OPERATIONAL AUDIT

Stephens County Fairgrounds

For the Period of July 1, 2014 through March 31, 2017

Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

STEPHENS COUNTY FAIRGROUNDS
OPERATIONAL AUDIT
FOR THE PERIOD OF JULY 1, 2014 THROUGH MARCH 31, 2017

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Oklahoma State Auditor & Inspector

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November 14, 2017

TO THE CITIZENS OF
STEPHENS COUNTY, OKLAHOMA

Transmitted herewith is the audit report of Stephens County Fairgrounds for the period of July 1, 2014 through March 31, 2017.

The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

Sincerely,

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

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PRESENTED FOR INFORMATIONAL PURPOSES ONLY

COUNTY OFFICIALS AND KEY PERSONNEL

Board of County Commissioners

District 1 – David McCarley
District 2 – Todd Churchman
District 3 – Dee Bowen, Chairman

County Clerk

Jenny Moore

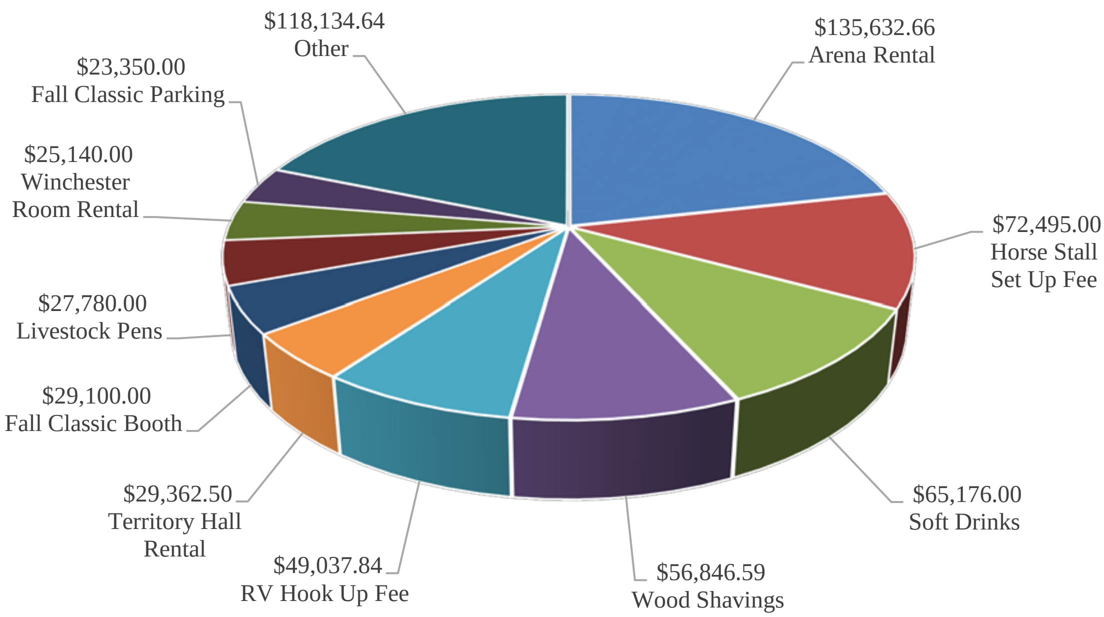
District Attorney

Jason Hicks

Stephens County Fairgrounds Key Employees

Director – Mike Anderson
Secretary – Donna Kelly

Total Sales by Services Offered



The total sales by services offered for the period of July 1, 2014 through March 31, 2017 totaled $632,055.23.

BACKGROUND INFORMATION

BACKGROUND INFORMATION

Sales Tax and Fund Descriptions

On November 7, 2000, the voters of Stephens County approved a one-fourth of one percent (1/4%) sales tax for the sole purpose to pay for acquiring, constructing, equipping, repairing, renovating, operating, and maintaining County Fair facilities for the County of Stephens, Oklahoma; to pay the principal of and interest on indebtedness incurred on behalf of said County by the Stephens County Government Building Authority for such purposed; providing that said sales tax shall expire and cease to be collected on December 31, 2020; fixing effective date; making provisions accumulative; and providing severability of provisions. The said sales tax shall expire December 31, 2020, at which time all indebtedness of the Governmental Building Authority Facility Operations will be retired. The sales tax is accounted for in two funds known as the Governmental Building Authority Facility Sales Tax and Governmental Building Authority Facility Operations.

Following are descriptions of the funds used to account for the revenues and expenditures of the Stephens County Fairgrounds:

Governmental Building Authority Facility Operations (GBAF-OP) – accounts for the funds collected from a county sales tax to be used for the maintenance and operation of the Stephens County Fairgrounds and Buildings.

Governmental Building Authority Facility Sales Tax (GBAF) – accounts for the sales tax funds used to retire debt incurred when the Authority built the Stephens County Fairgrounds Buildings.

Free Fair (FF) – accounts for monies received from rentals and used for the operation of the Fairgrounds.

Commissioner Over the Fairgrounds

The Board of County Commissioners (BOCC) votes each calendar year for which County Commissioner oversees the overall operations of the Fairgrounds. The following Commissioners were over the Fairgrounds during the audit period:

- Calendar Year 2014 – Darrell Sparks, former District 2 Commissioner
- Calendar Year 2015– David McCarley, current District 1 Commissioner
- Calendar Year 2016– David McCarley, current District 1 Commissioner
- Calendar Year 2017– Todd Churchman, current District 2 Commissioner

Executive Session

Mr. Anderson was hired in executive session on September 20, 2010. Executive session minutes are sealed and cannot be opened without approval from the BOCC. After the executive session, the BOCC did not list Mr. Anderson’s job duties or his full-time hourly status to employees who review his timesheet.

Hourly Status of Stephens County Employees

There are two classifications of employees at Stephens County – office employees and groundskeepers. Office employees have a full-time status consisting of 35 hours per week. Groundskeepers have a full-time status consisting of 40 hours per week. The employee handbook does not formally establish the differences between the two groups. Employees who have a full-time status of 35 hour per week are eligible to receive straight-time compensation if they work over 35 hours in a week. Straight-time is hour-per-hour up to 40 hours. If those employees work over 40 hours, they are eligible for compensatory time, which is given at a rate of time plus one-half. Employees who have a full-time status of 40 hours per week are eligible for compensatory time for hours worked in excess of 40 hours per work week which is given at a rate of time plus one-half.

SUMMARY OF FINDINGS

SUMMARY OF FINDINGS

On April 10, 2017, the Board of County Commissioners met in an open meeting and voted to engage with the Oklahoma State Auditor and Inspector's Office (OSAI) to perform an operational audit of the Stephens County Fairgrounds.

The Stephens County Fairgrounds (the Fairgrounds) is made up of an Expo Arena, barns, livestock arena, conference center, offices, and RV park. Revenue is derived from the rentals of buildings, arenas, RV hookups, stalls, and sale of woodchips. The Fairgrounds is operated by Director Mike Anderson, Secretary Donna Kelly, and approximately nine (9) groundskeepers.

The objective of this audit was to review the financial operations of the Fairgrounds and determine that revenues and expenditures were accurately reported in the monthly reports presented to the BOCC and that financial operations complied with significant laws and regulations. OSAI performed a review of all financial transactions during the audit period, and conducted interviews with management of the County and Fairgrounds employees. We noted several areas of concern that warrant the further attention of management. These areas are summarized below. The related findings and detailed recommendations for corrective action are presented in this report.

Payroll Fraud

Mike Anderson was hired for the position of Director of the Stephens County Fairgrounds. The BOCC entered into executive session with Mike Anderson in attendance. The action of determining the terms of his employment was approved within the executive session which is a violation of state statute. Subsequent to this closed meeting, no members of the BOCC communicated the terms of the employment to the County Clerk who is responsible for processing payroll so that this information could be documented in Anderson's personnel file.

The BOCC authorized the minutes of the executive session to be unsealed to determine the specifics of the job requirements. The audio recording of the minutes was reviewed and it was determined that Anderson was hired with the requirement to work 40 hours per week. During OSAI interviews with Anderson, he stated that he could not speak as to the nature of his official duties, due to being hired in executive session, but that he was an office employee who was required to work 35 hours per week to maintain full-time status.

Timesheets reviewed and signed by Mike Anderson reflected a workweek of 35 hours per week and he claimed additional hours for anything worked in excess of that amount. During the audit period, the County paid Anderson an amount of $15,162.43 that was not due to him.

Contracts

The BOCC is required by state statute to act as a Board in approving contracts rather than individual county commissioners entering into contracts. Therefore, the BOCC is required to approve all contracts in an open meeting which would include rental and sale rates charged at the Fairgrounds. OSAI noted the following issues with contracts of the Fairgrounds:

- The contract for handling alcohol sales at the Fairgrounds was created with input from Mike Anderson, Commissioner McCarley, members from the Duncan Chamber of Commerce and the Simmons Center Foundation. This contract was never reviewed or approved in open meeting by the BOCC, or by the District Attorney who acts as legal counsel to the County.
- During the audit period, the Stephens County Fairgrounds operated under an expired 15-year contract with Coca-Cola for bottled drinks. The Fairgrounds still requires Coca-Cola products be used in concession stand sales even though there is no current contract with Coca-Cola.
- The Director is issuing three-year contracts for events and giving discounts upon the third year without the proper authorization from the BOCC.
- Contracts for events are not approved by the BOCC.

Pricing and Unauthorized Discounts

OSAI reviewed contracts of the Fairgrounds and all related financial transactions during the audit period. Discounts in rental prices and goods in the amount of $40,129.00 were given by the Director to certain event organizers without any oversight or approval from the BOCC.

Monthly Reports

The BOCC has not formally outlined what information should be reflected on monthly reports to accurately understand the financial position of the Fairgrounds. Monthly Reports submitted to the BOCC include incorrect information from other accounts, revenues and expenses are not recorded when the transaction occurs, and deposit dates listed on the Monthly Reports are not accurate.

Receipts

Internal controls regarding the collections process are not operating effectively and did not provide assurance that all receipts were recorded in an accurate, complete manner. Receipt books are issued out of order, receipts are not recorded into the accounting system, and transactions are recorded into the accounting system without a receipt being issued.

Control Environment

The Fairgrounds has not instituted an internal control framework. Specifically, a control environment should be established following an evaluation to ensure sound accounting policies are implemented and are clearly communicated by management to all employees. OSAI was provided an audio recording of a conversation between Director Mike Anderson, Secretary Donna Kelly, and an alcohol caterer that occurred on October 3, 2017. The following information was noted in the audio recording:

- The alcohol caterer tells Director Anderson that he is backdating his check to the fairgrounds so the BOCC does not question why the payment was not made in a timely manner.

- The Director asks the Secretary if she changed the date on the deposit slip. Upon the Secretary refusing to make any changes to the deposit, the Director states, “Well then let me have it and I will do it.” The Director then asks for a blank deposit slip. When the Secretary again refuses to make any changes, the Director states, “That’s fine. I will remember it.”

In addition to this example of backdating deposit slips in an apparent effort to cover up for a delinquent vendor, the Director has displayed a propensity for hiding critical information from the BOCC. It appears, from the recording, that a subordinate employee was threatened after refusing to collude in a possible conspiracy to deceive the BOCC. Further, the backdating of a deposit slip creates the appearance the Fairgrounds was not timely depositing revenue as required by statute.

It is indisputable that the Director granted discounts to certain vendors resulting in both the appearance of favoritism toward these vendors and reduced revenue for the county. Additionally, the Director has entered into contracts without first obtaining approval from the BOCC as required by statute.

For its part, the BOCC appears to lack sufficient oversight of fairground operations by neglecting to develop formal policies and procedures regarding its operations. This aspect of detached management lead to an environment resulting in poor financial reporting, loss of revenue to the County, and noncompliance with state statutes regarding contracts. OSAI recommends the BOCC take immediate action to implement sound accounting practices over the financial processes of the Fairgrounds.

OBJECTIVE AND RESULTS OF OPERATIONAL AUDIT

PURPOSE, SCOPE, AND SAMPLE METHODOLOGY

This audit was conducted in response to 74 O.S. § 212(I), which requires the State Auditor and Inspector's Office to audit the books and accounts of county officers.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial related areas of operations based on assessment of materiality and risk for the period of July 1, 2014 through March 31, 2017. Our audit procedures included:

- Inquiries of appropriate personnel,
- Inspections of documents and records,
- Observations of the Department's operations,
- Selecting representative samples to determine revenues were deposited into the appropriate account and collections were deposited timely,
- Selecting representative samples to determine disbursements were made in accordance with state statutes, approved ballots, and county purchasing procedures, and
- Gaining an understanding of the Department's internal controls as it relates to the audit objective.

To ensure the samples were representative of the population and provided sufficient, appropriate evidence, both random sample and judgmental sample methodologies were used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

This report is a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.

Objective 1:	**To determine whether the Department's internal controls provide reasonable assurance that revenues and expenditures were accurately reported in the monthly reports presented to the Board of County Commissioners and financial operations complied with significant laws and regulations.**

Conclusion: With respect to the items reviewed; the Department's internal controls do not provide reasonable assurance that revenues and expenditures were accurately reported in the monthly reports presented to the Board of County Commissioners and financial operations did not comply with significant laws and regulations.

FINDINGS AND RECOMMENDATIONS

Finding 4 – Payroll Fraud

Condition: Mike Anderson, the Director of the Fairgrounds, has been receiving full compensation while working less than his hourly full-time status allows.

After reviewing available timesheets, payroll records, and a previously sealed audio recording of an executive session meeting of the Board of County Commissioners (BOCC), in which the job duties and work week of the position of Director were discussed along with the decision to hire Mike Anderson as the Stephens County Fairgrounds Director, it appears Mr. Anderson may have subsequently misled Fairgrounds personnel, other county personnel and officials as to the actual terms of his employment.

When OSAI spoke with Mr. Anderson regarding his job duties, he stated that he could not speak as to the nature of his official duties, due to being hired in executive session, but that he was an office employee who was required to work 35 hours per week to maintain full-time status, and engaged in public relations on behalf of the Fairgrounds.

During the audit, the BOCC agreed to unseal the executive session minutes for the executive session meeting in which the terms of Mr. Anderson's employment was approved. After listening to the audio recording of the executive session meeting, in which the job duties and the actual work week were outlined by the BOCC, it was determined that Mr. Anderson was hired to work a 40-hour work week. It should be noted that the BOCC did not communicate this decision in an open meeting and this information was not relayed to personnel who would be reviewing Mr. Anderson's payroll.

Mr. Anderson's signed, submitted, and approved timesheets show a weekly salary based on a 35-hour work week. As such, in those weeks in which his hours exceeded 35 hours, Mr. Anderson received straight-time overtime as compensatory time until he reached 40 hours, after which compensatory time at a rate of time plus one-half for all hours worked was given. Since Mr. Anderson maintains a full-time status at 40 hours per week, he is ineligible to receive straight-time.

During the audit period, the total cost to the County for compensating Mr. Anderson for a 40-hour work week, but him only working 35 hours, totaled $15,162.43.

It also appears the BOCC took action to set the terms of Mr. Anderson's employment in an Executive Session of the BOCC, which is in violation of Open Meeting Laws. Title 25 O.S. § 307 (B)(1) allows executive sessions only for the purpose of "*Discussing the employment, hiring, appointment, promotion, demotion, disciplining or resignation of any individual salaried public officer or employee.*"

Further, the BOCC likely erred in not properly informing the Payroll Clerk, and other County personnel of the 40-hour full-time work week of the Director's position. This is significant in that all Fairgrounds office personnel, as with most courthouse employees, work a 35-hour week full-time schedule. Only the Fairgrounds groundskeepers maintain a full-time status at 40 hours per week.

Cause of Condition: The Director of the Fairgrounds was hired during an executive session meeting. Following the meeting, the BOCC did not communicate the job duties and work schedule for that position to the County personnel who process Mr. Anderson's payroll, resulting in the Director being able to work 35 hours a week as a full-time employee instead of his required 40 hours per week as full-time status.

Effect of Condition: This condition appears to have resulted in abuse and misappropriation of assets.

Recommendation: The Oklahoma State Auditor & Inspector's Office (OSAI) recommends that the BOCC upon hiring a new employee ensure steps are taken to communicate job duties and work schedule to personnel who would be processing payroll. This information should be documented in the employee's personnel file. Job duties and descriptions of County employees should also be transparent to reduce the risk of abuse and misappropriation of assets.

OSAI further recommends that the BOCC follow state statutes regarding the Open Meetings Act that limits executive sessions to discussion with all action taken only upon reconvening the official meeting.

Management Response:
Chairman, Board of County Commissioners: The Board of County Commissioners will review this and make any and all necessary changes to correct the conditions found in the report.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of payroll calculations and/or transactions to allow for prevention and detection of errors and abuse. To help ensure a proper accounting of funds, supporting documentation such as payroll claims and timesheets should be reviewed by personnel that has the necessary information available to accurately approve payroll claims.

Title 25 O.S. § 307 (B)(1) states, "Executive sessions of public bodies will be permitted only for the purpose of:

1. Discussing the employment, hiring, appointment, promotion, demotion, disciplining or resignation of any individual salaried public officer or employee;"

Title 25 O.S. § 312 (A) states, "The proceedings of a public body shall be kept by a person so designated by such public body in the form of written minutes which shall be an official summary of the proceedings showing clearly those members present and absent, all matters considered by the public body, and all actions taken by such public body. The minutes of each meeting shall be open to public inspection and shall reflect the manner and time of notice required by this act."

Finding 12 – Inadequate Internal Controls Over Contracts and Noncompliance with State Statute

Condition: OSAI reviewed the contracts issued by the Stephens County Fairgrounds. OSAI noted that one of the contracts over the alcohol sales was created by Mike Anderson, the Director of the Stephens County Fairgrounds; David McCarley, the Stephens County District 1 Commissioner; and members of the Duncan Chamber of Commerce and the Simmons Center Foundation.

This contract is between the event organizer and the caterer who provides sales of alcoholic beverages. The contract looks like an official Stephens County contract with the logo of the Fairgrounds at the top, however, upon further review it was determined that it was copied from a contract provided by a member of the Simmons Center Foundation.

From: Chris Deal [ccpres@duncanchamber.com]
Sent: Thursday, August 11, 2016 2:39 PM
To: 'Mike Anderson'
Subject: RE: Revised Catering Contract 2016--EXPO CENTER
Attachments: Catering Contract 2016--EXPO CENTER.pdf

Mike,
I have added 10% of the gross receipts to the contract.
Best to you,
Chris

From: Mike Anderson [mailto:freefair@sbcglobal.net]
Sent: Thursday, August 11, 2016 1:09 PM
To: 'Chris Deal' <ccpres@duncanchamber.com>
Subject: RE: Revised Catering Contract 2016--EXPO CENTER

Chris
David McCarley & I briefly looked over the contract and only noticed one possible change. The paragraph outlining the payment of 10% (of the Gross) to the Fair & Expo. Adding "of the Gross " .

Thanks Chris

Mike

From: Chris Deal [mailto:ccpres@duncanchamber.com]
Sent: Thursday, August 11, 2016 11:40 AM
To: 'Mike Anderson'; ldjones@simmonscenter.com
Subject: Revised Catering Contract 2016--EXPO CENTER
Importance: High

Mike,
Loisdawn proofed contract for me and I have attached latest update to share.
Thanks,
Chris

This contract includes language to give ten percent of the gross sales of alcohol to the Fairgrounds. Regarding the Fairgrounds receiving ten percent of the gross sales, the contract states, "… CATERER agrees that CATERER shall make no reference whatsoever to the EXPO CENTER and/or the fee set for in this paragraph 2 in any of the CATERER'S invoices, correspondence or other writings prepared by or on behalf of CATERER." This language appears to try and conceal the money collected and remitted to the Fairgrounds.

> 2. __FEE FOR LICENSE.__ In consideration of the rights herein granted to CATERER, CATERER agrees to pay a fee to EXPO CENTER in an amount to equal to **ten (10%) of the gross receipts**, exclusive of sales tax, of each statement submitted or presented by CATERER to any LESSEE or LESSEES. Within **TEN (10) days** of the date of event, and without regard to whether CATERER has actually received payment from such LESSEE or LESSEES, CATERER agrees to deliver or cause to be delivered to EXPO CENTER the fee herein agreed to be paid, together with a copy of the associated invoice. There shall be no deviations from the fee herein agreed to be without the prior written consent of EXPO CENTER. CATERER agrees that CATERER shall make no reference whatsoever to the EXPO CENTER and/or the fee set forth in this paragraph 2 in any of CATERER'S invoices, correspondence or other writings prepared by or on behalf of CATERER.

This contract was not approved in open meeting with a majority vote of the BOCC nor was it reviewed or approved by the District Attorney's office. Further, there are no controls in place to ensure that the ten percent of gross revenues received is correct. Logs or receipts are not remitted to the Fairgrounds, only a check from the caterer with no other supporting documentation.

Further, OSAI noted the following issues with other contracts:

- During the audit period, the Stephens County Fairgrounds had a 15-year contract with Coca-Cola that had expired. The Fairgrounds still requires Coca-Cola products be used in concession stand sales even though there was no current contract with Coca-Cola.
- The Fairgrounds is issuing 3-year contracts for events and giving discounts upon the third year.
- Contracts for events are not approved by the BOCC.
- Contracts are created using Microsoft Excel and can be easily changed without proper oversight.

Cause of Condition: Statutory procedures were not followed requiring all contracts to be approved by the BOCC in an open meeting and reviewed by the District Attorney's office.

Effect of Condition: These conditions resulted in the Director acting independently of the BOCC and executing contracts that were not approved by the BOCC nor reviewed by the District Attorney. Further, these conditions could result in unrecorded transactions, undetected errors, misappropriation of funds, fraud and abuse and did result in noncompliance with state statute.

Recommendation: OSAI recommends that the County design policies and procedures regarding the handling of contracts for the Fairgrounds. These policies and procedures should be effectively communicated to the Director of the Fairgrounds. Additionally, all contracts should be approved by a majority vote of the BOCC in an open meeting and the language of the contract should be reviewed by the District Attorney's office.

Management Response:
Chairman, Board of County Commissioners: The Board of County Commissioners will review this and make any and all necessary changes to correct the conditions found in the report.
Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of contracts to allow for prevention and detection of errors and abuse.

Title 19 O.S. § 3 states, "The powers of a county as a body politic and corporate shall be exercised by its board of county commissioners.

It is hereby declared to be contrary to law, and against public policy, for any individual county commissioner, or commissioners, when not acting as a board, to enter into any contract, or to attempt to enter into any contract, as to any of the following matters:

(a) Any purchase of equipment, machinery, supplies or materials of any kind for any county or any commissioner's district, or districts, thereof;

(b) Any contract or agreement relating to or for the leasing or rental of any equipment, machinery, supplies or materials for any county or any commissioner's district, or districts, thereof;

(c) To do or transact any business relating to such county, or any commissioner's district, or districts thereof, or to make any contract or agreement of any kind relating to the business of such county, or any commissioner's district, or districts thereof;

And none of such acts or attempted contracts as above set forth, done or attempted to be done, by an individual county commissioner or commissioners, when not acting as a board, shall ever be subject to ratification by the board of county commissioners, but shall be illegal, unlawful and wholly void.

Provided that nothing herein shall be construed as prohibiting or preventing the chairman of the board of county commissioners from performing such duty or duties as he may be required by law to perform as chairman of such board, but only after the board, by a majority vote thereof, shall have authorized and directed such performance by said chairman."

Finding 11 – Inadequate Internal Controls Over Pricing and Unauthorized Discounts

Condition: Upon review of the pricing of horse stalls, RV hook ups, woodchips, and room rentals the following was noted:

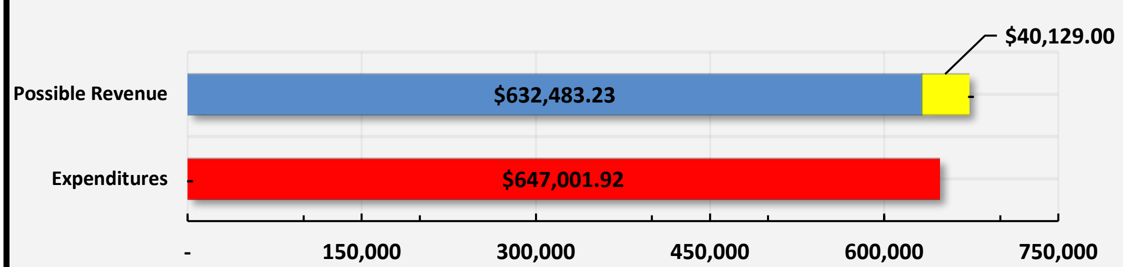
- Unauthorized discounts were given for horse stall rentals resulting in lost revenue for the County in the amount of $23,345.00.
- Unauthorized discounts were given for RV hook ups resulting in lost revenue for the County in the amount of $13,535.00.
- Unauthorized discounts were given on the purchase price for woodchips resulting in lost revenue for the County in the amount of $3,249.00.

It is unclear when the practice of giving discounts originated or if this practice was ever communicated by a County Commissioner. OSAI could find no evidence in the BOCC minutes of any authorizations for discounts. It would take action by the BOCC in an open meeting for any discount to be in compliance with statutory requirements.

OSAI's review of pricing also noted instances where discounted pricing was given to certain event organizers at the Fairgrounds. These organizers were given price discounts on horse stall set up, RV hookups to water and electric, and woodchips, allowing these event organizers to resell these services and products to attendees at a higher profit rate and presenting an unfair advantage to those event organizers who were required to pay full price for these items.

During the audit period, discounts for goods and services offered at the Fairgrounds totaled $40,129.00. It should also be noted that expenditures exceeded revenues for the operations of the Fairgrounds. However, if unauthorized discounts had not been given, revenues would have exceeded expenditures with a surplus of $25,610.00 rather than a deficit of $14,519.00 at the end of the period.

Stephens County Fairgrounds
Total Possible Revenue Compared to Expenditures



	Expenditures	Possible Revenue
Revenues	-	$632,483.23
Discounts	-	$40,129.00
Expenditures	$647,001.92	-
Total	$647,001.92	$672,612.23

Revenues Discounts Expenditures

Additionally, event organizers would also be given the keys to open breaker boxes to allow RVs to hook up to the electricity of the Fairgrounds without any oversight by County employees. This appeared to create an atmosphere of abuse regarding the use of County property and assets.

It was further noted that there is a lack of controls in place over charging for room rentals. OSAI interviewed the Director of the Fairgrounds, Mike Anderson, who stated that he has given certain event organizers free room rental due to those events having multiple bookings at the Fairgrounds. When events are given room rentals for free, it is not recorded in the accounting system or noted on any contracts for that event. The BOCC minutes were reviewed and no discussion of discounts were noted as approved during the audit period.

It was also noted that while the BOCC does set the pricing for goods and services at the Fairgrounds, there is confusion among County officials and employees over which pricing is correct. OSAI noted three different contracts utilized by the Fairgrounds since 2007 for pricing. When pricing is set by the BOCC, it is only for certain items, rather than for all goods and services offered at the time.

Contracts for events are not reviewed and approved by the BOCC. These contracts for events list agreed upon pricing that was set up between the event organizers and the employees at the Fairgrounds.

Further, Monthly Reports created by the Secretary of the Fairgrounds list all goods and services sold during the month, but do not list the quantity sold or the price per item. This has resulted in the BOCC not having the necessary information needed to ensure that revenue collected is for the appropriate amount.

Cause of Condition: Policies and procedures have not been designed and implemented over the pricing of goods and services offered at the Fairgrounds. Further, there has been no management review to ensure pricing policies the BOCC has authorized have been followed.

Effect of Condition: This condition resulted in the loss of revenues to the County. Further, this condition could result in unrecorded transactions, undetected errors, misstated financial reports, misappropriation of funds, or instances of fraud and abuse.

Recommendation: OSAI recommends the County design procedures and internal controls over the pricing of goods and services offered at the Fairgrounds. Discounts should only be made with the approval of the BOCC. If discounts are approved, they should be recorded into the accounting system or noted in the event contract for accurate recordkeeping. Event organizers should not be allowed to have access to breaker boxes without the oversight of County employees. All contracts should be approved by the BOCC.

Management Response:
Chairman, Board of County Commissioners: The Board of County Commissioners will review this and make any and all necessary changes to correct the conditions found in the report.

Criteria: Internal control is an integral component of an organization's management that provides reasonable assurance that the objectives of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being met. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.

Effective internal controls over pricing would include the Board establishing approved prices for all goods and services available at the Fairgrounds and reviewing and approving contracts for compliance.

Finding 6 – Inadequate Internal Controls Over Monthly Reports

Condition: The Secretary of the Fairgrounds creates Monthly Reports using data entered into the computer system for revenues and expenditures incurred during the month in the Maintenance and Operations fund. Upon review of Monthly Reports, the following was noted:

- The BOCC has not mandated what information it needs to understand the financial position of the Fairgrounds on a monthly basis.
- Deposit dates in the system do not accurately reflect the date the deposit was delivered to the Stephens County Treasurer's office.
- Receipt numbers are not recorded when transactions are input into the computer system.
- There is no reconciliation between receipts and transactions recorded into the computer system to accurately reflect monies received are recorded within the correct time-period.
- There is no separate level of review of receipts by someone other than the preparer.
- Profit and Loss statements included in the Monthly Reports do not reflect sales price or quantity purchased.
- Expenditures include amounts not expended during the time-period, including estimates of future expenses.
- Monthly Reports include transactions from other funds besides the Free Fair Maintenance and Operations fund.

Cause of Condition: The BOCC has not designed policies and procedures for reporting monthly financial information to the Board. Policies and procedures have not been designed and implemented to ensure the accuracy of Monthly Reports created by the Secretary of the Fairgrounds.

Effect of Condition: These conditions resulted in inaccurate, incomplete monthly reports being submitted to the BOCC. Further, these conditions could result in unrecorded transactions, undetected errors, or misappropriation of assets.

Recommendation: OSAI recommends that the County design and implement internal controls over the Monthly Report process including the following:

- The BOCC should communicate what information is needed on the monthly reports to have an understanding of the financial position of the Fairgrounds on a monthly-basis.
- Deposit dates entered into the system should match when the deposit was delivered to the County Treasurer's office.
- Reconciliations should be performed between the receipts and the transactions created on the computer system on a monthly-basis or more frequently.
- Reports should include sales price and quantity on Profit and Loss statements for goods and services provided.
- Expenditures should only reflect purchase order amounts obtained from the County Clerk's office.
- The Monthly Report should account for funds separately. Only expenditures related to the Maintenance and Operation account should be charged against the revenues derived from the

Fairgrounds. Expenditures related to the debt of the Fairgrounds should be presented separately with restricted revenues for that purpose.

Management Response:
Chairman, Board of County Commissioners: The Board of County Commissioners will review this and make any and all necessary changes to correct the conditions found in the report.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of Monthly Reports to allow for prevention and detection of errors and abuse.

Finding 5 – Inadequate Segregation of Duties and Internal Controls Over the Receipting Process

Condition: The Fairgrounds' Secretary is in charge of opening mail, receiving payments, and recording transactions into the computer system. While there are other employees who receive payments and issue receipts, the Secretary is the only person who can also record the money received into the computer system.

Receipts were not maintained in a manner to ensure all collections were properly and accurately recorded. Other issues were noted regarding the receipting process:

- Receipt books are issued out of order.
- Receipt numbers are not included when revenue is recorded into the computer system.
- Receipts are not input into the computer system in a timely manner.
- Receipts are not issued for every transaction.
- Voided receipts are not always retained with the yellow carbon copies.
- Yellow carbon copies of receipts have been altered.
- Payment methods are incomplete or different on receipts than what was recorded in the computer system.
- Some transactions were separated in the computer system but combined into one receipt.
- Some receipts were not dated or signed by the employee who issued the receipt.
- Receipts were issued by a person who does not work for the County.

Cause of Condition: Policies and procedures have not been designed and implemented over the receipting process at the Fairgrounds to ensure a proper accounting of all funds received.

Effect of Condition: A single person having responsibility for more than one area of recording, authorization, custody of assets, and execution of transactions could result in unrecorded transactions, misstated financial reports, clerical errors, or misappropriation of funds not being detected in a timely manner. Policies and procedures have not been designed to ensure receipts are issued in a proper manner.

Recommendation: OSAI recommends that management be aware of these conditions and realize that concentration of duties and responsibilities in a limited number of individuals is not desired from a control point of view.

OSAI also recommends the County design procedures to address the issues over the receipting process. Our recommendations include ensuring: Receipt books are issued in order, receipt numbers are entered into the computer system per transaction, payments are recorded into the computer system when money is collected, receipts are issued for every transaction, both the original receipt and the yellow carbon copies of voids are retained, yellow carbon copies of receipts are not altered, payment methods match what is input into the computer system, individual receipts are issued for each transaction, and only County employees issue receipts and handle money.

Management Response:
Chairman, Board of County Commissioners: The Board of County Commissioners will review this and make any and all necessary changes to correct the conditions found in the report.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of transactions. To help ensure proper accounting of funds, key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions.

Further, effective internal control over receipts would include implementing policies and procedures regarding the receipting process that would ensure all receipts are accurately recorded and timely deposited.

Finding 7 – Inadequate Internal Controls Over RV Hook Ups

Condition: Upon reviewing the processes and controls over RV hook ups, OSAI determined that there are no safeguards to ensure the County is being properly compensated for use of County resources. The following issues were noted:

- Vendors and customers can hook up to water and electricity without notice to Fairgrounds' staff.
- Breaker box locks are not in working order, with several of them being broken or missing locks.
- Water spigots are not locked.

Cause of Condition: Policies and procedures have not been designed and implemented to safeguard County assets and resources while ensuring that access is only granted to paying customers.

Effect of Condition: These conditions could result in unrecorded transactions and misappropriation of assets. This increases the risk to the County of people using water and electricity without paying for those services.

Recommendation: OSAI recommends that the County design and implement controls over RV hook ups.

- A periodic review, not to exceed one year, of all locks on breaker boxes to ensure that they are all accounted for and in good working order.
- Placing locks on water spigots.

- Monitoring for unauthorized electricity and/or water hook up by unauthorized vendors or customers.

Management Response:
Chairman, Board of County Commissioners: The Board of County Commissioners will review this and make any and all necessary changes to correct the conditions found in the report.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of transactions. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.

Effective internal controls over RV hook ups would include procedures to ensure County resources are safeguarded against unauthorized use.

Finding 8 – Inadequate Segregation of Duties and Internal Controls Over Concessions Operations

Condition: The County has a policy of maintaining the inventory for non-alcoholic drinks offered for sale at the Fairgrounds. The Fairgrounds purchases all drinks prior to events, allows vendors to sell the drinks, and receives $1.25 for each drink sold. According to County officials, and Fairgrounds' employees, the policy is for the Fairgrounds staff along with event organizers to perform an inventory of the drinks prior to and subsequent to the event. The event is then responsible for paying the Fairgrounds $1.25 for each drink sold.

Upon further review and interviews, OSAI found this policy was not being followed. OSAI noted the following regarding the sale of concessions at the Fairgrounds:

- Duties are not adequately segregated. The Secretary is in charge of placing orders for non-alcoholic drinks, receiving payment from sales, issuing receipts, recording transactions into the computer system, and counting inventory of non-alcoholic drinks.
- Inventory sheets are not signed by both Fairgrounds' employees and the event organizer when non-alcoholic drinks are counted.
- An accurate, continuous inventory of non-alcoholic drinks is not maintained.
- The ending balance of non-alcoholic drinks after an event does not correspond to the beginning balance for the following event.
- There is no reconciliation performed or explanation noted regarding the missing or lost non-alcoholic drinks noted from the inventory performed from one event to another.
- There are no processes or internal controls in place for the County to be compensated for food sales from the concession stands similar to those in place for drink sales.

Further, it came to the attention of OSAI that if event organizers wanted a concession stand available for the event but did not have anyone to perform this function, the Secretary would coordinate with an acquaintance to operate the concession stand and the Secretary would assist with concession sales.

This situation resulted in a high concentration of duties assigned to the Secretary with no oversight to ensure the County was receiving the accurate amount of reimbursement for drink sales. The Secretary was already assigned the duties of placing orders for soft drinks, receiving payment from the sales, issuing receipts, recording transactions into the computer system, and counting inventory of soft drinks. As a concession operator, she was now in a position to sell the soft drinks and determine the amount of profit to be remitted to the County.

Cause of Condition: Policies and procedures have not been properly designed and implemented over the sale of concessions at the Fairgrounds.

Effect of Condition: These conditions could result in inaccurate inventory reports, unrecorded transactions, undetected errors, misappropriation of funds, fraud or abuse. Further, there is an increased risk that the County is not receiving all revenues due for concession sales.

Recommendation: OSAI recommends management be aware of these conditions and determine if duties can be properly segregated regarding concessions. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties.

Compensating controls would include separating key processes and/or critical functions of the office, such as placing the order for soft drinks, receiving payment from soft drink sales, issuing receipts, recording transactions into the computer system, and performing inventory counts with management oversight. Inventory sheets should be signed by both an employee of the Fairgrounds and the event organizer. The County should create a real-time inventory of soft drinks. Ending balances of soft drinks after an event should be noted with a reconciliation performed of any variances at the beginning of the next event. Policies and procedures should be designed and implemented to handle food sales. The County should also create a policy that does not allow employees to work concessions.

Alternatively, the County could remove itself from the concession business and charge a flat fee per concession stand, per event. This would allow for the County to still receive revenue while eliminating the need of purchasing or maintaining an inventory of drinks and/or food products sold. It would also reduce the amount of risk to the County for the theft or spoilage of products between events.

Management Response:
Chairman, Board of County Commissioners: The Board of County Commissioners will review this and make any and all necessary changes to correct the conditions found in the report.

Criteria: Internal control is an integral component of an organization's management that provides reasonable assurance that the objectives of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being met. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.

Key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions.

Effective internal controls over concessions operations would include a well-designed inventory process that would properly account for the sale of soft drinks to vendors.

Finding 10 – Inadequate Segregation of Duties and Internal Controls Over Deposits and Noncompliance with State Statute

Condition: Upon review of the deposit processes and internal controls, the following was noted:

- The Secretary is in charge of recording revenue into the computer system, creating the deposit for the County Treasurer's office, and creating the deposit log listed on the Monthly Report prepared for the BOCC.
- OSAI tested all 238 deposits during the audit period, and noted 38 instances of dates from the County Treasurer's deposit log being different from deposits listed on the Monthly Reports.
- Of the 238 deposits during the audit period, there were three instances noted where deposits were combined, but listed as individual deposits between the Monthly Reports and the County Treasurer's deposit log.
- Deposits were not made daily.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure all collections are accurately posted to the accounting records and timely deposited and ensure compliance with state statute.

Effect of Condition: These conditions resulted in noncompliance with state statute. Further, these conditions could result in unrecorded transactions, undetected errors, misappropriation of funds, fraud or abuse.

Recommendation: OSAI recommends deposits be made in a timely manner. Collections should be deposited with the County Treasurer on a daily basis as received. A mail log for payments should be used to give added assurance that checks are not being held for an extended period of time. The County also needs to provide training to the Fairgrounds' staff over the deposit process to follow County policies and state statute.

Management Response:
Chairman, Board of County Commissioners: The Board of County Commissioners will review this and make any and all necessary changes to correct the conditions found in the report.

Criteria: Internal control is an integral component of an organization's management that provides reasonable assurance that the objectives of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being met. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.

Key duties and responsibilities should be segregated among different individuals to reduce the risk of error or fraud. No one individual should have the ability to authorize transactions, have physical custody of assets, and record transactions. Further, all deposits should be made timely and accurately reported on the Monthly Reports with correct dates, amounts and composition.

Title 19 O.S. § 682 states in part, "It shall be the duty of each and every county officer, county board, county commission and all members and employees of either thereof, to deposit daily in the official depository designated in Section 681 of this title, all monies, checks, drafts, orders, vouchers, funds, rentals, penalties, costs, proceeds of sale of property, fees, fines, forfeitures and public charges of every kind received or collected by virtue or under color of office, except that each county officer, county board, and county commission is hereby authorized to keep in the office, from this deposit, no more than One Thousand Five Hundred Dollars ($1,500.00) to be used for their change needs. The amount so retained shall not be cumulative so that after each such deposit there shall not be on hand more than authorized by this section…"

Finding 13 – Inadequate Internal Controls Over the Disbursements Process and Noncompliance with State Statute

Condition: Upon review of the disbursements for the Fairgrounds, the following was noted:

- There were 9 instances out of 140 purchase orders tested, where goods or services were ordered prior to contacting the Purchasing Agent and properly encumbering the purchase.

Cause of Condition: Policies and procedures have not been designed and implemented to ensure disbursements are made in accordance with state statute.

Effect of Condition: This condition resulted in noncompliance to purchasing procedures as outlined in state statute. Further, this condition could result in unrecorded transactions, undetected errors, misappropriation of funds, fraud or abuse.

Recommendation: OSAI recommends that the County ensure compliance with state statute regarding the encumbering of funds prior to receiving goods or services.

Management Response:
Chairman, Board of County Commissioners: The Board of County Commissioners will review this and make any and all necessary changes to correct the conditions found in the report.

Criteria: Internal control is an integral component of an organization's management that provides reasonable assurance that the objective of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being met. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Effective internal control over disbursements would be ensuring that funds are encumbered prior to receiving goods or services.

Title 19 O.S. § 1505 (C) states in part, "After selection of a vendor, the procedure for the purchase, lease-purchase, or rental of supplies, materials, equipment and information technology and telecommunication goods and services used by a county shall be as follows:

1. The county purchasing agent shall prepare a purchase order in quadruplicate and submit it with a copy of the requisition to the county clerk;
2. The county clerk shall then encumber the amount stated on the purchase order and assign a sequential number to the purchase order…"

Finding 14 – Inadequate Internal Controls and Noncompliance Over the Cash Drawer at the Fairgrounds

Condition: Upon inquiry and observation, OSAI noted that a cash drawer of $425.00 was being utilized at the Fairgrounds. The cash drawer is not listed on the County Treasurer's general ledger. It was also noted that the cash drawer is locked when not in use; however, the key is located in an unlocked drawer next to the cash drawer.

Cause of Condition: Policies and procedures have not been designed and implemented to safeguard the cash drawer used at the Fairgrounds and ensure compliance with state statute.

Effect of Condition: This condition resulted in noncompliance with state statute. Further, this condition could result in unrecorded transactions, misstated financial reports, undetected errors, misappropriation of funds, fraud or abuse.

Recommendation: OSAI recommends that the County design internal controls and procedures over the cash drawer to ensure compliance with state statute. This includes identifying cash drawer balances on the County Treasurer's general ledger and properly safeguarding access to the drawer. Furthermore, anytime a cash drawer is established or modified, including any further increases in the funds of the cash drawer, it must have BOCC approval.

Management Response:
Chairman, Board of County Commissioners: The Board of County Commissioners will review this and make any and all necessary changes to correct the conditions found in the report.

Criteria: Accountability and stewardship are overall goals of management in accounting of funds. An aspect of internal control is the safeguarding of assets. Internal controls over safeguarding of assets constitute a process, affected by the entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or untimely detection of unauthorized acquisition, use, or disposition of the entity's assets from loss, damage, or misappropriation.

Title 19 O.S. § 682 states in part, "It shall be the duty of each and every county officer, county board, county commission and all members and employees of either thereof, to deposit daily in the official depository designated in Section 681 of this title, all monies, checks, drafts, orders, vouchers, funds, rentals, penalties, costs, proceeds of sale of property, fees, fines, forfeitures and public charges of every kind received or collected by virtue or under color of office, except that each county officer, county board, and county commission is hereby authorized to keep in the office, from this deposit, no more than One Thousand Five Hundred Dollars ($1,500.00) to be used for their change needs. The amount so retained shall not be cumulative so that after each such deposit there shall not be on hand more than authorized by this section. A notation of the retention of this money shall be made in the proper accounting records."

Finding 15 – Inadequate Segregation of Duties and Internal Controls Over the Payroll Process

Condition: Upon review of the payroll process, the following was noted:

- One employee was given free housing including utilities in exchange for having someone on location to lock and unlock buildings rather than calling in employees or scheduling employees to be on location for events that began or ended after normal working hours. This was not a condition of his employment, but a mutual benefit between the County and the employee. There was no documentation in the employee personnel file to determine whether this was a condition of employment or a fringe benefit.
- The Secretary of the Fairgrounds is in charge of gathering timecards, creating timesheets, and recording leave balances without any oversight.
- Employees are recording time on timecards by writing on them instead of using the punch-clock system in place to record them clocking in and out.
- Holiday and sick leave is tracked by days instead of by hours. This could cause issues in having an unnecessary conversion of leave if an employee uses this leave in smaller increments than a day.
- Corrections made on timesheets that have an effect on leave balances are not always reflected on the beginning balances for the next month. Hours worked and leave balances are not tracked accurately.
- Holiday leave balances are not carried forward when not used in the same pay period.
- The County does not specify the classification between office personnel and groundskeepers in the County handbook.

Further, OSAI reviewed 329 timesheets during the audit period and noted the following:

- Twenty-nine (29) timesheets were not reviewed or signed by a supervisor.
- Thirty (30) timesheets were not timely reviewed or signed by a supervisor.

Cause of Condition: Policies and procedures have not been properly designed and implemented over the payroll processes for the Fairgrounds.

Effect of Condition: This condition resulted in noncompliance with IRS regulations. Further, this condition could result in unrecorded transactions, misstated financial reports, undetected errors, misappropriation of funds, fraud or abuse.

Recommendation: OSAI recommends management be aware of these conditions and determine if duties can be properly segregated. In the event that segregation of duties is not possible due to limited personnel, OSAI recommends implementing compensating controls to mitigate the risks involved with a concentration of duties. Compensating controls would include separating key processes and/or critical functions of the office, and having management review and approval of accounting functions. Further, OSAI recommends the following:

- Employees should use the timecard system in place to track time worked. Manual adjustments should only be done upon approval by a supervisor and the reason for the adjustment should be documented.
- Holiday and sick leave should be tracked by hours as opposed to days in order to accurately track leave benefits.
- Timesheets should be signed by supervisors in a timely manner.
- Any corrections made on timesheets should be updated in a timely manner. Hours worked and leave balances should be reviewed every month by someone other than the preparer.
- Holiday leave should be carried forward when not used in the same pay period.
- IRS guidelines should be followed for all taxable fringe benefits regarding employer provided housing or documentation should be maintained in the employees' personnel files that details conditions of employment.
- The County handbook should reflect classifications of job descriptions for various levels of employment.

Management Response:
Chairman, Board of County Commissioners: The Board of County Commissioners will review this and make any and all necessary changes to correct the conditions found in the report.

Criteria: Accountability and stewardship are overall goals of management in the accounting of funds. Internal controls should be designed to analyze and check accuracy, completeness, and authorization of payroll calculations and/or transactions to allow for prevention and detection of errors and abuse. To help ensure a proper accounting of funds, key functions within the payroll process such as the duties of processing, authorizing, and payroll distribution should be adequately segregated.

Effective internal controls over payroll would include segregating the duties or adding a separate level of management review over the creation of timesheets and the leave balances, having employees use the timecard system or have supervisors sign off and approve any manual entries on timecards, tracking holiday and sick leave by hours, having supervisors approve timesheets timely, tracking holiday leave accurately, and following IRS guidelines in regard to taxable fringe benefits for employer provided housing.

26 U.S. Code § 119 (a) states in part, "Meals and lodging furnished to employee, his spouse, and his dependents, pursuant to employment that shall be excluded from gross income of an employee the value of any meals or lodging furnished to him, his spouse, or any of his dependents by or on behalf of his employer for the convenience of the employer, but only if –
(2) in the case of lodging, the employee is required to accept such lodging on the business premises of his employer as a condition of his employment."

Finding 1 – Inadequate Department-Wide Internal Controls

Condition: The County has not designed and implemented all the components of an Internal Control Framework for the Department, which are the control environment, risk assessment, control activities, information and communication, and monitoring.

OSAI reviewed an audio recording of conversations that took place on October 3, 2017, involving the Director of the Fairgrounds, Secretary of the Fairgrounds, and an alcohol caterer, regarding backdating payments and changing information on deposits to the County Treasurer's office. The following information was noted in the audio recording:

- The alcohol caterer tells the Director that he is backdating a check to September 22, 2017, so that it would appear to the BOCC that payment was made in a timely manner.
- The Director asks the Secretary if she had changed the date on the deposit. Upon the Secretary refusing to make any changes to the deposit, the Director states, "Well then let me have it and I will do it." The Director then asks for a blank deposit. When the Secretary refuses to make any changes, the Director states, "That's fine. I will remember it."

Cause of Condition: Policies and procedures have not been designed and implemented to address risks of the Department.

Effect of Condition: This condition resulted in a negative impact on the Fairgrounds' control environment, which could have a universal impact on the overall system of internal control, while also increasing the risk of errors, misappropriation of assets, fraud, and abuse. Further, this condition could result in unrecorded transactions, undetected errors, misappropriation of funds, fraud or abuse.

Recommendation: OSAI recommends the BOCC recognize the risk associated with this type of environment and work towards evaluating and addressing these situations to ensure the overall direction of the Fairgrounds, as set by the BOCC, is accomplished in the most efficient manner possible. In addition, the BOCC should be conscious of the risk associated with ineffective communication within the Fairgrounds and work to eliminate any such barriers in an impartial manner.

We further recommend management perform some level of continuous monitoring, communicate its expectations for internal controls to all employees, and establish a system of clear communication that relays information from the bottom of the organization to the top and vice versa. The tone at the top regarding internal controls will determine to a great extent the success of the various elements of the internal control framework.

Management Response:
Chairman, Board of County Commissioners: The Board of County Commissioners will review this and make any and all necessary changes to correct the conditions found in the report.

Criteria: Internal control is an integral component of an organization's management that provides reasonable assurance that the objectives of effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations are being met. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. County management is responsible for designing a department-wide internal control system comprised of Risk Assessment, Monitoring, Control Environment, and Information and Communication for the achievement of these goals.

An effective internal control system has in place policies and procedures that reduce the risk of errors, fraud, and professional misconduct within the organization. Key factors in this system are the environment established by management and effective information and communication to achieve the Fairgrounds' objectives. Management's ethics, integrity, attitude, and operating style become the foundation of all other internal control components. In addition, management needs to access relevant and reliable communication related to internal as well as external events.

The Control Environment has a pervasive influence that affects all business decisions and activities of the organization. The BOCC, and the Director of the Fairgrounds, all contribute to creating a positive control environment or "tone at the top." The BOCC sets the proper tone for the control environment when it establishes and communicates a code of ethics, requires ethical and honest behavior from all employees, observes the same rules it expects others to follow, and requires appropriate conduct from everyone in the organization. The Director of the Fairgrounds' philosophy and methods of employee direction and development also greatly influence this environment.

Tone at the top throughout the Fairgrounds is fundamental to the functioning of an internal control system. Without strong ethical leadership, awareness of risk can be undermined, responses to risk may be inappropriate, control activities may be ill-defined or not followed, information and communication may falter, and feedback from monitoring activities may not be heard or acted upon. Therefore, tone can be either a driver or a barrier to internal control, influencing the control consciousness of all employees.

Risk Assessment is a component of internal control which should provide for an assessment of the risks the County faces from both internal and external sources. Once risks have been identified, they should be analyzed for their possible effect. Management then has to formulate an approach for risk management and decide upon the internal control activities required to mitigate those risks and achieve the internal control objectives of efficient and effective operations, reliable financial reporting, and compliance with laws and regulations.

Control activities are those specific policies and procedures that help ensure management directives are implemented. They include a wide range of activities that occur throughout the organization, by supervisory and front-line personnel.

Information and Communication is a component of internal control which should allow for effective communication of relevant, accurate, and timely information that is required to meet the County's objectives, including reliable financial reporting, efficient and effective operations, and compliance with laws and regulations.

Monitoring is a component of internal control which should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved. Ongoing monitoring occurs during normal operations and includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties. It includes ensuring that management know their responsibilities for internal control and the need to make control monitoring part of their regular operating process.

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