UTAH STATE FAIR CORPORATION

Government Auditing Standards Report
For the Year Ended December 31, 2015

Report No. 15-48

OFFICE OF THE
UTAH STATE AUDITOR

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AUDIT LEADERSHIP:

Jon Johnson, CPA, Audit Director
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FOR THE YEAR ENDED DECEMBER 31, 2015

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INDEPENDENT STATE AUDITOR'S 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
Larry Mullenax, 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 (Corporation), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated June 10, 2016.

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 to 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 and therefore, material weakness or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations as Findings 1 and 2, that we consider to be significant deficiencies.

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 or other matters that are required to be reported under *Government Auditing Standards*.

Corporation's Responses 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

June 10, 2016

UTAH STATE FAIR CORPORATION

FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015

1. INADEQUATE CASH RECEIPTING INTERNAL CONTROLS

The State Fair Corporation (Corporation) does not have adequate internal controls to ensure the accurate recording of cash receipts for the annual state fair. Cash receipts for admissions to the fair are collected by several ticket sellers at various points of sale. When ticket sellers close out their registers, they each complete a "daily ticket seller settlement sheet" (settlement sheet) which is submitted, along with the cash receipts collected that day, to the Corporation's cash room safe. At the end of each day, the Corporation summarizes the settlement sheets from all ticket sellers on a daily gate admissions cash reconciliation. We noted the following weaknesses related to the Corporation's cash receipting processes and internal controls:

a. We selected one daily settlement sheet from one ticket seller. This settlement sheet total could not be directly traced through the daily gate admissions cash reconciliations to a bank deposit or to the general ledger. Also, the daily gate admissions cash reconciliation did not accurately reflect actual cash deposits for the day.

b. As a result of the error noted above, we expanded our testwork and reviewed 11 daily gate admissions cash reconciliations. For two of the 11 cash reconciliations reviewed, the beginning balance did not match the ending balance of the prior day.

c. The Corporation did not document the deposits of non-ticket cash receipts in the cash room safe.

d. The Corporation wrote checks to two vendors, totaling $74,500, but then immediately cashed the checks for the vendors from the gate admissions cash change fund without documenting the transactions in the daily gate admissions cash reconciliations. State accounting policy (FIACCT 05-23.02) stipulates that cash change funds should not to be used for making any expenditures, cashing employee personal or payroll checks, and making loans (IOUs) to employees or others. While the Corporation is not required to follow state policy, we consider making disbursements to vendors from cash collections to be inappropriate and subject to abuse.

e. The Corporation maintained what we consider to be an excessive amount of cash-on-hand in the gate admissions cash change fund during the annual state fair, which can lead to misuse and theft of funds.

f. The Corporation did not deposit cash on a daily basis during the peak cash collecting days of the annual state fair. *Utah Code* 51-4-1 requires that "…each agency shall deposit daily, if practicable, but no later than once every three banking days, all collections of state money and other public funds…." We were able to determine that the deposits during the annual state fair were made at least every three banking days; however, we believe the Corporation should make deposits on a daily basis during this peak time due to the large amount of cash collected.

Upon further investigation of the issues noted above, we were ultimately able to determine that there were no missing cash receipts for the settlement sheets and cash reconciliations reviewed. However, inadequate internal controls over cash handling, including inaccurate reconciliations between the daily gate admissions cash reconciliations and the daily deposit totals, as well as insufficient documentation of cash exchanges in and out of the cash room safe, could result in misappropriation of cash.

Furthermore, we noted that the Corporation has not established written policies regarding cash handling procedures and internal controls. Formal written cash receipting policies and procedures would help mitigate the potential for the abuse and misappropriation of annual state fair revenues.

Recommendation:

We recommend the Corporation improve cash receipting internal controls by establishing written cash receipting policies and procedures. Among other sound internal control policies over cash receipting, the written procedures should ensure the following:

- **All cash receipts are reconciled, summarized, and deposited in the bank on a daily basis during the annual state fair.**
- **Daily cash receipting totals, which agree to daily deposits, are recorded in the general ledger.**
- **Cash change funds are maintained at reasonable amounts as established by policy.**
- **Deposits of other cash receipts in the cash room safe are subject to appropriate internal controls and reconciled daily.**

Corporation's Response:

The audit performed by the Utah State Auditor's Office occurred April 2016 thru June 2016. Utah State Fair Corporation (USFC) worked to ensure that clear and accurate information was provided to the Utah State Auditor's Office. While much of the information included in this report accurately represents the financial activities of the USFC, it is the USFC position that certain paragraphs in the report could be easily misinterpreted leading readers to believe that financial oversight is absent.

Although the audit revealed opportunities for improvement, it is very important to mention that the audit clearly specifies that all cash receipts were located and all monies were accounted for.

a. Our current process is for each booth to make a daily deposit to our Fairpark safe, subsequently the monies are combined with cash and checks from other booths for deposit into the bank. This procedure will be modified in 2017 and will be consistent with the recommendations of the State Auditor's Office.

b. The aforementioned change in our cash handling procedures will prevent future "human" error, and dual signature acknowledgement will be required eliminating mental errors.

c. *Revenue generated from parking is placed into the safe each night for security. Future deposits of parking revenue will be aligned with the recommendations of the Utah State Auditor's office.*

d. *It is a common practice for Fair and Carnival acts to demand payment in cash rather than payment by check. This method of business has been standard operating procedure for decades. For many reasons, none more important than the safety of our associates, the Utah State Fair will handle acts that require and demand payment in cash differently in the future. We have reached an agreement with Zions Bank to manage any cash transaction on our behalf at their 650 North Redwood Road location.*

e. *The Fair generates substantial revenue over the weekend which leads to large amounts of cash on hand. Historically the Fairpark has not scheduled weekend service with Zions bank.*

f. *The USFC* [Corporation] *was compliant with Utah Code 51-4-1 each agency shall deposit daily if practical, but no later than every 3 banking days. This "Opinion" was included in the aforementioned paragraph.*

The USFC is very responsive to change and readily embraces recommendations presented to the Corporation from the Utah Legislature, Office of the Legislative Auditor General and the Utah State Auditor's office. A thorough and detailed cash management policy will be developed and implemented immediately.

2. INADEQUATE INTERNAL CONTROLS OVER FINANCIAL STATEMENT PREPARATION

The Corporation does not have sufficient internal controls over the financial statement preparation process to ensure the financial statements are prepared in accordance with generally accepted accounting principles. As a result, multiple audit adjustments were proposed during the audit. These adjustments included an adjustment to accounts receivable to remove invalid receivables, reclassifications of revenue and expense transaction totals, as well as adjustments to the cash flow statement and notes to the financial statements.

Management is responsible for establishing internal controls to ensure transactions are accurately captured and financial statements are accurately presented. The above errors occurred because of turnover in key financial reporting positions and unfamiliarity with the Corporation's financial reporting process and all necessary financial statement adjusting entries for the Corporation.

Recommendation:

We recommend that the Corporation improve internal controls over financial reporting to ensure the accuracy and propriety of the Corporation's activities and financial position as reported in the Corporation's financial statements.

UTAH STATE FAIR CORPORATION

FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015

Corporation's Response:

Additional levels of internal controls and review will be implemented ensuring that our financial statements are consistent with the expectations of the Office of the Utah State Auditor.

The Utah State Fair Corporation acknowledges that opportunities for improvement are present, not unlike any other business. Progressive action will be taken ensuring that we continue to drive improvement and achieve our goal of long term sustainable growth.

The USFC appreciates the support of the Governor Office, the Legislature, and the Office of the Utah State Auditor.