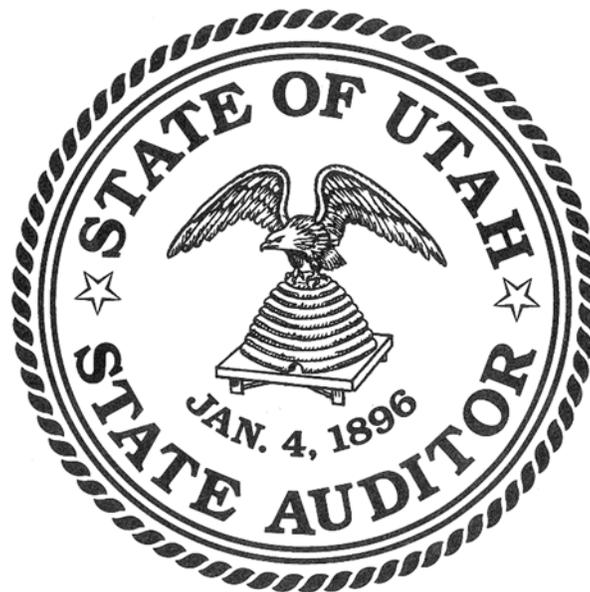


UTAH STATE FAIR CORPORATION

Government Auditing Standards Report
For the Year Ended December 31, 2018

Report No. 18-46



OFFICE OF THE STATE AUDITOR

AUDIT LEADERSHIP:

John Dougall, State Auditor
Doug Seager, CPA, Audit Manager
Andrew Driggs, Audit Senior

STATE FAIR CORPORATION
FOR THE YEAR ENDED DECEMBER 31, 2018

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| 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 <i>GOVERNMENT AUDITING STANDARDS</i> | 1 |
| FINDING AND RECOMMENDATION: | |
| INAPPROPRIATE OVERSIGHT AND LACK OF APPROVAL OVER EMPLOYEE EXPENSE REIMBURSEMENTS | 3 |



OFFICE OF THE
STATE AUDITOR

**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, 2018, 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 18, 2019.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying finding and recommendation, that we consider to be a significant deficiency.

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 Response to Finding

The Corporation's response to the finding identified in our audit accompanies the finding and recommendation. The Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 State Auditor

Office of the State Auditor
April 18, 2019

STATE FAIR CORPORATION

FINDING AND RECOMMENDATION FOR THE YEAR ENDED DECEMBER 31, 2018

INAPPROPRIATE OVERSIGHT AND LACK OF APPROVAL OVER EMPLOYEE EXPENSE REIMBURSEMENTS

The Utah State Fair Corporation (Corporation) did not establish effective internal controls for the reimbursement of employee expenses.

We reviewed 19 (totaling \$4,138) of 93 (totaling \$8,009) employee reimbursements and noted the following:

- 47% of the sampled reimbursements were for transactions that did not have correct or adequate supporting documentation, including original itemized receipts, to affirm a business purpose.
- 42% of the sampled reimbursements were for purchases that should have been made through other established purchasing procedures, such as purchase orders or Corporation issued credit cards.

An appropriate internal control environment should include a policy requiring a separate review and approval of reimbursable employee expenses by a direct supervisor to verify the following:

- 1) The expense is supported by appropriate source documents, such as original itemized receipts from the purchaser and descriptive expense reports, to affirm that reimbursable expenses are for a legitimate business purpose.
- 2) The reimbursement is not for a purchase that should have been made through other established purchasing procedures, such as purchase orders or Corporation-issued credit cards.
- 3) Any deviation from established purchasing policies and procedures is adequately documented and justified.

These issues resulted from inadequate supervisory oversight and approval of reimbursable employee expenses.

A weak internal control environment could subject public funds to fraud, abuse, and waste.

Recommendation:

We recommend the Corporation establish the proper internal controls to ensure the appropriate oversight and approval of all reimbursable employee expenses. Because of the Corporation's organizational structure, an assigned Board member should review and approve reimbursements to the Executive Director.

Corporation's Response:

The Utah State Fairpark Corporation acknowledges that current internal controls and procedures have room for improvement. We will update these procedures immediately.

STATE FAIR CORPORATION

FINDING AND RECOMMENDATION FOR THE YEAR ENDED DECEMBER 31, 2018

During our recent audit, concerns were raised about the use of an employee's personal credit card to make purchases. Unlike traditional state offices, the Fairpark Corporation encounters unique situations that that must be addressed immediately in order to meet customer expectations. Historically, we have relied on two methods to address these situations. A company issued credit card and an employee's personal credit card. Regardless of the method used to purchase the items, all reimbursements are reviewed and approved by members of management before reimbursements are made. Moving forward, all expense reports submitted by senior leadership level of the organization; Executive Director and members of the board will require monthly review and acknowledgment by the Utah State Fair Finance committee. The Fairpark Corporation has evaluated its internal controls and procedures for the approval and reimbursement of employee expenses, and has implemented new procedures ensuring future compliance with the expectations of the State Auditor's Office.

Effective immediately the use of personal credit cards to support and finance Fair Corporation business will be restricted to extreme cases only. The Fair Corporation finance team will secure company issued P- Cards and distribute the cards to director level management positions. In addition the Fair Corporation will no longer use Fair Corporation existing expense report forms to record the expenditures. The Fair Corporation will require that all future expenditures utilize expenditure reports and purchase logs that consistent with state of Utah procurement policy.

Examples of expenditure forms distributed by state finance:

- * P-card Transaction Log*
- * 51A – FY 19, Employee In-State Travel Reimbursement Request*
- * F1 51B – FY 19, Employee Out-of-State Travel Reimbursement Request*

The Utah State Fairpark acknowledges that opportunities for improvement are present. Progressive action will be taken ensuring that our processes are aligned with our written procedures.