



**DEFIANCE COUNTY AGRICULTURAL SOCIETY  
DEFIANCE COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED NOVEMBER 30, 2006 AND 2007**



**Mary Taylor, CPA**  
Auditor of State



**DEFIANCE COUNTY AGRICULTURAL SOCIETY  
DEFIANCE COUNTY**

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**Mary Taylor, CPA**  
Auditor of State

**INDEPENDENT ACCOUNTANTS' REPORT**

Defiance County Agricultural Society  
P.O. Box 184  
Hicksville, Ohio 43526-0184

To the Board of Directors:

We have selectively tested certain accounts, financial records, files, and reports of Defiance County Agricultural Society (the Society) as of and for the fiscal years ended November 30, 2007 and 2006, following Ohio Administrative Code § 117-4-02.

There are reportable findings and conditions as a result of performing these procedures. Our reportable findings and conditions follow the financial presentation. Our engagement was not designed to result in expressing an opinion on the accompanying financial statements, and we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Directors, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

*Mary Taylor*

**Mary Taylor, CPA**  
Auditor of State

February 10, 2009

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**DEFIANCE COUNTY AGRICULTURAL SOCIETY  
DEFIANCE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND  
CHANGE IN CASH BALANCE  
FOR THE YEARS ENDED NOVEMBER 30, 2007 AND 2006**

	<b>2007</b>	<b>2006</b>
<b>Operating Receipts:</b>		
Total Operating Receipts	\$200,980	\$273,341
<b>Operating Disbursements:</b>		
Utilities	26,375	35,884
Insurance	14,636	14,457
Other Operating Disbursements	213,867	287,934
Total Operating Disbursements	254,878	338,275
Excess of Operating Disbursements Over Operating Receipts	(53,898)	(64,934)
<b>Non-Operating Receipts (Disbursements):</b>		
State Support	29,550	29,725
County Support	1,000	2,800
Livestock Contributions	180,354	162,126
Investment Income	930	1,654
Livestock Distributions	(214,146)	(129,198)
Debt Service	(3,204)	(3,204)
Net Non-Operating Receipts (Disbursements)	(5,516)	63,903
Excess of Disbursements Over Receipts	(59,414)	(1,031)
Cash Balance, Beginning of Year	63,577	64,608
<b>Cash Balance, End of Year</b>	<b>\$4,163</b>	<b>\$63,577</b>

*The notes to the financial statements are an integral part of this statement.*

**DEFIANCE COUNTY AGRICULTURAL SOCIETY  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
NOVEMBER 30, 2007 AND 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of Defiance County Agricultural Society (the Society) as a body corporate and politic. The Society is a county agricultural society corporation formed under Chapter 1711 of the Ohio Revised Code. The Society was founded in 1877 to operate an annual agricultural fair. The Society sponsors the week-long Defiance County Fair during August. During the fair, harness races are held, culminating in the running of the Gene L. Vance Memorial Race and the Kermit Peter Trot Race. Defiance County is not financially accountable for the Society. The Board of Directors manages the Society. The Board is made up of 30 directors serving staggered three-year terms. Society members elect Board members from its membership. Members of the Society must be residents of Defiance County and pay an annual membership fee to the Society.

**Reporting Entity**

The reporting entity includes all activity occurring on the fairgrounds. This includes the annual fair and harness racing during fair week. Other year round activities at the fairgrounds including facility rental, stall rental, and community events and festivals, including the Gordon Creek Festival held in September. The reporting entity does not include any other activities or entities of Defiance County, Ohio.

Note 7 summarizes the Junior Fair Board's financial activity.

The Society's management believes this financial statement presents all activities for which the Society is financially accountable.

**B. Accounting Basis**

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Society recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

**C. Property, Plant, and Equipment**

The Society records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**D. Income Tax Status**

The Society is a not-for-profit organization, exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code. The Society is not a private foundation within the meaning of Section 509 (a). Contributions to the Society are deductible per Section 170(b)(1)(A)(v1). Management is unaware of any actions or events that would jeopardize the Society's tax status.



**DEFIANCE COUNTY AGRICULTURAL SOCIETY  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
NOVEMBER 30, 2007 AND 2006  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

**E. Race Purse**

*Northwestern Ohio Colt* stake races are held during the Defiance County Fair. The Society pays all Sustaining and Entry fees and the required portion of the cash received from the Ohio Fairs Fund as Race Purse to winning horses. In fiscal year 2006, the Society also included additional funds of \$18,358 to the race purse for winning horses.

Sustaining and Entry Fees

Horse owners and Defiance County Horseman's Association pay fees to the Society to qualify horses for entry into stake races. They must make payment before a horse can participate in a stake race. These fees are included in Total Operating Receipts in the accompanying financial statements.

Ohio Fairs Fund

The State of Ohio contributes money to the Society from the Ohio Fairs Fund to supplement the race purse. See Note 3 for additional information.

**F. Pari-mutuel Wagering**

A wagering system totals the amounts wagered and adjusts the payoff to reflect the relative amount bet on different horses and various odds. The total amount bet (also known as the "handle"), less commission, is paid to bettors in accordance with the payoffs, as the pari-mutuel wagering system determines. The Society contracts with a totalizer service to collect bets and provide the pari-mutuel wagering system.

Pari-mutuel wagering commission (the commission) is the Society's share of total pari-mutuel wagers after payment of amounts to winning bettors. The commission is determined by applying a statutory percentage to the total amount bet. The Society's share is included in the as Total Operating Receipts in the accompanying financial statements. See Note 3 for additional information.

**2. CASH**

The carrying amount of cash at November 30, 2007 and 2006 follows:

	<u>2007</u>	<u>2006</u>
Demand deposits	<u>\$4,163</u>	<u>\$63,577</u>

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool (as necessary).

**DEFIANCE COUNTY AGRICULTURAL SOCIETY  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
NOVEMBER 30, 2007 AND 2006  
(Continued)**

**3. HORSE RACING**

State Support Portion of Purse

The financial statements report Ohio Fairs Fund money, received to supplement the purse for the fiscal years ended November 30, 2007 and 2006, was \$25,233 and \$25,309, respectively, as State Support.

Pari-mutuel Wagering

The Society does not record the Total Amount Bet or the Payoff to Bettors in the accompany financial statements, rather, it records the pari-mutuel wagering commission (commission) which is the Society's share of total pari-mutuel wagers after paying winning bettors. The expenses of providing the pari-mutuel wagering system are called Tote Services, and these expenses, which are also paid from the pari-mutuel wagering commission, are reflected in Other Operating Disbursements, and the amount remaining is the Society's net portion.

	2007	2006
Total Amount Bet (Handle)	\$21,287	\$11,059
Less: Payoff to Bettors	(17,012)	(8,800)
Parimutuel Wagering Commission	4,275	2,259
Tote Service Set Up Fee	(800)	(600)
Tote Service Commission	(2,042)	(948)
State Tax	(558)	(319)
Society Portion	\$875	\$392

**4. DEBT**

Debt outstanding at November 30, 2007, was as follows:

	Principal	Interest Rate
Note Payable for Tractor	\$2,873	5.45%
Note Payable for Pay Loader and Mower	15,025	4.46%
Total	\$17,898	

The Tractor Note bears an interest rate of 5.45 % and is due to CNH Capital (formerly Case Credit Corporation). The note was entered into on September 2, 2003, and matures September 2, 2008. The note relates to the purchase of a used tractor and is collateralized by the tractor.

The Pay Loader and Mower Note bears an interest rate of 4.46% and is due to CNH Capital. The note was entered into on March 15, 2007, and matures March 15, 2010. The note relates to the purchase of a pay loader and mower and is collateralized by the purchased equipment.

**DEFIANCE COUNTY AGRICULTURAL SOCIETY  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
NOVEMBER 30, 2007 AND 2006  
(Continued)**

**4. DEBT – (Continued)**

Amortization of the above debt, including principal and interest, is scheduled as follows:

Year ending November 30:	Tractor Note	Pay Loader and Mower Note	Total
2008	\$3,203	\$5,462	\$8,665
2009		5,462	5,462
2010		5,462	5,462
Total	<u>\$3,203</u>	<u>\$16,386</u>	<u>\$19,589</u>

**5. SOCIAL BENEFIT PLAN**

The Society's employees contributed to Social Security during fiscal year 2007 and 2006. This plan provides retirement benefits, including survivor and disability benefits to participants. Employees contributed 6.2 percent of their gross wages. An amount equal to 6.2 percent of the employee's gross wages have been contributed through June 30, 2006.

**6. RISK MANAGEMENT**

The Defiance County Commissioners provide general insurance coverage for all the buildings on the Defiance County Fairgrounds pursuant to Ohio Revised Code § 1711.24. A private company provides general liability and vehicle insurance, with limits of \$1,000,000 and \$5,000,000 aggregate. The Society's Secretary/Treasurer is bonded with coverage of \$30,000.

The Society provides workers compensation coverage on its employees through the State of Ohio workers compensation fund. Coverage is currently in effect through November 2007.

**7. JUNIOR FAIR BOARD**

The Junior Fair Board, which is comprised of 4-H, FFA, Boy Scout, Girl Scout, and Farm Bureau Youth organization representatives, is responsible for the Junior Fair Division activities of the Defiance County Fair. The Society paid \$9,251 and \$5,688 directly to vendors (including amounts paid directly to individuals) to support Junior Fair activities in fiscal year 2007 and 2006, respectively. The Junior Fair Board accounts for its activities separately. These accompanying financial statements do not include this activity. The Junior Fair Board's financial activity for the years ended November 30, 2007 and 2006 follows:

	2007	2006
Beginning Cash Balance	\$1,038	\$1,191
Receipts	7,511	9,790
Disbursements	<u>(5,871)</u>	<u>(9,943)</u>
Ending Cash Balance	<u>\$2,678</u>	<u>\$1,038</u>

**DEFIANCE COUNTY AGRICULTURAL SOCIETY  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
NOVEMBER 30, 2007 AND 2006  
(Continued)**

**8. SUBSEQUENT EVENTS**

As of November 30, 2007, the Society's reconciled fund cash balance total was \$4,163. The Senior Fair Board (the Board) did not adopt an operating budget for fiscal year 2008. As of January 2009, the Society indicated they had outstanding unpaid bills of approximately \$62,000. The Board is attempting to secure a loan through a financial institution in an effort to address this financial condition. The Board is also attempting to address the Society's financial situation by generating revenues through various fundraising activities during the upcoming months. Additionally, the Board is closely monitoring its disbursements and anticipated disbursements are being scrutinized more carefully in an effort to reduce unnecessary expenditures until the Society's financial condition improves.



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Defiance County Agricultural Society  
P.O. Box 184  
Hicksville, Ohio 43526-0184

To the Board of Directors:

We have selectively tested certain accounts, financial records, files, and reports of Defiance County Agricultural Society (the Society) as of and for the years ended November 30, 2007 and 2006, following Ohio Administrative Code § 117-4-02. Our engagement was not designed to result in expressing an opinion on the accompanying financial statements, internal control over financial reporting, or compliance. We therefore express no opinion on these matters.

### Internal Control over Financial Reporting

During our procedures related to the internal control over financial reporting we noted matters that, in our judgment, could adversely affect the Society's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. In addition, these matters could result in the occurrence of misstatements that are caused by error or fraud that would not be detected in a timely manner by employees when performing the assigned functions. These matters are described in the schedule of findings as items 2007-012 through 2007-024.

### Compliance and Other Matters

We tested compliance with certain provisions of laws, regulations, contract, and grant agreements, applicable to the Society. Noncompliance with these requirements could impact the Society's ability to determine financial statement amounts. The results of our tests disclosed instances of noncompliance that are reported in the accompanying schedule of findings as items 2007-001 through 2007-011.

We intend this report solely for the information and use of the management and the Board of Directors.  
We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

**Mary Taylor, CPA**  
Auditor of State

February 10, 2009

**DEFIANCE COUNTY AGRICULTURAL SOCIETY  
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS  
NOVEMBER 30, 2007 AND 2006**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS</b>
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**FINDING NUMBER 2007-001**

**Noncompliance Citation**

Ohio Administrative Code § 117-10-01 in part requires each county agricultural society, for financial reporting and accounting purposes, to record and report all financial transactions on a fiscal year basis beginning on December 1 and ending November 30 for each fiscal year. Furthermore, Section 117-2-02 of the Administrative Code requires all local public offices to maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code. In particular, Ohio Administrative Code § 117-2-02(B) provides that the management of each local public office is responsible for the assertion underlying the information in the public office's financial statements. The accounting system should assure the following five assertions are achieved for all transaction types and account balances applicable to the local office's operations:

(1) Existence/occurrence: Recorded assets (and liabilities, if generally accepted accounting principles apply) exist as of fiscal year end, recorded transactions have occurred and are not fictitious.

(2) Completeness: All account balances and transactions which should be included in the financial records are included.

(3) Rights and obligations: Recorded assets are rights of the public office and recorded liabilities (if generally accepted accounting principles apply), are obligations of the public office at the fiscal year end.

(4) Valuation/allocation: Generally accepted accounting measurement and recognition principles are properly selected and applied. This includes accounting measurement and recognition principles prescribed by the auditor of state for public offices which are not required to follow generally accepted accounting principles.

(5) Presentation and disclosure: Financial statement elements are properly classified and described and appropriate disclosures are made as required by generally accepted accounting principles, or as prescribed by the auditor of state for entities which do not follow generally accepted accounting principles.

The following deficiencies were encountered relating to the Society's financial records for fiscal year 2007 and 2006:

- Mathematical (or footing) errors existed in the 2007 and 2006 annual reports.
- The beginning fund balance in the 2006 annual report did not match the prior audited ending fund balance.
- None of the bank accounts, including the Livestock accounts, were ever reconciled to the book balance after June 2006.
- Since there was not a reconciled cash balance available for either 11/30/06 or 11/30/07, the total fund balance on the annual financial report did not agree to a reconciled cash balance either year.

**FINDING NUMBER 2007-001**  
**(Continued)**

- The 2007 and 2006 annual reports did not include the financial activity of the Livestock sale, flower bank account, beef barn bank account, and swine barn bank account.
- Receipt and disbursement activity posted to Quickbooks, the Society's accounting program, did not match the annual financial report for either 2007 or 2006.
- Receipt and disbursement activity posted to Quickbooks was either inaccurate or incomplete for both 2007 and 2006. For example, approximately only \$6,400 total receipts were posted to Quickbooks in 2006 while approximately over \$1,070,000 total receipts were posted to Quickbooks in 2007. The overstatement of receipts in 2007 appears to have been primarily due to the former Secretary/Treasurer, Judy Bayliss, recording a miscellaneous revenue entry for \$776,547 for which there was no documentation available to support how this number was determined.
- Receipts were not issued by the Secretary/Treasurer for all monies collected.
- There was no supporting documentation, such as invoice or receipt documentation, to support several disbursements tested during the audit period.

A lack of receipts being issued for all amounts collected may result in lost revenues to the Society and could cause errors or fraud not being promptly detected in the normal course of business. A lack of adequate documentation increases the likelihood inappropriate amounts could be paid or a payment could be made twice.

To appropriately maintain the records of the Society, we recommend:

- The total fund cash balance should be reconciled to the bank monthly and all activity of the Society should be recorded when it occurs.
- Receipts should be issued for any monies deposited with the Secretary/Treasurer and supporting documentation should be maintained for all disbursements.
- The Society's Board (or other committee) should review the records to ensure:
  - All amounts are appropriately recorded,
  - All the records are in agreement and in balance with the bank, and
  - The annual financial report accurately reflects all the activity and total fund cash balance of the Society.
- The Board and/or Executive Committee need to monitor expenditures in an effort to avoid deficit spending.

**FINDING NUMBER 2007-002**

**Noncompliance Citation**

Ohio Revised Code § 9.38 requires public money to be deposited with the treasurer of the public office *or* to a designated depository on the business day following the day of receipt. This section also stipulates if the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting officials who receive money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the next business day.

The Board Member responsible for collecting campsite fees did not consistently deposit amounts received by the next business working day. Monies collected during fair week were held up to five days before being turned over to the Secretary/Treasurer.



**FINDING NUMBER 2007-002  
(Continued)**

To help reduce the likelihood of payments being lost or stolen, we recommend all money collected by any Board Member be deposited with the Secretary/Treasurer by the next business day. Conversely, the Board could adopt a policy permitting its employees or officials who receive money to hold it up to three business days before turning in this money as long the total daily receipts do not exceed \$1,000 and the receipts can be safeguarded.

**FINDING NUMBER 2007-003**

**Noncompliance Citation**

Ohio Revised Code § 117.38 requires each public office to file a financial report for each fiscal year. The public office must file its report in the format used by the public office within 60 days after the fiscal year end. In addition, this section requires the fiscal officer to publish in a local newspaper notice of the completion of the report and the fact the report is available for public inspection at the office of the fiscal officer. Furthermore, the report shall contain the amount of collections and receipts and accounts due from each source as well as the amount of expenditures for each purpose.

The Society did not file an annual financial report with the Auditor of State's office for fiscal year 2007 until November 13, 2008 and did not publish the proper notice in a local newspaper for either fiscal year 2007 or 2006. Also, the Society's annual financial report did not include the financial activity of the Livestock sale, the flower bank account, the beef barn bank account, and the swine barn bank account. The financial statements presented for fiscal year 2007 and 2006 include this financial activity.

In order to provide a more accurate presentation of the Society's financial condition to users of the financial statements, we recommend the Society file an annual financial report with the Auditor of State's office within the 60-day requirement and publish annual notice of the reports availability in a local newspaper. Additionally, we recommend the Society include all accounts and activity associated with the Society in their annual report and financial statements.

We also reported this matter in the management letter of our audit of the 2005 and 2004 financial statements.

**FINDING NUMBER 2007-004**

**Noncompliance Citation**

Ohio Revised Code § 121.22 provides all meetings of any public body are to be declared public meetings open to the public at all times. Every public body shall establish a reasonable method whereby any person may determine the time and place of all regularly scheduled meetings and the time, place, and purpose of all special meetings.

There was no evidence the Society notified the public of meetings held during either fiscal year 2007 or 2006. We recommend the Society publish notice to inform the public of when and where any meetings are to be held, including any special meetings.

We also reported this matter in the management letter of our audit of the 2005 and 2004 financial statements.

#### **FINDING NUMBER 2007-005**

##### **Noncompliance Citation**

Ohio Revised Code § 135.12(B) provides each governing board other than the state board of deposit shall meet every five years on the third Monday or such regularly scheduled meeting date of the month next proceeding the date of the expiration of its designation or depositories for the purpose of designating the public depositories of the public moneys of the subdivision, and at such meeting or any adjourned session thereof, shall designate such public depositories and award the public moneys of the subdivision to and among the public depositories so designated for the period of five years commencing on the date of the expiration of the next preceding designation. The designation and award shall be made in duplicate; one copy shall be retained by the governing board of the subdivision and one copy shall be certified to the treasurer.

There was no evidence to indicate the Society had designated any depositories for its funds in either fiscal year 2007 or 2006. We recommend the Society designate its public depositories and obtain a depository agreement with all the banks where its money is deposited.

We also reported this matter in the management letter of our audit of the 2005 and 2004 financial statements.

#### **FINDING NUMBER 2007-006**

##### **Noncompliance Citation**

Ohio Revised Code § 135.14 requires a written investment policy be approved by the treasurer or governing board and filed with the Auditor of State, with the following two exceptions:

- 1) If no investment policy is filed, the treasurer or governing board is only permitted to invest in interim deposits, STAR Ohio, or no-load money market mutual funds;
- 2) A subdivision whose average annual portfolio of investments is \$100,000 or less is not required to file an investment policy, provided the treasurer or governing board certifies to the Auditor of State the treasurer or governing board will comply and is in compliance with the provisions of §§ 135.01 to 135.21.

While the Society only has funds in interim deposits, management officials did not certify to the Auditor of State in either fiscal year 2007 or 2006 that the Society will comply and is in compliance with the provisions of Ohio Revised Code §§ 135.01 to 135.21.

If the Society continues to only limit investments to those permitted by law without an investment policy, annual notice of exemption should be completed and sent to the Auditor of State.

#### **FINDING NUMBER 2007-007**

##### **Noncompliance Citation**

Ohio Revised Code § 135.22 requires subdivision treasurers to complete annually continuing education programs on investments provided by the Treasurer of State. A treasurer may file an annual notice of exemption to the Auditor of State, certified by the Treasurer of State, the treasurer is not subject to the continuing education requirements because the treasurer invests or deposits public funds in only interim deposits pursuant to Ohio Revised Code § 135(B)(3) and STAR Ohio pursuant to Ohio Revised Code § 135.14(B)(6).

The former Secretary/Treasurer did not attend the required training in either fiscal year 2007 or 2006 and did not file annual notice of exemption with the Auditor of State. We recommend the Secretary/Treasurer attend a continuing education program on investments provided by the Treasurer of State or file the required annual exemption certificate with the Auditor of State.

#### **FINDING NUMBER 2007-008**

##### **Noncompliance Citation**

Ohio Revised Code § 5747.06 requires every employer, including political subdivisions, maintaining an office or transacting business within this state and making payment of any compensation to an employee who is a taxpayer shall deduct and withhold from such compensation for each payroll period a tax computed in such manner as to result, as far as practicable, in withholding from the employee's compensation during each calendar year an amount substantially equivalent to the tax reasonably estimated to be due from the employee under this chapter and Chapter 5748 of the Revised Code with respect to the amount of such compensation included in the employee's adjusted gross income during the calendar year.

No state income taxes were withheld from the Secretary/Treasurer's wages during fiscal years 2007 or 2006.

We recommend the appropriate amount of state income tax withholdings be deducted and remitted to the State. The failure to properly withhold and remit any taxes may subject the Society to penalties and charges by the State for failure to deduct and withhold the tax.

This matter will be referred to the Department of Taxation for any action they deem necessary.

#### **FINDING NUMBER 2007-009**

##### **Noncompliance Citation**

26 USCS (Internal Revenue Code) §§ 3102 and 3402 require the employing government to withhold federal and employment-related taxes (such as Medicare and Social Security) from each employee. Furthermore, these chapters hold employers liable for reporting and payment of these taxes.

Federal and other employment-related taxes (i.e. Medicare and Social Security) withheld from wages paid to the Society's employee (i.e. the Secretary/Treasurer) after July 1, 2006, have not been remitted by the Society to the Internal Revenue Service. The failure to properly withhold and remit such taxes may subject the Society to penalties and additional charges by the Internal Revenue Service.

**FINDING NUMBER 2007-009  
(Continued)**

This matter will be referred to the Internal Revenue Service for any action they deem necessary.

**FINDING NUMBER 2007-010**

**Noncompliance Citation**

26 CFR (Internal Revenue Code) § 1.6041-1 require governments to report on Form 1099 any income or other forms of compensation for services rendered aggregating \$600 or more.

The Society did not issue 1099 forms to individuals for income from horse racing purses or compensation for services rendered by any independent contractors for either calendar year 2007 or 2006 even though amounts paid out to certain individuals exceeded \$600 in the aggregate.

The Society should implement procedures to review expenditures and financial records for the proper issuance of 1099 forms.

This matter will be referred to the Internal Revenue Service for any action they deem necessary.

We also reported this matter in the management letter of our audit of the 2005 and 2004 financial statements.

**FINDING NUMBER 2007-011**

**Noncompliance Citation**

26 CFR (Internal Revenue Code) § 1.6041-2 require governments to report on Form W-2 any salaries, wages, commissions, fees, and other forms of compensation for services rendered aggregating \$600 or more.

The Society did not issue W-2 forms to the individuals who held the Secretary/Treasurer position in either calendar year 2007 or 2006.

We recommend W-2's be issued to any employees on the Society's payroll paid in excess of \$600 for each calendar year as required.

This matter will be referred to the Internal Revenue Service for any action they deem necessary.

**FINDING NUMBER 2007-012**

**Monitoring Controls of Financial Activity by the Governing Board**

Sound accounting procedures require there to be adequate segregation of duties and monitoring procedures performed by management. Financial reporting is the responsibility of the fiscal officer and governing board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

**FINDING NUMBER 2007-012  
(Continued)**

The small size of the Society's fiscal operations does not allow for an adequate segregation of duties. The Secretary/Treasurer performs all accounting functions. It is therefore important the Board monitor financial activity closely. The following deficiencies were noted:

- After June 2006, there was no evidence the Board received or reviewed monthly bank reconciliations.
- The only financial information the Board received at their monthly meetings after June 2006 was a list of bills to be paid and the actual bank balances.
- The Board did not monitor the activity of the Livestock Sale.
- The Society did not adopt an annual budget for either fiscal year 2007 or 2006.
- The Board did not review detail revenue and disbursement ledgers, invoices, or comparisons of budget and actual receipts and disbursements on a regular basis.

These weaknesses hindered the ability of the Board to make sound financial decisions and allowed errors to occur in both the 2007 and 2006 annual financial report and accounting system which caused the Society to be declared unauditible by the Auditor of State's Office. It also increases the likelihood fraud could occur and not be detected.

In an effort to help ensure financial activity of the Society is being properly accounted for and reported we recommend the following:

- Monthly financial information provided to the Board should include detailed revenue and disbursement ledgers (generated from Quickbooks, the Society's accounting program), invoices, comparisons of budget and actual receipts and disbursements and bank reconciliations. The documents should be reviewed, initialed, and approved in the minutes.
- The bank reconciliations should be periodically reperformed and reconciled to bank statements by the Board (or other committee). This reperformance would consist of verifying the accuracy of the adjustments to the total bank balances (i.e. outstanding checks, deposits in transit, etc.) to the total fund cash balance.
- Pertinent financial information about the Livestock Sale should be provided to the Board (or other committee) for their review and approval on a periodic basis. This should include, but not be limited to, bank reconciliations, detailed receipt and disbursement activity reports, delinquent accounts, etc. The documents should be reviewed, initialed, and approved in the minutes.
- The Board should adopt an itemized annual budget of estimated receipts and disbursements at the individual line item level. Furthermore, budget versus actual receipts and disbursements should be periodically monitored by the Board and Secretary/Treasurer in an effort to effectively manage Society money. Variances from budgeted amounts would be an indicator of additional action may need to be taken by the Board.
- The Board (or other committee) should develop a review process to ensure all transactions are accurately posted to the general ledger and on the Society's annual financial report. Also, we recommend all transactions be posted to the proper accounts in the chart of accounts used by the Society, as suggested in the *Uniform System of Accounting for Agricultural Societies* manual issued by the Auditor of State.

**FINDING NUMBER 2007-012  
(Continued)**

This information can help answer questions such as the following:

- Are transactions posted to the correct line items based on supportive documentation?
- Are bills being paid in a timely manner?
- Are current receipts in line with prior year costs?
- If unusual fluctuations in receipts or expenditures occur, is the reason understood, and has it been appropriately budgeted?
- Are anticipated receipts being timely received?
- Are payments being made with adequate supporting documentation?

**FINDING NUMBER 2007-013**

**Cash Reconciliation Process**

As part of month end closing procedures, the bank account balances, including the Livestock accounts, should be reconciled to the Society's total book fund balance in a timely manner. After this procedure is completed, any errors found should be immediately corrected and month end financial information then be generated by the Secretary/Treasurer's office.

There was no evidence any of the bank accounts, including the Livestock accounts, were reconciled after June 2006; subsequently, there were no reconciled cash balances or outstanding checks lists available for either fiscal year 2006 or 2007.

Failure to reconcile the Society's fund balance to the cash balance on a monthly basis greatly increases the likelihood that posting errors can be made to the accounting system and not be detected.

We recommend the Secretary/Treasurer reconcile the Society's books each month and present evidence to the Board each month proving the bank account balances have been reconciled to the combined fund balance. Any adjusting factors, such as outstanding checks and deposits in transit should be appropriately identified and understandable. If variances cannot be identified, the Secretary/Treasurer should seek assistance in order to reconcile the cash fund balance. In addition, the Board (or other committee) should periodically verify items appearing on the monthly bank reconciliation, including, but not limited to, authentication of outstanding checks and deposits in transit.

**FINDING NUMBER 2007-014**

**Handling of Monies by the Secretary/Treasurer**

*Uniform System of Accounting for Agricultural Societies (USAAS)* manual issued by the Auditor of State stipulates procedures over cash receipts for agricultural societies. In part, the USAAS states a multi-part pre-numbered receipt should be completed for each receipt. A copy of the receipt shall be given to the person or organization making the payment. The society shall account for each receipt issued or spoiled by accounting for all receipts numbers consecutively. A cash receipt shall be prepared for all cash receipts regardless of whether other documentation evidences receipt (e.g. camping contract). Bank deposit slips shall be prepared daily and cash deposited daily in the bank. Additionally, during periods of greater activity, such as the periods during around fair week, cash should be deposited several times per day, and significant deposits at the end of the day should be deposited in the bank's night depository and not left overnight on the fairgrounds.

**FINDING NUMBER 2007-014  
(Continued)**

The following weaknesses were noted regarding cash receipts handled by the former Secretary/Treasurer, Judy Bayliss:

- Receipts were not issued for all monies received from individuals, merchants, or organizations.
- Information on receipts did not always appear complete and accurate. For instance:
  - The name of the individual, merchant, or organization making the payment was not always indicated on the receipts or the receipt sometimes just indicated the payor as “miscellaneous”.
  - It was not always clear as to the purpose of the receipt (i.e. receipt type (e.g. privilege fees, rental income, camping, etc.)).
  - The itemized revenue sources listed on receipts did not always match the receipt totals.
- Copies of the receipts (i.e. the white portion) issued by the Secretary/Treasurer were not always given to the individual (including Board Member(s)), merchant, or organization making the payment.
- Deposits could not always be matched to amounts received (e.g. gate admission receipts) and/or specific receipts were issued by the Secretary/Treasurer (since receipts were not always issued).

This situation may result in lost revenues to the Society and could cause errors and/or fraud not being promptly detected in the normal course of business.

To improve controls over the receipt process, we recommend:

- A receipt should be issued for all monies deposited with the Secretary/Treasurer.
- Receipt information should always include the name of payor, the receipt type (e.g. privilege fees, rental income, camping, etc.), and the receipt breakdown should add up to the receipt total.
- A copy of the receipt issued by the Secretary/Treasurer should always be given to the individual, merchant, or organization making the payment, especially when paying cash.
- Deposits should match specific sequences of receipts. In instances in which only one daily deposit is made, all receipts issued for that day should agree to the daily deposit amount. In instances in which multiple deposits are made per day, a notation should be made in the receipt book or on the deposit slip which receipts make up a particular deposit.

**FINDING NUMBER 2007-015**

**Ticketed Revenue**

The following weaknesses were identified in ticketed revenue:

- There was no summary inventory record maintained over the daily admission tickets and season passes indicating the disposition of the tickets sold/unsold.
- Ticket reconciliations were not always prepared for each event held at the grandstand.
- Unused tickets could not always be located and accounted for.
- Daily ticket reconciliations for each gate were generally prepared for gate admissions, which included daily ticket sales as well as season passes sold at the gates; however, data on the ticket reconciliations was not always accurate and complete. For example:
  - The total number of tickets sold did not appear to recalculate based on the documented beginning and ending “used” ticket numbers as well as the first “ticket” unsold ticket number.

**FINDING NUMBER 2007-015  
(Continued)**

- Tickets were not consistently used the last day of the fair. The Society charged by the carload instead of selling individual tickets; however, no tickets or another similar method were utilized to account for the number of cars charged and let in the gate. Usually only the total amount collected at the gate was indicated on the ticket reconciliation report in these instances.
- Ticket numbers for season passes was not always indicated on the ticket reconciliations. In these instances, the ticket reconciliations only indicated a total of season passes sold.
- The ticket reconciliations did not recalculate to the documented total numbers of tickets and season passes sold and the respective admission price.
- The total revenue actually collected did not always match the total amount shown on the ticket reconciliation for each gate. We found there were overages between the amount actually collected and the total reported on the ticket reconciliations. The Secretary/Treasurer sometimes indicated on the ticket reconciliations overages were due to the ticket takers not tearing off all ticket stubs at the gates but collecting monies, resulting in more revenues being deposited than were accounted for as being sold.
- The total amount shown on the ticket reconciliation did not always match the total amount to be deposited based on the deposit slip prepared by the Secretary/Treasurer. In a few instances, the total amount on the deposit slip (as prepared by the Secretary/Treasurer) was even different from the actual deposit amount.
- In some instances, the daily gate total could not be traced to an actual deposit.
- The ticket reconciliations were not signed by the person preparing the reconciliation and the Secretary/Treasurer, nor was there evidence of any indication made as to agreement of the monies turned over the Secretary/Treasurer.
- At the end of the day, other volunteers assisted the Secretary/Treasurer in counting the cash turned into the Secretary's office. There is no evidence of any indication made as to who assisted in counting the cash.
- Receipts were usually not issued by the Secretary/Treasurer for any ticketed revenue.

These weaknesses resulted in errors and irregularities not being promptly detected and could result in the possible theft or loss of ticketed revenues.

To strengthen controls and improve accountability over ticketed receipts, we recommend:

- A summary inventory record should be maintained for each individual ticket roll available for sale. This inventory record should show the number of tickets available for sale, the range of tickets sold at each gate by day. Similar documentation should be maintained for season passes.
- Ticket reconciliations should be completed each day for each gate as well as for each event held at the grandstand (similar to the documentation of the gate admission activity).
- All unused tickets should be accounted for and retained for inspection.
- Tickets should be sold to all those entering the gates and the grandstand.
- The ticket number sequences for tickets and season passes sold should be documented on the ticket reconciliations. The total number sold should be recalculated based on the respective admission price and matched to the amount turned over to the Secretary/Treasurer. Any discrepancies should be documented and explained on the reconciliations. The ticket reconciliations should be signed by the person preparing the reconciliation and the Secretary/Treasurer.
- As monies are turned over to the Secretary/Treasurer from the individual gates, the Secretary/Treasurer and the individual(s) turning in the money should each sign off indicating agreement to the amount which was turned in.



**FINDING NUMBER 2007-015  
(Continued)**

- There should be evidence of who the volunteers were who assisted the Secretary/Treasurer in counting money turned over to the Secretary's office. These individuals should sign off on the daily reconciliations as evidence of agreement with the amounts counted.
- Deposits should be reconciled to the daily ticket reconciliations.
- Receipts should be issued by the Secretary/Treasurer for all ticketed admission receipts.

**FINDING NUMBER 2007-016**

**Privilege Fee and Rental Contract Revenue**

The Society enters into contracts with individuals, merchants, and concessionaires (i.e. food vendors) for space on the fairgrounds (i.e. privilege fees), horse stall rentals, building and/or grounds rentals, and storage. The contracts stipulate the total fees due. The Secretary/Treasurer and/or certain Board Members in charge of rentals receive payments from these renters during the year.

The following discrepancies were identified relating to privilege fee and rental contract revenue:

- A summary list is not adequately maintained for merchants and concessionaires rental spaces, campsites, building, storage, or horse stall rentals which shows all available sites, the renter, and their account status.
- Contracts were not always found.
- Contracts on file were not always signed.
- Contracts were sometimes appeared altered (i.e. fee amounts appeared altered to match amounts paid).
- Fees did not always appear consistently charged (i.e. fees did not appear uniform for all rental spaces).
- Payment information was not always documented on the contract. In some cases, payment information as documented on the contracts did not agree to payment information submitted to the Secretary/Treasurer. For example, receipts issued by the Secretary/Treasurer for some privilege fee contracts differed from payment information indicated on the contracts.
- Receipts were not always issued by the Board Member to the individual, merchant, or concessionaire making the payment. In instances where receipts were issued by the Board Member for rental payments, copies of the receipts were not turned over to the Secretary/Treasurer with any amounts collected.
- There is no evidence the Secretary/Treasurer and/or the Board regularly monitors privilege fee and rental contract revenues and whether all contracts are paid in full.

Failure to document all pertinent receipt information could result in errors or fraud to occur and not be detected in a timely manner. Failure to document this information could also result in the Society not receiving amounts due on the contracts.

**FINDING NUMBER 2007-016  
(Continued)**

To provide greater assurance privilege and rental receipts are properly accounted for, we recommend the following:

- A summary listing (or accounts receivable ledger) be maintained showing all merchants and concessionaires rental spaces, campsites, building, storage, or horse stall rentals. The listing should include the following:
  - Prenumbered contract number,
  - Merchant or concessionaire name,
  - Amounts paid for current year,
  - Check number(s),
  - Date(s) received,
  - Outstanding balance,
  - Amounts paid as deposit for following year, and
  - Secretary's receipt data (number, date and account number).
- Spaces not rented, free, or discounted spaces should be marked as such. The amounts paid per the listing should then be reconciled to the receipt ledger account for each rental type. These listings should then be presented to the Board for review and approval.
- Pre-numbered contracts should be prepared and signed for all privilege fee and rental activities. Additionally, all fees and rates charged should be based on Board approved amounts and should be included in the contract provisions. Contract provisions, including any fees, should not be altered at a later date by the respective Board Member.
- Payment information documented on the contract should agree to the listing (if prepared) and the payment information submitted to the Secretary/Treasurer. For example, receipts issued by the Secretary/Treasurer for some privilege fee contracts should agree to payment information indicated on the contracts.
- The respective Board Member should issue triplicate pre-numbered receipts for each individual, merchant, or concessionaire each time a payment is received for privilege fees or rental receipts (regardless if its cash or check). The Board Member should give one copy of the receipt to the individual, merchant, or concessionaire making the payment. Monies turned over to the Secretary/Treasurer should be accompanied with a copy of the receipt(s). Finally, a copy should be retained by the Board Member.
- The Secretary/Treasurer and/or the Board (or other committee) should regularly monitor privilege fee and rental contract activity throughout the year to help ensure the Society is receiving all privilege fee and rental revenues due and that such amounts are properly recorded. This would also include monitoring of delinquent accounts.
- In order to reduce the risk inherent with cash, the Society should consider establishing a policy requiring all individuals, merchants, and concessionaires to pay by check.

#### **FINDING NUMBER 2007-017**

##### **Timely Deposits of Receipts by the Secretary/Treasurer**

Amounts received by former the Secretary/Treasurer, Judy Bayliss, were not routinely deposited to the Society's designated depository in a timely manner. For instance, \$600 received from two buyers for the Livestock Sale were held up to approximately a month before being deposited in the bank.

Monies not deposited timely have an increased risk of theft or misappropriation. Untimely deposit of Society monies also reduces the amount of interest earned by the Society. We recommend the Secretary/Treasurer deposit all monies to the Society's designated depository upon receipt.

#### **FINDING NUMBER 2007-018**

##### **Approval of Fees**

Although there is evidence the Board periodically approves increases of certain fees, including food vendor fees, campsite fees, and event prices, it is neither complete, nor approved on a regular basis.

By not maintaining an updated schedule of fees, inappropriate fees could be charged which could result in the Society collecting more or less revenues than it was entitled. We recommend the Board approve an updated schedule of all associated fees and fair prices each year (perhaps at the organizational meeting for each fiscal year) reflecting any changes in fees and prices. Approval should be documented in the Society minutes. This would include, but not be limited to:

- Gate admissions, including daily tickets and season passes;
- Grandstand show event admissions;
- Campsites;
- Rental space for storage;
- Horse stalls rentals;
- Building and/or grounds rentals;
- Concessionaire (i.e. food vendor) spaces (during fair week or other events or festivals held at the fairgrounds);
- Merchant booth rentals (during fair week), or
- Other applicable situations in which fees might be charged.

#### **FINDING NUMBER 2007-019**

##### **Background/Reference Checks**

Thorough background and reference checks should be conducted for all individuals, including management officials, employees, and/or volunteers, who handle cash. The Society does not perform background and/or reference checks, nor is there a formal policy established requiring such checks to be performed. Background and reference checks can help the Society protect itself and help reduce the likelihood of theft. To improve controls over individuals who handle cash, the Society should implement policies and procedures regarding utilization of background and/or reference checks for all individuals with access to the Society's funds.

### **FINDING NUMBER 2007-020**

#### **Awarding of Premiums**

Certain fair premiums (cash awards), including the fine arts and open class premiums, were paid out in the form of cash or gift or gas cards instead of being paid by check. There is no evidence individuals receiving the cash or cards signed any acknowledgment of receipt of the premiums. This may result in premiums being distributed incorrectly or in possible fraud. We recommend the Board enact a policy which would specify premium payments to either be issued by check or, if premiums are paid out in the form of gift cards, the Board should require recipients sign a document acknowledging receipt of the premiums.

### **FINDING NUMBER 2007-021**

#### **Computer Usage Policy**

The protection of financial and managerial data is a primary security concern for any organization. Computer access capabilities should be formally developed to help ensure access granted to users is appropriate for the job duties performed and to provide guidelines for helping to ensure only authorized individuals can enter or modify data as management intended. The Society does not have a written computer usage policy in place.

This situation increases the risk users may have unauthorized access resulting in improper or unintentional manipulation, misstatement, or loss of the Society's financial data. Without implementation of proper computer security policies and procedures, it may be difficult for management to identify an individual responsible for unauthorized activity.

We recommend the Society adopt a formal computer usage policy which specifies those individuals with computer access capabilities. The Society should limit computer usage to those management officials and/or employees responsible for the Society's financial data. The policy, at minimum, should address:

- Internet use;
- Illegal software; and
- Any other computer matters which management is concerned about.

### **FINDING NUMBER 2007-022**

#### **Use of Passwords**

Standard security controls require the confirmation of a user ID through the use of a password, which provides the first line of defense into the system. Each user of the Society's system is given a user account; however, there is only one password for all of the operators (i.e. each one does not have their own individual password).

Weak password controls could result in unauthorized access to sensitive data files and resources. The excessive number of system users accessing the system increases the risk of error from accidental or intentional misuse of the account.

To help ensure the integrity of the Society's financial data, we recommend each system operator have their own individual password. Each password should be unique, changed periodically (e.g. every ninety days or less), and be at least six characters in length.

### **FINDING NUMBER 2007-023**

#### **Travel Policy**

The Society does not have a travel policy for its officials and employees. The lack of such a policy leaves officials and employees without guidance regarding reimbursement of travel expenses related to Society business and could result in excessive or improper expenditures. The travel policy should be established which indicates reimbursable travel expenses, including limits (e.g. exclusion of personal charges such as movie charges and alcoholic beverages); requires reimbursement of mileage and travel expenses be limited only to Society officials and employees; and requires submitting documentation (e.g. hotel, parking, and meal receipts) to support reported reimbursement amounts.

We also reported this matter in the management letter of our audit of the 2005 and 2004 financial statements.

### **FINDING NUMBER 2007-024**

#### **Establishing an Audit Committee**

The Society should establish an audit committee to serve as a liaison between management and its auditors. The primary functions of such a committee are to monitor and review the Society's accounting and financial reporting practices, and to follow up on citations and recommendations made by its auditors.

The audit committee should be actively involved in:

- Meeting with the Society's independent auditors before and after each audit;
- Monitoring the progress of the financial and compliance audit;
- Evaluating the results of the financial and compliance audit; and
- Ensuring internal control and legal compliance issues identified in the audit are promptly and effectively remedied.

In addition, the audit committee should meet regularly (perhaps quarterly) to monitor the Society's legal compliance, financial condition, and controls over the safeguarding of assets.

The audit committee can include members of the Society's Board of Directors. However, it can also include representation independent from officials or management. The committee could include professionals knowledgeable in the Society's financial operations, such as attorneys or bankers.

We also reported this matter in the management letter of our audit of the 2005 and 2004 financial statements.

#### **Officials' Response:**

We decline to comment on the findings reported above.

**DEFIANCE COUNTY AGRICULTURAL SOCIETY  
DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
NOVEMBER 30, 2007 AND 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2005-001	Controls over rental of facilities	No	Not corrected – repeated as part of Finding 2007-016
2005-002	Monitoring controls on Livestock Sale	No	Not corrected – repeated as part of Finding 2007-012
2005-003	Controls over gate admission ticket reconciliations	No	Not corrected – repeated as part of Finding 2007-015



Mary Taylor, CPA  
Auditor of State

DEFIANCE COUNTY AGRICULTURAL SOCIETY

DEFIANCE COUNTY

**CLERK'S CERTIFICATION**

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
MARCH 3, 2009