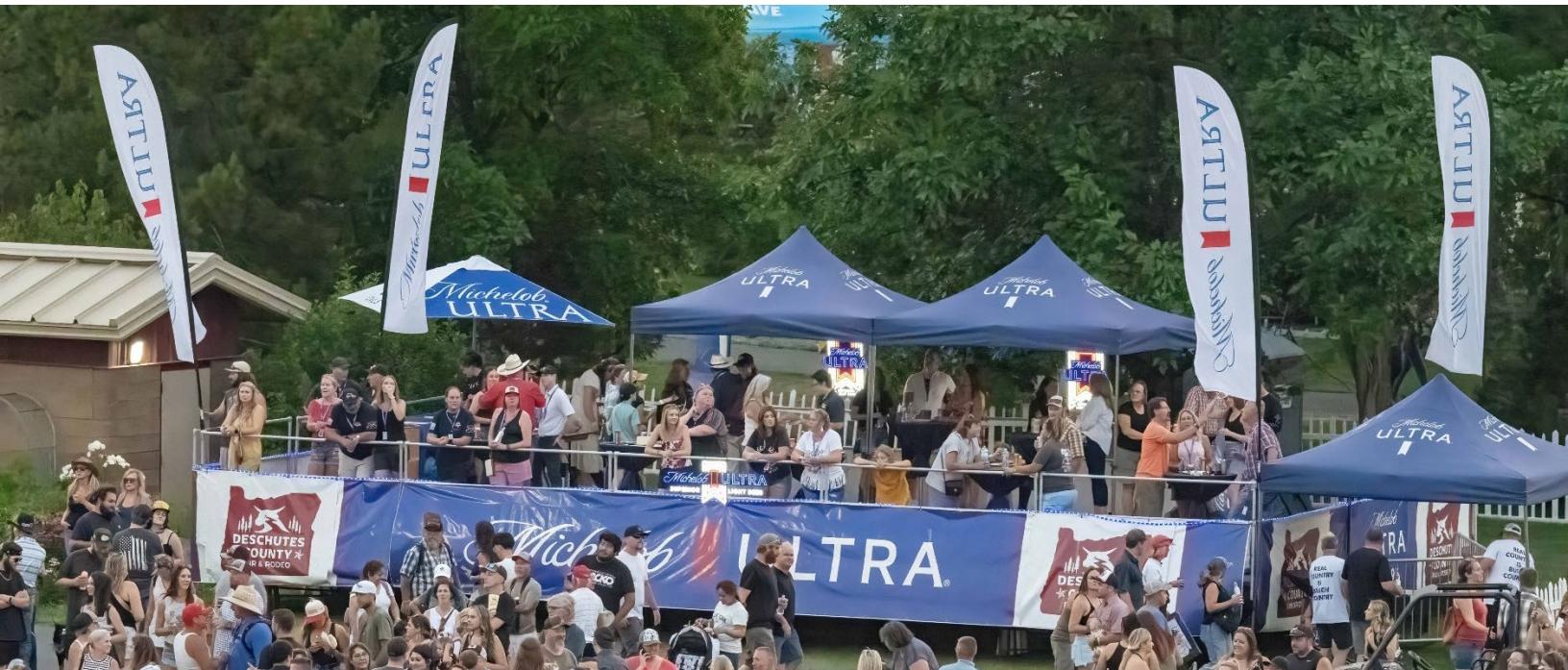




OFFICE OF
INTERNAL AUDIT

Audit Report

County Fair and Rodeo Alcohol Sales: Net profits higher but return lower



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Highlights:

Why this audit was performed:

According to management, alcohol sales have the highest profit margin of any product offered at the County Fair and Rodeo. A change in the model for selling alcohol from in-house to partnering with a Contractor prompted a review of how the new and prior sales models compared.

We recommended that Fair and Expo management:

Periodically evaluate fair alcohol sales against prior models or other contractors.

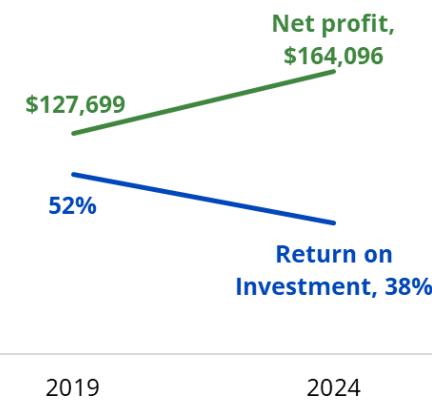
Design a program that limits County risk.

Clarify contract language regarding roles and responsibilities.

County Fair and Rodeo Alcohol Sales: Net profits higher but return lower

The audit objective was to determine whether alcohol sales at the County Fair were cost effective. Sub-objectives included determining how the partnership arrangement compared to the prior in-house model and whether cash and inventory were adequately controlled.

Performance of the partnership arrangement remained unclear. We found that management couldn't demonstrate the success of



the partnership program. A high-level review of expenses and revenue revealed mixed results with the County netting more revenue with the partnership model but with a lower return on investment.

Though the contract between Fair and Expo and the Contractor managed risk in some areas, others contained unclear language and opened the County to financial risks. On the positive side, the contract required the Contractor to purchase liquor liability insurance. However, the fair alcohol sales program was a patchwork of in-house and concessionaire programs where roles and responsibilities were not clear and introduced risk, leaving the County vulnerable to cash and inventory losses.

1. Introduction

Each year Deschutes County Fair and Expo Center hosts the Deschutes County Fair and Rodeo. The event includes a championship rodeo, concerts, animals, carnival rides, and fair concessions and exhibits.

In 2024, there were more than 100,000 visitors to the Fair who generated \$1 million in admission revenue.

Fair alcohol sales are profitable. According to Fair and Expo Center management alcohol sales have the highest profit margin of any product offered at the County Fair. Even if the County loses money on a performance, alcohol sales offset the loss. Fair and Expo sold \$455,000 worth of alcohol at the 2024 Fair with net profits of \$164,000.

In recent years, the alcohol sales model at the County Fair has evolved. Prior to Covid-19, the entire alcohol program was managed in-house. A staff person decided how much and what to sell, ordered and managed inventory, and hired temporary staff to serve alcohol. The Deschutes County Fair and Expo Center has a license from the Oregon Liquor and Cannabis Commission to sell alcohol. The County sold alcohol at the Fair in beer gardens with age restrictions for entry. Fair goers were not allowed to take alcohol to other fairground areas.

According to Fair and Expo management, a few factors caused them to reconsider the alcohol sales model.

- Covid-19 closures demonstrated the risk the County was taking on by holding alcohol inventory. Prior to Covid-19 closures, the County purchased alcohol for two events which were cancelled. Alcohol is a perishable good. The County was able to return some, but not all inventory.
- The staffer who ran the alcohol program was preparing to retire. The person's skill set included food and beverage management, catering, and alcohol sales. Fair and Expo management anticipated that this skill set would be difficult to replace and began to look for other options.

- The beer garden sale model had fallen out of favor. Though it allowed for sales in an age-restricted area, making it easier to prevent serving to minors, it also concentrated negative factors associated with alcohol sales. Staff said that customers would drink quickly so that they could get back to their families in other areas, possibly causing them to drink more in a short period of time. Management noted that there were more security incidents and fights with the beer garden model.
- After Covid-19 it was more difficult to hire temporary staff to sell alcohol.

Fair and Expo management contracted with Oregon Beverage Services, Inc to provide alcohol at events in the Summer of 2022 and the Contractor has partnered in running the County Fair alcohol program since then. Though the Contractor was also a licensed alcohol vendor, they continued to sell alcohol using the Deschutes County alcohol license.

The Deschutes County Audit Committee authorized a review of County Fair alcohol sales in the Internal Audit Work Plan for Fiscal Years 2024 and 2025. Audit objectives, scope, and methodology can be found in **Appendix A**.

2. Findings

The audit objective was to determine whether alcohol sales at the County Fair were cost effective. Sub-objectives included determining how the partnership arrangement compared to the prior in-house model and whether cash and inventory were adequately controlled.

After conducting the audit, the performance of the partnership arrangement remained unclear. We found that management couldn't demonstrate the success of the partnership program. A high-level review of expenses and revenue revealed mixed results with the County netting more revenue with the partnership

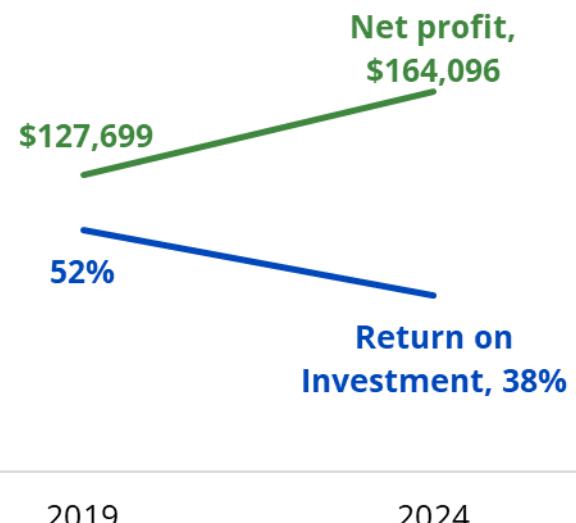
model but with a lower return on investment. The partnership model did not adequately define roles and responsibilities, leaving the County vulnerable to losses of cash and inventory.

We recommend that Fair and Expo management periodically evaluate fair alcohol sales against prior models or other contractors, design a program that limits County risk, and clarify contract language regarding roles and responsibilities.

Fair and Expo management couldn't demonstrate new alcohol program success

The County did not evaluate the new partnership alcohol sales program to the previous in-house model. Auditors performed a high-level review of revenue and expenses, but results were inconclusive. Total alcohol sales were higher in 2024 but the County's return on sales were lower. Net profits increased from \$128,000 in 2019 to \$164,000 in 2024. The return on alcohol decreased from 52 percent to 38 percent.

Figure I: Net profit increased with the new model, but return on investment decreased



If there was a 52 percent return in 2024, profits would have increased from \$164,000 to \$237,000; a \$73,000 difference. Factors other than the program model, such as the cost of labor or supplies, may also have impacted both overall sales and the return on investment.

Fair and Expo management may not be getting the best deal from the Contractor. Buyers usually rely on the free market to ensure they are getting the best price for goods and services. However, in this case, there weren't any other competitors providing the service. Fair and Expo advertised a request for proposals to provide alcohol service management but only one contractor responded.

The Government Finance Officers Association recommends strategic planning processes when executing new initiatives that include monitoring and evaluation. Fair and Expo management reported budget and actual revenue for overall concessions but did not perform more specific evaluation such as comparing alcohol program results to the previous model or returns offered by other contractors.

- 1. Fair and Expo management should periodically evaluate program outcomes including comparison to an in-house program or other contractors if available.***

Confusion about alcohol sales management responsibilities introduced risk

Contracts between governments and private partners should be clear and comprehensive regarding rights and responsibilities between parties, risk allocation, and how to manage change or disputes. Contracts should also include performance requirements that include expectations for quality and quantity of services as well as how performance will be monitored and

maintained.

Unclear contract language and program design exposed the County to risks of losing revenue and inventory.

Though the contract between Fair and Expo and the Contractor managed risk in some areas, others contained unclear language and opened the County to financial risks. On the positive side, the contract required the Contractor to purchase liquor liability insurance.

Other areas of the contract were vague about which party was responsible and increased liability for the County. Fair and Expo staff indicated that the Contractor was responsible for revenue collection and any cash that went missing during sales was the Contractor's responsibility. However, some elements in the contract implied more County control over cash than existed. For example, the contract required policies and procedures developed in conjunction with Fair and Expo management and compliance with County accounting system standards and internal control requirements. Contractor internal controls did not comply with Deschutes County standards. For example, multiple staff shared tills without formal cash transfer documentation and staff did not deposit money daily. Fair and Expo staff said language related to policies and procedures should have been specific to the responsible server guidelines and that requirements to comply with accounting and internal control were only intended to require an electronic point of sale system.

The payment methodology outlined in the contract was contradictory. The Schedule of Performance or Delivery section stated that the Contractor would retain 62 percent of gross sales. The Compensation section stated that the Contractor would provide Deschutes County with 100 percent of gross sales and then invoice for 62 percent of gross sales.

Other critical elements of the program were not included. There was no mention of who owned inventory, how it transferred from one party to another or who was liable for lost inventory. Water

sales were not included in the contract.

The fair alcohol sales program was a patchwork of in-house and concessionaire programs where roles and responsibilities were not clear and introduced risk. Alcohol and revenue transferred among four parties: alcohol distributors, Fair and Expo staff, Oregon Beverage Services staff, and fair attendees.

Step 1: The Contractor paid money to Fair and Expo up front that Fair and Expo used to pay for alcohol.

Step 2: Fair and Expo purchased and paid for alcohol from distributors using the Fair and Expo liquor license.

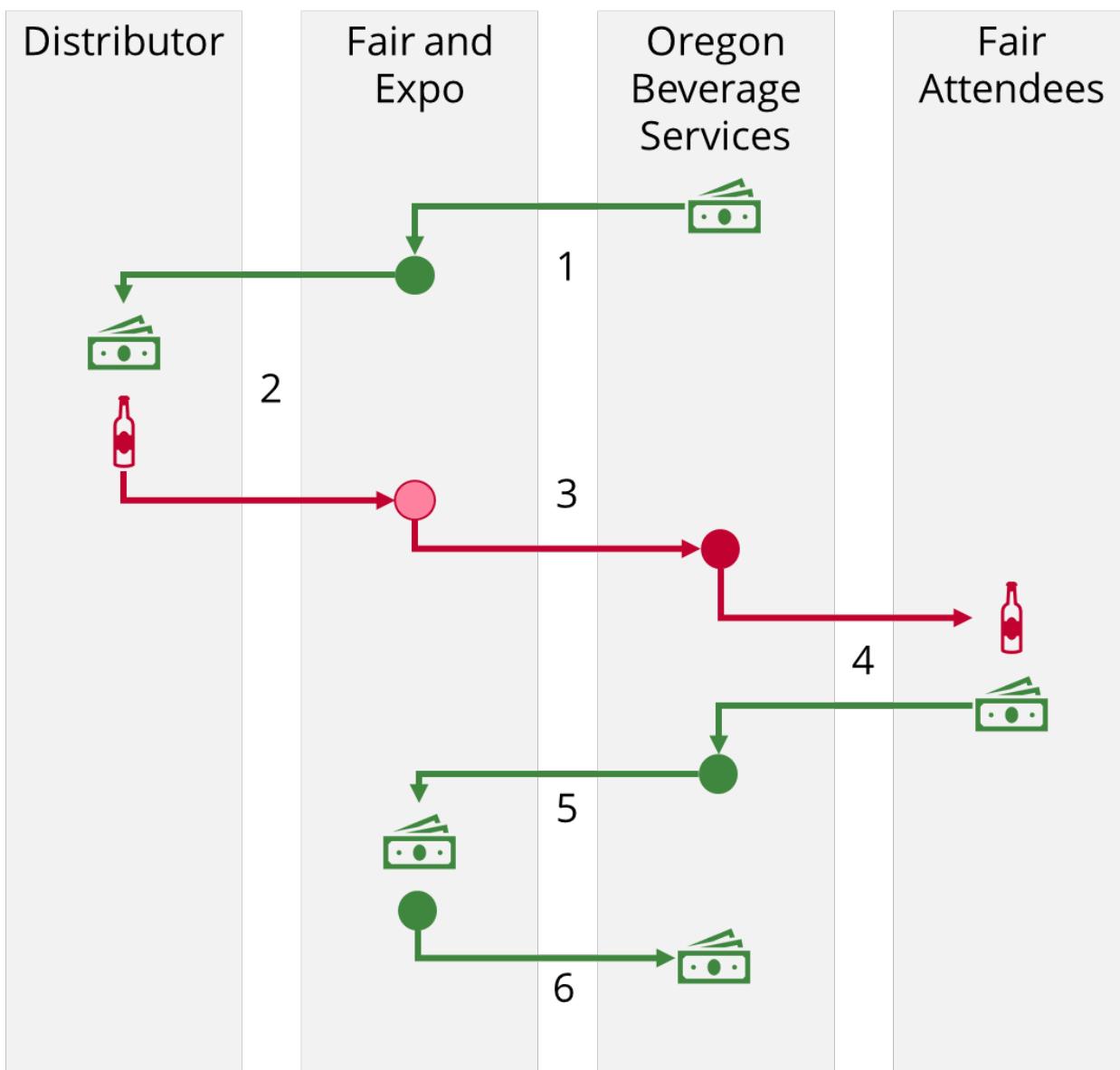
Step 3: Distributors delivered alcohol to Fair and Expo. The Contractor accepted alcohol and signed invoices indicating receipt.

Step 4: The Contractor sold alcohol to Fair attendees, who paid the Contractor.

Step 5: The Contractor paid 100 percent of the revenue to Fair and Expo.

Step 6: Fair and Expo paid 62 percent of the revenue back to the Contractor.

Steps are illustrated in Figure II.

Figure II. County Fair Alcohol Sales Process

This process came with inefficiencies and risks.

Step 1: The Contractor issued blank signed checks to Fair and Expo staff to use to pay for alcohol. Though staff keep the checks in a locked drawer and used them only to pay for alcohol, there was a risk that checks could be stolen and the County could be liable for funds.

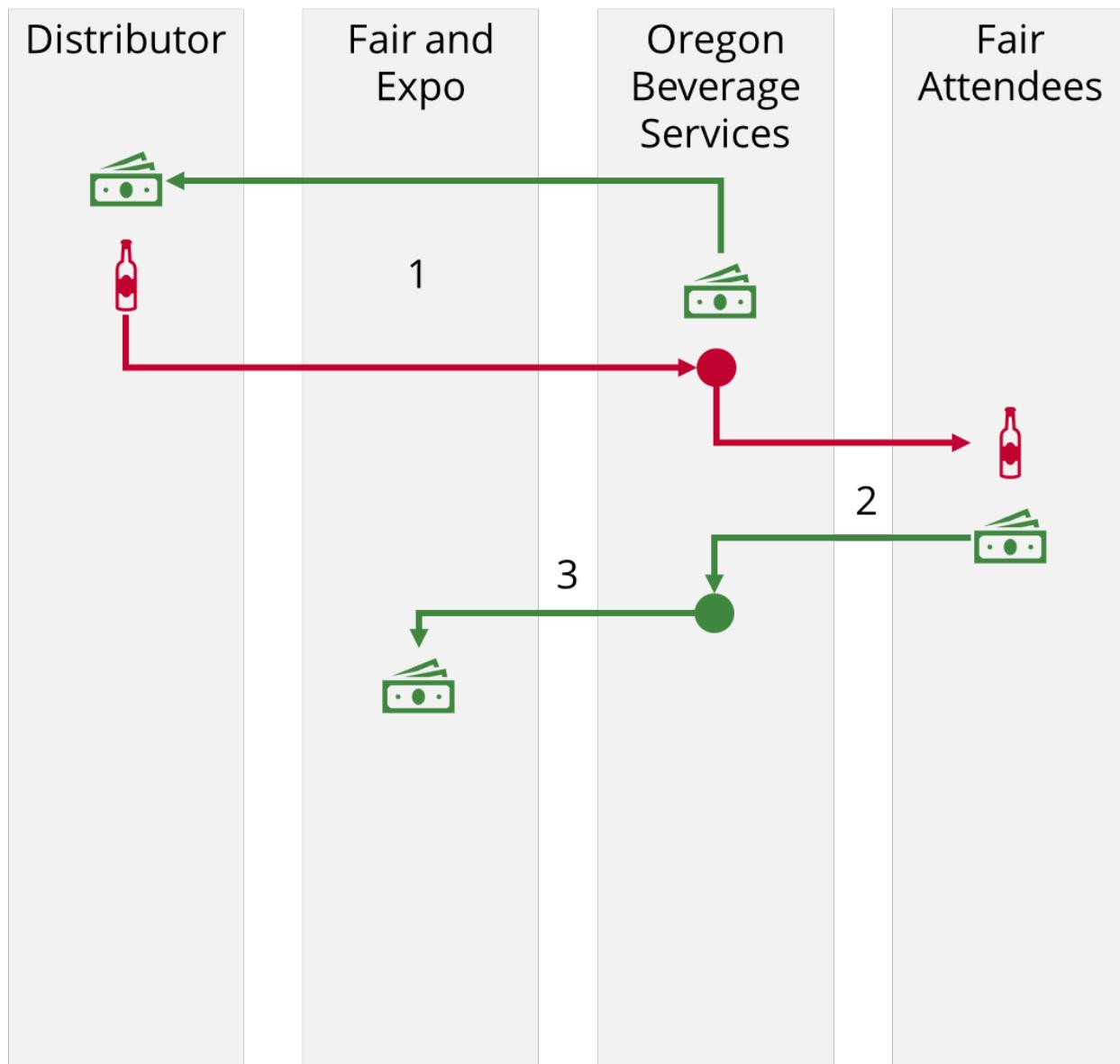
Steps 2 and 3: Ownership of alcohol was uncertain. In some ways, it appeared that alcohol belonged to the County. For example, distributors delivered alcohol to Fair and Expo and the

County's name was on distributor invoices. Fair and Expo staff also said that they preferred to purchase alcohol under their own license because it gave them more flexibility if the Contractor went out of business or was unavailable. In other ways it appeared that alcohol belonged to the Contractor. The Contractor gave Fair and Expo money to purchase alcohol, and the Contractor signed distributor invoices and received inventory. Fair and Expo did not have any inventory controls in place because staff believed the alcohol belonged to the Contractor.

Step 5 and 6: Every time funds transfer between one entity and another, there is some risk. In step 5 the Contractor paid the County 100 percent of revenue from alcohol sales and then in step 6 the County paid the Contractor 62 percent. Step 6 would not be necessary if the Contractor paid the County 38 percent instead of 100 percent.

A simpler process would have the Contractor purchase alcohol directly from distributors and pay Fair and Expo 38 percent of sales instead of 100 percent. This model is more like a traditional concessionaire model.

Figure III: Alcohol sales in a more traditional concessionaire model



Step 1: The Contractor purchases alcohol from distributors.

Step 2: The Contractor sells alcohol to Fair attendees, who pay the Contractor.

Step 3: The Contractor pays 38 percent of the revenue to Fair and Expo.

This model is for illustrative purposes and may also come with drawbacks. Fair and Expo spoke about some of the disadvantages compared to the model in place, but those can also be countered.

Change	Disadvantage Raised by Management	Counter Argument
Having the Contractor purchase alcohol from the distributor.	Alcohol would not belong to Fair and Expo. If the Contractor were to go out of business, Fair and Expo would need to purchase alcohol.	Fair and Expo would not have as much time but could still purchase alcohol using its own license.
Having the Contractor purchase alcohol from the distributor.	Fair and Expo relies on reports from distributors to know how much alcohol is onsite and what the Contractor is selling.	This is not a foolproof control. As a licensed seller itself, the Contractor could still bring other alcohol onsite to sell in the current set-up as well.
Having the Contractor pay 38 percent to Fair and Expo instead of 100 percent.	Fair and Expo staff considered 100 percent of revenue to be theirs and wanted to be in control of the funds to pay any expenses the Contractor did not pay.	The Contractor already reimbursed Fair and Expo for the cost of the alcohol. Other expenses are paid directly by the Contractor and not by Fair and Expo.

Developing a program that makes sense will take consultation with multiple parties including Oregon Beverage Services and County Counsel.

2. ***Fair and Expo management should consult with Oregon Beverage Services and County Counsel to evaluate risks in the current system and consider implementing a program with fewer risks.***

- 3. *If Fair and Expo management decides to proceed with the current program, it should develop stronger liquor inventory controls including a system to document ownership transfer.***

3. Conclusion

According to Fair and Expo management, alcohol sales have the highest profit margin of any product offered at the County Fair. Alcohol sales program changes after Covid-19 closures, from a fully in-house model to a partnership model with an outside Contractor, prompted a review of the new model to determine whether alcohol sales were cost effective. We found mixed results with higher alcohol sales and net profits in 2024 but a lower return on sales. We also found that the partnership model was a patchwork of in-house and concessionaire programs where roles and responsibilities were not clear and introduced loss of cash and inventory risks. We recommended that Fair and Expo management:

1. Periodically evaluate program outcomes including comparison to an in-house program or other contractors if available.
2. Consult with Oregon Beverage Services and County Counsel to evaluate risks in the current system and consider implementing a program with fewer risks.
3. Develop stronger liquor inventory controls including a system to document ownership transfer.

4. Management Response



Audit Report

County Fair and Rodeo Alcohol Sales: Audit Response:

Audit Finding 1: Fair and Expo management should periodically evaluate program outcomes including comparison to an in-house program or other contractors if available.

Response: We appreciate the audit's recommendation and agree on the importance of periodically evaluating the alcohol sales program. While Fair and Expo management currently conducts periodic reviews, we recognize the need for a more robust evaluation moving forward. This will include a thorough comparison to prior models and analysis of potential returns from other contractors, where applicable.

We acknowledge that external factors such as inflation, labor costs, and availability have significantly changed since 2019 and have impacted both sales and return on investment. These factors have been considered in our recent analysis, and we will ensure they are part of future reviews to better understand their impact.

Additionally, we will strengthen the clarity of roles and responsibilities within the partnership model and improve contract language to mitigate risks related to cash and inventory.

Overall, we are committed to improving our review process to ensure the best outcomes for the County while addressing external challenges.

Audit Finding 2: Fair and Expo management should consult with Oregon Beverage Services and County Counsel to evaluate risks in the current system and consider implementing a program with fewer risks.

Response: Consultation with Oregon Beverage Services and County Counsel

We acknowledge the audit's recommendation to consult with Oregon Beverage Services and County Counsel to evaluate the risks associated with the current alcohol sales system. We agree that a more comprehensive evaluation of potential risks and a clearer understanding of our responsibilities under the current program are essential.

As such, we will be coordinating with Oregon Beverage Services and County Counsel to review the current model, identify areas of concern, and explore a program that minimizes risks while maintaining operational effectiveness. We are committed to implementing a system that protects the County and improves the overall efficiency and safety of alcohol sales at Fair & Expo events.

Finding 3: Fair and Expo management should consult with Oregon Beverage Services and County Counsel to evaluate risks in the current system and consider implementing a program with fewer risks.

Response: We recognize the need for stronger liquor inventory controls and agree with the recommendation to implement a system to document ownership transfers and improve tracking. The current model has presented challenges, including confusion about alcohol ownership and the transfer of inventory, which has introduced unnecessary risk.

To address this, we will develop more robust inventory controls to ensure clear documentation of ownership transfers, along with daily reconciliations and proper cash handling procedures. This will include more specific guidelines for the transfer of alcohol, ensuring both parties have clear accountability. Additionally, we will update our procedures to ensure that inventory is monitored and reported accurately and consistently.

Conclusion:

We are committed to enhancing the management of alcohol sales at the Deschutes County Fair & Expo Center by collaborating with Oregon Beverage Services and County Counsel to evaluate and mitigate risks. In parallel, we will implement stronger inventory controls and refine the alcohol sales process to ensure the County is protected, and financial and operational risks are minimized.

Thank you for your valuable insights, and we look forward to ensuring a more efficient and secure system moving forward.

5. Appendix A: Objective, Scope, and Methodology

The County Internal Auditor was created by the Deschutes County Code as an independent office conducting performance audits to provide information and recommendations for improvement.

Audit Authority

The audit included limited procedures to understand the systems of internal control around alcohol sales. No significant deficiencies were found in this audit. A significant deficiency is defined as an internal control deficiency that could adversely affect the entity's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The findings noted were primarily compliance and efficiency matters.

Audit findings result from incidents of non-compliance with stated procedures and/or departures from prudent operation. The findings are, by nature, subjective. The audit disclosed certain policies, procedures and practices that could be improved. The audit was neither designed nor intended to be a detailed study of every relevant system, procedure, or transaction. Accordingly, the opportunities for improvement presented in the report may not be all-inclusive of areas where improvement may be needed and does not replace efforts needed to design an effective system of internal control.

Management has responsibility for the system of internal controls, including monitoring internal controls on an ongoing basis to ensure that any weaknesses or non-compliance are promptly identified and corrected. Internal controls provide reasonable but not absolute assurance that an organization's goals and objectives will be achieved.

Objectives and Scope

The audit objective was to determine whether alcohol sales at the County Fair were cost effective. Sub-objectives included



*"Audit objectives"
define the goals of
the audit.*

determining how the partnership arrangement compared to the prior in-house model and whether cash and inventory were adequately controlled.

The scope included a review of alcohol revenue and expenses from the 2019 and 2024 Deschutes County Fair and Rodeo and a review of the contract in place with Oregon Beverage Services in 2024. The audit took place in the Fall of 2024 after the Fair.

Methodology



*Audit procedures are
created to address
the audit objectives.*

Audit procedures included:

Interviewing Fair and Expo and Oregon Beverage Services staff about procedures for receiving inventory, selling alcohol, and transferring funds between the County and Contractor.

Reviewing financial data from the County's financial system related to revenue and expenses from the 2019 and 2024 Fairs.

Reviewing the contract between Fair and Expo and Oregon Beverage Services.

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.

(2018 Revision of Government Auditing Standards, issued by the Comptroller General of the United States.)

The mission of the Office of Internal Audit is to improve the performance of Deschutes County government and to provide accountability to residents. We examine and evaluate the effectiveness, efficiency, and equity of operations through an objective, disciplined, and systematic approach.

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