

PERFORMANCE AUDIT
OF THE
UPPER PENINSULA STATE FAIR
DEPARTMENT OF AGRICULTURE

April 2004

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

Upper Peninsula State Fair

Department of Agriculture

Report Number:
 79-300-04

Released:
 April 2004

The Board of Managers of the Upper Peninsula State Fair was established by Act 89, P.A. 1927 (Sections 285.141 - 285.145 of the Michigan Compiled Laws). The Board conducts a Fair at Escanaba to encourage improved methods in agricultural and industrial pursuits. The Fair's mission is to promote the educational, cultural, recreational, and entertainment interests of the area while stimulating interest in agriculture and providing and promoting a quality facility that enhances the economic interests of the Upper Peninsula.

Audit Objective:

To assess the Department's effectiveness in administering the Upper Peninsula State Fair's operations.

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Audit Conclusion:

We concluded that the Department was generally effective in administering the Upper Peninsula State Fair.

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Reportable Conditions:

Fair management did not ensure that the vendor for games, concessions, and amusement rides complied with all vendor contract requirements (Finding 1).

The Fair needs to improve security related to the safe room located inside the cash room (Finding 2).

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Agency Response:

The Department responded that it agreed with both recommendations.

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AUDITOR GENERAL

April 29, 2004

Mr. William Pridgeon, Chairperson
Commission of Agriculture
and
Mr. Dan Wyant, Director
Department of Agriculture
Constitution Hall
Lansing, Michigan

Dear Mr. Pridgeon and Mr. Wyant:

This is our report on the performance audit of the Upper Peninsula State Fair, Department of Agriculture.

This report contains our report summary; description of agency; audit objective, scope, and methodology and agency responses and prior audit follow-up; comment, findings, and recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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TABLE OF CONTENTS

UPPER PENINSULA STATE FAIR DEPARTMENT OF AGRICULTURE

	<u>Page</u>
INTRODUCTION	
Report Summary	1
Report Letter	3
Description of Agency	6
Audit Objective, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up	7
COMMENT, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES	
Effectiveness in Administering the Upper Peninsula State Fair's Operations	10
1. Vendor Contract Compliance	10
2. Cashier Function Security	11
GLOSSARY	
Glossary of Acronyms and Terms	14

Description of Agency

The Board of Managers of the Upper Peninsula State Fair was established by Act 89, P.A. 1927 (Sections 285.141 - 285.145 of the *Michigan Compiled Laws*). The Board is composed of five members who are appointed by the Governor and approved by the Senate for overlapping terms of five years. The Executive Organization Act of 1965 transferred the Board and all its statutory authority, powers, duties, personnel, and related functions to the Department of Agriculture by a type II transfer*.

The Board conducts a Fair at Escanaba to encourage improved methods in agricultural and industrial pursuits. The Fair's mission* is to promote the educational, cultural, recreational, and entertainment interests of the area while stimulating interest in agriculture and providing and promoting a quality facility that enhances the economic interests of the Upper Peninsula.

Sections 285.143 - 285.145 of the *Michigan Compiled Laws* allow for the operation of games of skill and bingo on the fairgrounds.

Until fiscal year 2002-03, the Fair's operations were funded from General Fund appropriations and restricted revenues received by the Fair. Effective October 1, 2002, Fair operations were no longer financed by the General Fund. As of September 30, 2003, the Fair had 4 full-time employees. In 2003, during Fair week, the Fair contracted with approximately 200 temporary employees to help with Fair activities. The Fair recorded revenues of approximately \$1.1 million and expenditures of approximately \$1.1 million for the fiscal year ended September 30, 2003.

* See glossary at end of report for definition.

Audit Objective, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objective

The objective of our performance audit* of the Upper Peninsula State Fair, Department of Agriculture, was to assess the Department's effectiveness* in administering the Upper Peninsula State Fair's operations.

Audit Scope

Our audit scope was to examine the program and other records of the Upper Peninsula State Fair. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit procedures, conducted from August 11, 2003 through October 15, 2003, covered the period October 1, 2002 through October 15, 2003.

To accomplish our objective, we reviewed the Fair's policies and procedures, audit reports and prior audit working papers prepared by the Department of Agriculture auditors of recent Fair operations, and Board of Managers' meeting minutes for the Fair.

We evaluated internal control* over the initial inventory of all tickets, such as grandstand event tickets, weekly passes, and gate admission tickets. We compared the inventory of all tickets with the printer's ticket manifests or purchase order or delivery reports. We evaluated internal control over advance ticket sales, including reviewing reconciliations of the advance ticket sales.

Further, we evaluated internal control over the space rental process for concessionaires and exhibitors and controls over other functions of the Fair as deemed necessary.

* See glossary at end of report for definition.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 2 findings and 2 corresponding recommendations. The Department responded that it agreed with both recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of Agriculture to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

We released our prior performance audit of the Upper Peninsula State Fair, Department of Agriculture (#7930097), in May 1998. We followed up 2 of the 5 prior audit recommendations within the scope of this audit. The Fair had complied with both of the prior audit recommendations.

COMMENT, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS IN ADMINISTERING THE UPPER PENINSULA STATE FAIR'S OPERATIONS

COMMENT

Audit Objective: To assess the Department of Agriculture's effectiveness in administering the Upper Peninsula State Fair's operations.

Conclusion: We concluded that the Department was generally effective in administering the Upper Peninsula State Fair. However, we noted reportable conditions* related to vendor contract compliance and cashier function security (Findings 1 and 2).

FINDING

1. Vendor Contract Compliance

Fair management did not ensure that the vendor for games, concessions, and amusement rides complied with all vendor contract requirements.

Compliance with the contract helps to ensure that Fair staff have sufficient time to properly prepare the ticket, coupon, and wristband (day pass) inventories and that controls are in place for distribution back to the vendor.

The vendor's contract requires that the vendor have "UP State Fair" imprinted on all tickets, coupons, and wristbands, that the tickets, coupons, and wristbands be sequentially numbered, and that they be delivered in sealed boxes to the Fair 30 days prior to opening day. Upon receipt, the Fair prepares an inventory record of the tickets, coupons, and wristbands and returns them to the vendor to sell. These control features help the Fair safeguard its interest in the proceeds collected by the vendor through the sale of these items. The total value for all tickets, coupons, and wristbands was approximately \$1 million for the 2003 Fair.

Our review disclosed that the vendor failed to comply with these contract requirements:

- a. The vendor delivered the tickets, coupons, and wristbands with the vendor's name imprinted on them instead of "UP State Fair" as required by the contract.

* See glossary at end of report for definition.

Imprinting wristbands with "UP State Fair" helps to prevent the potential sale and use of tickets, coupons, and wristbands not officially sanctioned and inventoried by the Fair. Without this safeguard, sales of unsanctioned tickets, coupons, and wristbands may occur undetected by the Fair, which would result in lost revenue for the Fair.

- b. The vendor did not deliver the tickets, coupons, and wristbands to the Fair until 4 days prior to the start of the Fair instead of the required 30 days.

Timely delivery of these items helps ensure that Fair staff have sufficient time to properly prepare the ticket, coupon, and wristband inventories prior to distributing them back to the vendor to be sold.

- c. The vendor delivered the tickets, coupons, and wristbands in three differently numbered sequences instead of one consecutive sequence.

Demands on Fair staff just prior to and during the Fair are extremely heavy. Printing the tickets, coupons, and wristbands in one consecutive sequence eliminates the need for spending extra time reconciling numerous sequences and improves the Fair's ability to maintain appropriate control over the inventory of these items.

RECOMMENDATION

We recommend that Fair management ensure that the vendor for games, concessions, and amusement rides complies with all vendor contract requirements.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. The Department will take action to help prevent noncompliance in the future.

FINDING

2. Cashier Function Security

The Fair needs to improve security related to the safe room located inside the cash room.

Controls to improve safe room security might include such measures as a telephone, windows, surveillance cameras, etc. These measures would provide persons working in the safe room with the means to identify and report any suspicious behavior or robbery attempts occurring outside the safe room.

Activities occurring in the safe room include cash counting, reconciliations, and safekeeping. As much as \$100,000 may be secured in the safe room at any time. The safe room has one access door and no windows. The exterior area of the access door is not visible to staff working within the safe room and there is no means (such as a telephone) to call for assistance in the event of an emergency.

RECOMMENDATION

We recommend that the Fair improve security related to the safe room located inside the cash room.

AGENCY PRELIMINARY RESPONSE

The Department agreed with the recommendation. The Department will install a one-way window and provide either a telephone or a radio in the cashier's office before the 2004 Upper Peninsula State Fair.

GLOSSARY

Glossary of Acronyms and Terms

effectiveness	Program success in achieving mission and goals.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
mission	The agency's main purpose or the reason that the agency was established.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
type II transfer	The transferring of an existing department, board, commission, or agency to a principal department established by an act. Any department, board, commission, or agency assigned to a type II transfer under an act shall have all its statutory authority; powers; duties and functions; records; personnel; property; and unexpended balances of appropriations, allocations, or other funds, including the functions of budgeting and procurement, transferred to that principal department.