UTAH STATE FAIR CORPORATION

Government Auditing Standards Report
For the Year Ended December 31, 2012

Report No. 12-57

OFFICE OF THE
UTAH STATE AUDITOR

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AUDIT TEAM:

Jon T. Johnson, CPA, Audit Director
Rebekka Wilkinson, CPA, Audit Supervisor
Melanie Henderson, CPA, Senior Staff

UTAH STATE FAIR CORPORATION

GOVERNMENT AUDITING STANDARDS REPORT
FOR THE YEAR ENDED DECEMBER 31, 2012

TABLE OF CONTENTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
and
Michael J. Steele, Executive Director
Utah State Fair Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Utah State Fair Corporation (the Corporation), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated April 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations that we consider to be significant deficiencies. (See Findings 1, 2, and 3.)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The Corporation's Response to Findings

The Corporation's responses to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. The Corporation's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Office of the Utah State Auditor

April 25, 2013

UTAH STATE FAIR CORPORATION

FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012

1. PURCHASE ORDERS NOT COMPLETED AND APPROVED UNTIL AFTER THE INVOICES WERE RECEIVED

We reviewed the supporting documentation for one 2012 disbursement selected from the general operating cash account at the State Fair Corporation (the Corporation). The disbursement was a vendor payment totaling $26,069 and covering 16 different invoices. For all 16 invoices, the respective purchase orders were approved and dated after the invoice dates, indicating that purchase orders were completed to match the invoices. Thus, these purchases were not in compliance with the Corporation's purchasing policy which requires purchase orders to be prepared and approved before commitments to purchases are made. Based on our additional inquiries, we believe that other instances of noncompliance of this nature likely occurred throughout 2012 for various vendor payments.

Complying with purchasing policies will help ensure the Corporation obtains the best price in its purchases and will help avoid fraud, waste and abuse in procurement transactions. Also, appropriate use of procurement practices and documentation will help the Corporation in its financial reporting of year-end commitments and accruals.

Recommendation:

We recommend that the Corporation implement internal controls to ensure compliance with purchasing policies and procedures, including preparing and approving purchase orders *before* commitments to purchase are made.

Corporation's Response:

We agree with this finding and recommendation. Those involved in the purchasing process, including those submitting, recording and approving purchases, have been made aware of the correct approval process and timing requirements necessary for making purchases at different price levels. Purchase orders will be approved before committing to purchase the goods or services. Approvals will be granted on the basis to ensure that only necessary services and goods are purchased and that purchases are made at the most reasonable price available.

Finding will be resolved immediately.

Contact Persons: Michael Steele, Executive Director
Andrew Stubbs, Controller
Holli Buxton, Assistant Controller

2. INADEQUATE SEPARATION OF DUTIES AND LACK OF INDEPENDENT REVIEWS

The Controller has several conflicting duties, including the ability to record transactions in the general ledger system, the ability to access cash and checks received, and the responsibility of reconciling all bank accounts. Inadequate separation of duties exists when the same individual has custody of assets, access to accounting records, and/or reconciling responsibilities.

Further, the Controller is able to record transactions in the general ledger system without any independent review and approval. In prior years, to help mitigate this control weakness, the Executive Director reviewed all journal entries and bank reconciliations each month. However, such reviews occurred for only three months in 2012, likely due to turnover in both the Controller and Executive Director positions. In addition, the Board's Finance Committee did not conduct reviews of financial detail, such as journal entries or purchase card transactions, during 2012 despite increased risks associated with turnover in key management positions.

We did not note any expenditures which seemed inappropriate; however, without adequate separation of duties and adequate independent reviews, misappropriation and errors could occur without detection.

Recommendation:

We recommend that the Corporation separate cash handling from the Controller's duties and ensure that regular independent reviews of all journal entries, bank reconciliations, and other financial detail are performed.

Corporation's Response:

We agree with this finding and recommendation. We are implementing the necessary changes and/or re-familiarizing ourselves with policies regarding the separation of duties for the controller and internal control reviews by the Executive Director and the Board's Finance Committee.

The Controller will no longer have access to or custody of assets including cash and checks received. We will return to the previous and consistent practice of having the Executive Director review all journal entries and bank reconciliations each month. Additionally, the Board's Finance Committee will be provided financial details that include journal entries and purchase card transactions so that an adequate review at the Board's level may be conducted.

The finding will be resolved immediately.

Contact Persons: Michael Steele, Executive Director
Andrew Stubbs, Controller
Holli Buxton, Assistant Controller

3. UNUSUAL ACCOUNT PAYABLE BALANCE

The Corporation was unable to fully explain an unusual account payable with a debit balance of $23,637. This payable is related to the Junior Livestock account and appears to result from reconciling transactions recorded in Quicken (the subsystem used to record Junior Livestock transactions) and the general ledger system. This account balance has increased for at least three years and could result in significant misstatements if left unresolved.

Recommendation:

We recommend that the Corporation investigate and resolve this account.

Corporation's Response:

We acknowledge and agree with this finding and recommendation for resolution. We understand the consequences if this finding is left unresolved.

The finding will be investigated immediately. We do not anticipate the adjustment affecting our cash balance. Depending on the volume of transactions and adjustments required, it is our expectation to resolve this account by end of Q2 2013.

Contact Persons: Michael Steele, Executive Director
Andrew Stubbs, Controller
Holli Buxton, Assistant Controller