paid to the former director;

- Determined whether state fixed assets in the custody and control of the former director were returned to the Fair upon his resignation;
- Reviewed travel reimbursement requests filed by the former director, and all travel expense reimbursements that he authorized during his final six months of service to determine whether reimbursements complied with state travel rules,

and were authorized, proper, adequately supported, and reasonable;

- Determined whether the former director's access to state and Fair automated systems were terminated upon his resignation;
- Reviewed use of state-issued credit cards by the former director and those he authorized during his final six months of service to determine whether purchases were in compliance with state law, approved, and reasonable;
- Reviewed payroll disbursements for those employees whose time sheets were approved by the former director to determine if

there were any unusual payments during the six months prior to the former director's departure;

- Reviewed personal services contracts that the Fair entered into during the director's final six months of service to determine

whether the former director entered into any related party or otherwise questionable contracts; and

- Followed up on findings from prior Audits Division reports.

We conducted this review according to generally accepted government auditing standards. We limited our review to the areas specified above.

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*The courtesies and cooperation extended by the officials and staff of the Oregon State Fair and Exposition Center were commendable and much appreciated.*

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