Report No. 2009-03

February 6, 2009

Secretary of State Audit Report

Kate Brown, Secretary of State

Charles A. Hibner, Director, Audits Division

Oregon Parks and Recreation Department: Loss of Funds Investigation and Internal Controls Review at the Oregon State Fair and Exposition Center

Summary

PURPOSE

The purposes of this audit were to investigate a potential fraud at the Oregon State Fair and Exposition Center (OSFEC) and to review OSFEC internal controls.

BACKGROUND

In October 2005, the Oregon Parks and Recreation Department (department) requested that the Audits Division review internal controls at the OSFEC in preparation for its transfer to the department.

Subsequently, in November 2005, we received allegations that an OSFEC employee had diverted client payments to a personal bank account. The employee, Debra Gorski, was an events manager for the OSFEC and was responsible for negotiating contracts for rentals of fairgrounds facilities.

In July 2006, we communicated information relating to the missing funds to the Marion County District Attorney's Office. In January 2008, Ms. Gorski was convicted of three counts of first-degree aggravated theft and was sentenced to 36 months in prison followed by 24 months of post-prison supervision. In addition, she was ordered to pay restitution for the funds she diverted.

RESULTS IN BRIEF

Our initial review substantiated the allegations of potential fraud and resulted in a joint investigation with the Oregon State Police. We determined that, from March 2001 through March 2006, Ms. Gorski diverted approximately $78,000 in state funds and approximately $16,000 in private funds.

Our audit of the OSFEC's internal controls revealed that the OSFEC had not established sound accounting policies or program controls, which could have helped prevent and detect the misappropriation of funds. In particular, we noted OSFEC management had not implemented key controls to separate responsibilities for preparing billings for facility rentals, collecting payments from clients, and recording transactions in the subsidiary accounting records. We also identified weaknesses in controls over cash, event billing processes, contracts, employee purchases and travel, and payroll.

During summer 2008, we performed supplemental work to determine whether the OSFEC's controls relating to segregation of duties, cash, and event billing processes had improved. We found that although the OSFEC had improved controls over these processes, more work remained to be done. Due to time and resource considerations, we chose not to conduct similar follow-up work on OSFEC contracts, employee travel and purchases, and payroll controls. Therefore, our reported results for those sections are specific to the original internal controls review we completed in June 2006.

RECOMMENDATIONS

We recommend department management continue its efforts to improve controls over various OSFEC business processes. See the audit results section below for our specific recommendations.

AGENCY'S RESPONSE

The Oregon Parks and Recreation Department generally agrees with the audit recommendations. The department's response, which begins on page 8, states that much of what is contained in the report was resolved when the OSFEC was integrated into the department's financial management system and through management improvements over the past three years.

Background

The Oregon State Fair and Exposition Center (OSFEC) is responsible for the annual state fair held in Salem, Oregon. In the off-season, the OSFEC rents the fairgrounds and buildings for events, parking, and recreational vehicle camping. Events held on the grounds include trade shows, rodeos, horse shows, car expositions, wedding receptions, dances, and holiday bazaars.

In recent years, the OSFEC's financial condition declined despite the efforts of the Oregon Legislative Assembly to rectify the situation. The OSFEC's continued financial difficulties led the Legislature to conclude that the OSFEC was not producing sufficient revenue from its fair and exposition events to continue operating as an independent agency. Therefore, in 2005, the Legislature adopted House Bill 3502, which transferred all properties, assets, and management of the OSFEC to the Oregon Parks and Recreation Department effective January 1, 2006.

In October 2005, the Oregon Parks and Recreation Department (department) requested that the Audits Division review internal controls at the OSFEC in preparation for its transfer to the department.

Additionally, in November 2005, we received allegations that an OSFEC employee had diverted client payments to a personal bank account. As an events manager for the OSFEC, the employee, Debra Gorski, negotiated contracts with clients for rental of the fairgrounds facilities. OSFEC management placed Ms. Gorski on administrative leave with pay in March 2006. She resigned in May 2006.

In July 2006, we communicated information relating to the diverted funds to the Marion County District Attorney's Office.

In January 2008, Ms. Gorski was convicted of three counts of first-degree aggravated theft and was sentenced to 36 months in prison followed by 24 months of post-prison supervision. In addition, she was ordered to pay restitution of $94,577.

During summer 2008, we performed supplemental work to provide an updated status of OSFEC controls relating to segregation of duties, cash, and event billing processes. Due to time and resource considerations, we chose not to conduct similar follow-up on OFSEC contracts, employee travel and purchases, and payroll controls. Therefore, our reported results for those sections are specific to the original internal controls review we completed in June 2006.

Audit Results

Our initial review substantiated the allegations that the former employee had diverted client payments to a personal bank account. We then conducted a joint investigation with the Oregon State Police to determine the extent of the OSFEC's losses. As a result, we identified a loss of approximately $78,000 in state funds and $16,000 in private funds.

Our audit of internal controls revealed that the OSFEC had not established sound accounting policies or program controls to prevent and detect the loss of funds. Although internal controls cannot always prevent fraud, they can help to reduce opportunities for fraud and lead to early detection. Furthermore, through our supplemental work focusing on segregation of duties, cash, and event billing processes, we found that although the OSFEC has improved controls, more work remains to be done.

Investigation Showed Approximately $78,000 of State Funds Misappropriated

We determined that, from August 2001 through March 2006, Ms. Gorski misappropriated approximately $78,000 of state funds.[1] We also determined that weaknesses in OSFEC internal controls facilitated misappropriation of these funds.

As an events manager for the OSFEC, Ms. Gorski was responsible for negotiating contracts for rental of fairgrounds facilities. In that position, she prepared and signed contracts, prepared invoices, accepted payments from clients, and recorded transactions in the OSFEC's subsidiary accounting records.

Our examination of documents and the OSFEC's subsidiary accounting records disclosed that Ms. Gorski employed several schemes to perpetrate fraud. For example, she often required clients to pay with cash and to submit payments to her, but did not submit the payments for deposit to the state's account. Another example of Ms. Gorski's tactics was to record one amount in the subsidiary accounting records but invoice clients for a higher amount. The clients' invoices were marked paid and clients stated they paid in cash to Ms. Gorski. However, payments equaling the lower amount were posted in OFSEC's subsidiary accounting records, indicating Ms. Gorski kept the difference.

Segregation of Duties

Effective controls include segregation of responsibilities to reduce the opportunities for any individual to be in a position to both perpetrate and conceal errors

[1] Debra Gorski also diverted private funds from March 2001 through March 2006.

or fraud in the normal course of duties. In the OSFEC's case, responsibilities for preparing billings, collecting payments, and recording transactions in the subsidiary accounting records should be separated. In contrast, Ms. Gorski had the ability to both prepare invoices and receive payments from clients. She also had access to the cash receipt booklet. Finally, Ms. Gorski had access to critical computer files allowing her to manipulate facility rental and subsidiary accounting records. These control weaknesses created an opportunity for Ms. Gorski to divert funds without being detected.

Through our supplemental work, we found that, though duties were not fully segregated, the OSFEC had taken some measures to segregate duties over receiving payments, preparing billings, and recording transactions. This included updating employee position descriptions to ensure they were consistent with segregated duties and developing a desk manual that outlined procedures for receiving payments. However, the OSFEC had yet to limit access to critical computer files to only those employees with a valid business need to access that data. Securing access to these files and ensuring that duties are segregated would further reduce the likelihood that OSFEC employees could manipulate subsidiary accounting records and divert funds without being detected.

We recommend department management take the following actions to improve OSFEC's controls:

- continue its efforts to separate responsibilities for preparing billings, collecting payments, and recording transactions in the subsidiary accounting records; and
- limit access to critical computer files to those with a valid business reason.

Agency's Response:

The department generally agrees with the recommendations. The department's response, which begins on page 8, discusses department actions that address our recommendations.

Cash Controls

The *Oregon Accounting Manual* states that department management is responsible for establishing and maintaining internal controls to provide reasonable assurance that assets are safeguarded. The OSFEC uses a manual cash collection method. As detailed below, when we examined the manual cash operations in June 2006, we determined that the OSFEC had not developed adequate controls.

- Cash was not always well protected when received.[2] Staff in the reception area was responsible for receiving cash, but because there was no safe available to secure cash, it remained in a folder on a desk until prepared for deposit.
- Cash receipting was not centralized. While most cash was received at the reception area, at times, event representatives also received payments from clients. When multiple employees have access to cash, the risk of loss increases and it is harder to determine who is responsible when a loss does occur.
- Receipts were not always provided to clients and receipt books were not adequately controlled. According to staff, receipts were provided only if currency was received or if a client requested one. In addition, although the OSFEC used pre-numbered receipts that included triplicate forms, staff did not inventory or reconcile the forms to ensure all recorded payments were accounted for.
- Reconciliations for one cash account were not prepared timely and, for other accounts, were not complete. Without timely reconciliations, the risk is higher that errors or fraud could occur and go undetected.
- Check stock was not adequately controlled. Specifically, there was no record of checks ordered, received, used, or voided. Also, no periodic inventory was taken, making it less likely missing checks would be discovered.
- One employee had access to check stock and also had check signing authority. These duties should be separated so that it is harder for someone to both write and conceal inappropriate checks.

During our supplemental work in summer 2008, we noted the following changes to OSFEC cash controls:

- The OSFEC acquired a safe for the reception area and implemented policies requiring reception area staff to secure cash receipts in the safe before and after preparing receipts for bank deposit. However, staff did not consistently secure cash receipts in the safe as required.
- Although reconciliations for all cash accounts were prepared, they were not always completed timely.
- OSFEC check stock was stored at department headquarters. However, the department had yet to implement procedures to ensure all OSFEC checks were accounted for and appropriately secured.

These control weaknesses over cash prevent management from having reasonable assurance that cash is properly safeguarded against loss and theft.

[2] Cash includes checks as well as currency.

We recommend department management improve OSFEC's controls over cash by:

- ensuring that staff consistently secure cash receipts prior to bank deposit;
- centralizing cash receipting to minimize the number of employees handling cash;
- ensuring receipts are consistently provided to clients, and reconciling controlled items such as receipts and check stock;
- performing consistent and timely reconciliations of cash accounts; and
- segregating access to checks and the authority to sign checks.

Agency's Response:

The department generally agrees with the recommendations. The department's response, which begins on page 8, discusses department actions that address our recommendations.

Event Billing Processes

Sound fiscal management requires that proper controls be in place for revenues billed and collected. At the completion of our original fieldwork in June 2006, we found the following weaknesses in the OSFEC's event billing processes.

- We noted one instance of a client not being invoiced timely. For example, this client, who regularly rented the OSFEC for various events, indicated he did not receive an invoice from the OSFEC for over a year. The client stated that, after fourteen months, he was eventually invoiced and he paid for the events, which totaled $30,638.
- Invoices did not include unique, predetermined numbers. Therefore, they could not be reconciled to determine what had been mailed, voided, or deleted. In addition, management did not review invoices to ensure the appropriate amounts were billed and the invoices were mathematically accurate before they were mailed to clients.
- Event deposit policy was not consistently applied. Policy required new clients to pay 50 percent of the facilities rental and returning clients to pay no less than $200. However, some clients were not required to pay any deposit and others were required to pay more than the required amount.
- The OSFEC did not have a process to show outstanding client balances by customer and month due**.** As a result, staff seldom assessed interest when clients paid invoices late and, in the one instance we noted when they did, we found errors.
- OSFEC event representatives were not informed of clients with delinquent accounts. We found one instance in which a client's account of $2,916 was past due by 21 months.
- We found three delinquent accounts totaling $3,425 that were written off before sufficient collection attempts were made.

Below are changes we found in the OSFEC's event billing processes during our supplemental work in summer 2008.

- Though not formalized, the OSFEC implemented a goal to distribute invoices to clients within 10 business days after the scheduled event. However, OSFEC management had not implemented procedures to monitor progress in meeting its 10-day goal.
- The OSFEC included unique and predetermined numbers on its invoices. However, the OSFEC had not implemented policies requiring management to review invoices before they are mailed to clients.
- The OSFEC recently implemented a policy requiring all clients booking events after May 2008 to pay a nonrefundable deposit equaling 30 percent of the facility rental fees. The policy also requires clients to submit the remaining 70 percent, plus any estimated charges for incidental expenses, no later than two weeks before the event date. Because the policy was relatively new, we did not evaluate compliance with the policy.
- The OSFEC notified its event representatives of clients with delinquent accounts and, although the OSFEC had taken actions to collect on delinquent accounts, it had yet to formally implement policies and procedures governing its debt collection and interest assessment activities.

We recommend department management continue its efforts to strengthen internal controls over OSFEC's event billing processes to include:

- monitoring the billing process to ensure invoices are distributed within an established time after the scheduled event and all accounts receivable are recorded in a manner to permit an aging analysis;
- reviewing invoices for appropriateness and mathematical accuracy, and reconciling them to ensure all invoices are accounted for;
- establishing policies and procedures for assessing interest on delinquent accounts;
- monitoring facility rental deposit and interest assessment practices to ensure that established policies are followed consistently; and
- developing policies and procedures governing OSFEC's debt collection activities and ensuring debt collection

activities are consistent with state policy.

Agency's Response:

The department generally agrees with the recommendations. The department's response, which begins on page 8, discusses department actions that address our recommendations.

Note: Due to time and resource considerations, we chose not to conduct follow-up work on the extent to which the department had addressed the findings for contracts, employee purchases and travel, and payroll, as part of its on-going efforts to integrate the OSFEC into the department. Therefore, the findings and recommendations below are based on our original fieldwork, which we completed in June of 2006.

Contracts

Department management is responsible for designing and implementing adequate controls over the contracting process, including ensuring employees have the resources and training necessary to perform their duties and comply with state statute. Management is also responsible for designing and implementing adequate monitoring activities to ensure contractors comply with contract terms, achieve performance expectations, and submit requests for payments that are accurate and adequately supported.

We found significant weaknesses in management controls and oversight in the area of professional services procurement. Contract files were often incomplete; contract payments did not always agree with the terms of the contract; and contract payments were not tracked in total to ensure they did not exceed the contract value. In addition, staff did not always follow contracting rules designed to promote competition, such as the requirement to obtain at least three bids. Finally, OSFEC management did not take steps to ensure that staff had no conflict of interest in their relationships with contractors. For example, in two instances, an OSFEC employee in charge of a contract had family members working for the contractor at the time of bid submission, which created a potential conflict of interest.

We believe weaknesses in the OSFEC's contract controls were the cause of $89,174 in overpayments we identified. In one case, contrary to state statute, the OSFEC did not obtain at least three competitive price quotes or competitive proposals to obtain ATM services for patrons during the State Fair and non-fair activities. The contractor later violated the agreement by overcharging patrons of the State Fair $4,812 in ATM surcharge fees. In other cases, the OSFEC made contract payments that were not consistent with the contract defined scope of services or fee compensation terms, resulting in overpayments to three contractors totaling $84,362.

We recommend department management improve controls over contracting by taking the following actions:

- Implement procedures to ensure staff follow state contracting rules.
- Ensure contract files are complete. Consider creating a checklist of required items for staff use.
- Establish a standard training curriculum for all staff assigned contracting responsibilities. The training should include contract solicitation and selection requirements designed to promote a competitive procurement process.
- Provide a uniform means of tracking all contract payments to ensure they are consistent with contract terms and do not exceed the contract value.
- Implement a process to ensure OSFEC staff have no conflict of interest, including being independent from bidding clients and their staff.

Agency's Response:

The department generally agrees with the recommendations. The department's response, which begins on page 8, discusses department actions that address our recommendations.

We also recommend that department management pursue recovery from the contractor of the $84,362 in contract overpayments.

Agency's Response:

The department's response, which begins on page 8, states that the department will further research the payments in question to identify an appropriate course of action consistent with the Oregon Accounting Manual.

Employee Purchases and Travel

In accordance with state policy, agency heads and other employees with delegated expenditure approval authority are responsible for verifying that expenditures are appropriate, meet the business needs of agency, and are supported by sufficient documentation. In addition, expenditures should be authorized prior to obligation of funds. Likewise, agency managers are charged with responsibility for determining the necessity, available resources, and justification for the need to travel.

When we reviewed employee purchases and travel transactions at the OSFEC, we found purchases did not fully comply with state policy. This included inadequate supporting documentation, calculation errors and travel that did not appear justified. Below are examples of the problems we found.

- Purchases for meetings totaling $495 did not comply with state policy for meals, refreshments and travel. Specifically, the purchases did not include adequate supporting documentation such as an agenda, list of attendees, or itemized receipt.

- Unauthorized business purchases totaling $480 were made as a courtesy for clients.
- One travel reimbursement for $196 included incorrect per diem rates, duplicate payments, and incorrect mileage.
- Travel reimbursements totaling $2,103 lacked clear justification or purpose. For example, the purpose of one trip was to obtain signatures on an Oregon State Fair permit when signatures had already been obtained months prior. In another instance, travel expense documentation lacked justification for the purpose of the trip.

We recommend department management develop and implement internal controls to ensure employee purchases and travel serve the business needs of the agency, are properly authorized, and adhere to state policy.

Agency's Response:

The department generally agrees with the recommendation. The department's response, which begins on page 8, discusses department actions that address our recommendation.

Payroll

Department management is responsible for implementing adequate internal controls to ensure payroll expenditures are complete and accurate. This includes reviewing and approving documentation that supports the expenditures. If errors are detected on an employee's time record, the supervisor must coordinate with the employee to correct it in a timely manner. In addition, duties should be separated so that no employee is allowed to enter his or her own time records into the payroll accounting system.

When we reviewed payroll timesheets and supporting documentation, we found records were in a state of disarray. As a result, the OSFEC could not demonstrate that payroll expenditures were complete and accurate. Below are examples of the problems we encountered.

- Some timesheets lacked adequate documentation, which prevented us from determining whether overtime and shift differentials were calculated accurately.
- Timesheets contained numerous markings and corrections with generally no indication of who made the corrections or why they were made.
- Hours on final timesheets did not always agree to what was entered into the payroll system.
- Some timesheets were not approved by the employee's supervisor; others were not approved at all.
- Payroll duties were not segregated, allowing one employee to review, approve, and enter timesheets. In addition, one employee entered her own timesheets into the payroll system.
- In several instances, the OSFEC had no evidence that overtime was pre-approved in writing as required by OSFEC policy. In addition, management did not review overtime exception reports, which provide a tool to monitor overtime usage and identify abuse.
- One employee received $1,095 as payment for unused vacation leave. However, the OSFEC lacked the necessary documentation in the employee's payroll file showing that the employee requested to use leave and was denied, which are preconditions in state policy for a vacation payout.

As these examples illustrate, without adequate controls, the OSFEC cannot be sure that payroll is complete and accurate. As such, the OSFEC runs the risk that errors could go undetected and uncorrected resulting in a loss of state funds.

We recommend department management improve controls over payroll so that they include:

- appropriate review and approval of timesheets, including ensuring that they contain the information necessary to ensure hours worked are complete and accurate;
- adequate segregation of payroll responsibilities;
- prior written authorization for and monitoring of overtime; and
- verification that vacation payouts are in accordance with state rules.

Agency's Response:

The department generally agrees with the recommendations. The department's response, which begins on page 8, discusses department actions that address our recommendations.

Objectives, Scope and Methodology

Our objectives for this audit were to investigate a potential fraud at the OSFEC and review OSFEC internal controls, as requested by the department.

To meet our first objective, we interviewed department personnel and OSFEC clients and contractors, and examined documentation obtained from the OSFEC and from Ms. Gorski's home during the execution of a search warrant. To review the appropriateness of amounts paid for events scheduled at the OSFEC, we contacted 349 clients to request information about 495 events scheduled from July 2002 to November 2006.[3] Of the 495 events, we were able to test 292. We were unable to test the remaining events due to unresponsive clients, cancelled events and lack of documentation. For the events we tested, we compared the information we obtained from clients to the OSFEC's records. With assistance from the Oregon State Police, we reviewed information stored on Ms. Gorski's personal and work computers. We also reviewed Ms. Gorski's bank records dating from January 2000 to March 2006.

For our review of OSFEC internal controls, we interviewed department personnel; reviewed applicable policies, rules, and laws; and reviewed the OSFEC's procedures for cash handling, accounts receivable, accounts payable and expenditures, payroll, contracting, procurement cards, and employee reimbursements. To evaluate the integrity of financial information and effectiveness of OSFEC controls, we conducted substantive, control and compliance testing. We tested samples of cash deposits, cash reconciliations, employee timesheets, procurement transactions, expenditures and employee reimbursements. As noted above, we also reviewed event transactions. Finally, we tested all 21 of the OSFEC's long term contracts that were active as of April 2006.

We conducted our fieldwork through June 2006. Legal proceedings continued until January 2008. In summer 2008, we performed supplemental work to provide an updated status of OSFEC controls relating to segregation of duties, cash, and event billing processes. This work did not include an update on OFSEC contracts, employee travel and purchases, and payroll controls. To complete the supplemental work, we interviewed department personnel, reviewed applicable policies, and examined current accounting records. Neither during our original or supplemental work did we examine controls OSFEC staff followed during the time the State Fair was open to the public.

We performed this audit in accordance with generally accepted government auditing standards.

[3] Although our fieldwork ended in June 2006, some clients prepaid for their events, which were scheduled to occur as late as November 2006.

Oregon
Theodore R. Kulongoski, Governor

Parks and Recreation Department
725 Summer Street NE, Suite C
Salem, OR 97301-1266
(503) 986-0707
FAX (503) 986-0794
www.oregonstateparks.org

January 27, 2009

Charles Hibner, Director
Oregon Secretary of State, Audits Division
255 Capitol St NE, Suite 500
Salem, OR 97310

Dear Mr. Hibner,

This letter is the agency response to the draft audit report "Oregon Parks and Recreation Department: Loss of Funds Investigation and Internal Controls Review at the Oregon State Fair and Exposition Center."

The Oregon Parks and Recreation Department (OPRD) generally agrees with the audit recommendations. However, most of the events uncovered by the audit occurred before management of the Oregon State Fair and Exposition Center was transferred to OPRD. Improvements have been made in the last three years that have already addressed most of the recommendations.

The specific audit recommendations are addressed by section.

[Segregation of Duties] We recommend department management take the following actions to improve OSFEC's controls:

- ***continue its effort to separate responsibilities for preparing billings, collecting payments, and recording transactions in the subsidiary accounting records; and***
- ***limit access to critical computer files to those with a valid business reason.***

OPRD generally agrees with these recommendations. As these and other findings became known during the integration of the State Fair into the department, OPRD segregated duties, changed position descriptions and desk manuals, incorporated all state fair financial transactions, accounting records, and asset management into ORPD's overall accounting systems and processes through FMS and the HUB. OPRD addressed major weakness in internal control by changing payment requirements for vendors and instituting a strengthened accounts receivable system that relies on FMS to generate receivables in the accounting system and create and assign sequential invoice numbers.

In addition, OPRD has taken significant steps to reduce risk of misappropriation. OPRD has separate staff responsible for preparing billings, collecting payments, and recording transactions in the accounting records. Further segregation of access to the event planning software will be strengthened through improved password protections.

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[Cash Controls] We recommend department management take the following actions to improve OSFEC's controls over cash by:

- ***ensuring that staff consistently secure cash receipts prior to bank deposit;***
- ***centralizing cash receipting to minimize the number of employees handling cash;***
- ***ensuring receipts are consistently provided to clients, and reconciling controlled items such as receipts and check stock;***
- ***performing consistent and timely reconciliations of cash accounts; and***
- ***segregating access to checks and the authority to sign checks.***

OPRD generally agrees with these recommendations. Since the audit was conducted, OPRD implemented significant improvements to cash controls, especially regarding the weak controls that existed for exposition season events.

OPRD is further taking steps to centralize cash receipting when possible, and effective immediately will be providing receipts for all transactions. Further, checks for OPRD are controlled items that are managed with all OPRD check-stock.

[Event Billing Processes] We recommend department management continue its efforts to strengthen internal controls over OSFEC's event billing process to include:

- ***monitoring the billing process to ensure invoices are distributed within an established time after the scheduled event and all accounts receivable are recorded in a manner to permit an aging analysis;***
- ***reviewing invoices for appropriateness and mathematical accuracy, and reconciling them to ensure all invoices are accounted for;***
- ***establishing policies and procedures for assessing interest on delinquent accounts;***
- ***monitoring facility rental deposit and interest assessment practices to ensure that established policies are followed consistently; and***
- ***developing policies and procedures governing OSFEC's debt collection activities and ensuring debt collection activities are consistent with state policy.***

OPRD generally agrees with these recommendations. Since the audit was conducted, use of our event planning software has been improved in the following ways: we made clear the segregation of duties through policies, vendor guides, and desk manuals; we no longer use the event planning system for accounting functions (e.g. invoicing); and we initiated password protections to protect against unauthorized use.

We have significantly improved management of accounts receivable. In May 2008, we implemented new procedures for 30% deposits and prior payment for events, as detailed in the May 2008 *Client Services Guide*. This is consistently applied to events booked after April of 2008.

All State Fair managers and event representatives are provided weekly reports of aged accounts receivable prepared from our event planning software. Past due accounts are transferred to the OPRD Accounting Division for processing after 90 days delinquency. Interest is charged on unpaid balances at that time. Referral to collection agents occurs as required by an OPRD draft policy and schedule. Because full payment is now required prior to an event, the accounts receivable has been reduced and now only includes extremely old past due accounts, shows booked prior to May 2008, and shows with incidental expenses negotiated during the course of show or shows with variations between estimated facility needs and actual costs. In addition to the aged accounts receivable, managers and event representatives also receive a report of Unpaid Deposits for Future Events that documents the

Show Date, Payments Received, Amount and Date First and Second Deposits are Due. Past due amounts are circled and event representative are required to pursue payment

[Contracts] We recommend department management improve controls over contracting by taking the following actions:

- ***Implement procedures to ensure staff follow state contracting rules.***
- ***Ensure contract files are complete. Consider creating a checklist of required items for staff use.***
- ***Establish a standard training curriculum for all staff assigned contracting responsibilities. The training should include contract solicitation and selection requirements designed to promote a competitive procurement process.***
- ***Provide a uniform means of tracking all contract payments to ensure they are consistent with contract terms and do not exceed contract value.***
- ***Implement a process to ensure OSFEC staff have no conflict of interest, including being independent from the bidding client and the clients' staff.***

OPRD generally agrees with these recommendations. As the State Fair was integrated into the department, we implemented significant controls over contracting. This included gaining legislative authority for a new contract officer position, weekly contract review meetings and significant improvements to contract management that were realized when OPRD instituted the HUB system.

State Fair staff meets weekly with OPRD contract officers to review contracts in process and to ensure legally sufficient procurements. ORPD contracts officers maintain all contract files within ORPD's central contracting unit to ensure that all contract files are complete. In addition, State Fair staff members utilize OPRD's HUB system to ensure all information regarding procurements is available within a shared computer system. State Fair staff has been trained in contract administration and the weekly meetings remind staff of the importance of understanding OPRD contract management policies and procedures. Staff members who process contract payments are required to verify payment requests against the contracts to ensure payment requests meet the terms and conditions of the contract and cumulative payments don't exceed the contract limits. Staff members involved in contractor selection have been trained to avoid conflict of interest.

[Contracts] We also recommend department management pursue recovery from the contractor for the $84,362 in contract overpayments.

OPRD will further research the payments in question to identify an appropriate course of action consistent with the Oregon Accounting Manual. It is important to note that these overpayments accrued from 2002 to 2005, before the State Fair was part of OPRD.

[Employee Purchases and Travel] We recommend department management develop and implement internal controls to ensure employee purchases and travel serve the business needs of the agency, and are properly authorized.

OPRD generally agrees with these recommendations. As a result of integration with OPRD, the Oregon State Fair is managed within the framework and standards of all of OPRD. Internal controls in place do ensure that purchases and travel serve the business needs of OPRD, are properly authorized prior to obligation, and adhere to state policy.

[Payroll] We recommend department management improve controls over payroll so that they include:

- ***appropriate review and approval of timesheets, including ensuring that they contain the information necessary to ensure hours worked are complete and accurate;***
- ***adequate segregation of payroll responsibilities;***
- ***prior written authorization for and monitoring of overtime; and***
- ***verification that vacation payouts are in accordance with state rules.***

OPRD generally agrees with these recommendations. Since the audit was conducted, Oregon State Fair payroll was integrated with OPRD payroll processes. Permanent State Fair staff members utilize the Oregon State Payroll System's online daily time capture and supervisors are required to adhere to OPRD's policies and procedures regarding payroll, authorization for vacations and overtime, vacation payouts, and timesheet management temporary and seasonal employees.

While it is generally management's intention at OSFEC to provide prior written approval of overtime requests, much of OSFEC's overtime occurs during the 11 day Oregon State Fair. In several cases, managers are faced with a need to provide on-the-spot approval of overtime, and the best course of action is to ask skilled staff to work. That said, OSFEC managers will undergo training to help develop strategies to reduce use of overtime and develop techniques to minimize the amount of overtime that does not have prior written approval.

In closing, we appreciate the efforts to conduct this audit and would like to commend the audit team for their professionalism during this audit. We will continue to strengthen internal controls and will incorporate the recommendations that reflect the deficiencies identified by the limited supplementary audit work performed in summer 2008. If you have any further questions or clarifications, please feel free to contact me. Thank you for the opportunity to respond prior to the release of the audit.

Sincerely,

Tim Wood

Tim Wood,
Director
Oregon Parks and Recreation Department

Secretary of State
Audits Division

255 Capitol St. NE, Suite 500
Salem, OR 97310

Auditing to Protect the Public Interest and Improve Oregon Government

AUDIT MANAGER: *Nancy Young, CPA, CISA, CFE*
V. Dale Bond, CPA, CISA, CFE
James E. Scott, MM

AUDIT STAFF: *Jamie N. Ralls, CFE*
Andrew Love
Sarah Anderson
Bevin Clapper, MPA
Brianna Proctor
Nicole Rollins

DEPUTY DIRECTOR: *Mary E. Wenger, CPA*
William K. Garber, CGFM, MPA

Courtesies and cooperation extended by officials and staff of the Oregon Parks and Recreation Department and Oregon State Fair and Exposition Center were commendable and much appreciated.

This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained:

Internet: *http://www.sos.state.or.us/audits/index.html*

Phone: *at 503-986-2255*

Mail: *Oregon Audits Division*
255 Capitol Street NE, Suite 500
Salem, OR 97310