

FINANCIAL AUDIT
OF THE
MICHIGAN STATE FAIR AND EXPOSITION CENTER
DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES
October 1, 1996 through September 30, 1997

EXECUTIVE DIGEST

MICHIGAN STATE FAIR AND EXPOSITION CENTER

INTRODUCTION

This report contains the results of our financial audit* of the Michigan State Fair and Exposition Center (MSFEC), Department of Consumer and Industry Services (CIS), for the period October 1, 1996 through September 30, 1997.

AUDIT PURPOSE

This financial audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Financial audits are conducted at various intervals to permit the Auditor General to express an opinion on the State's financial statements.

BACKGROUND

Act 361, P.A. 1978 (Sections 285.161 - 285.176 of the *Michigan Compiled Laws*), created MSFEC within the Department of Natural Resources. Executive Order 1993-25 transferred MSFEC to the Department of Commerce, effective February 1994. The Department of Commerce was combined with the Department of Labor to form CIS, effective May 15, 1996.

CIS is responsible for conducting an annual State Fair and other exhibits or events for the purpose of promoting all phases of the economy of the State. The fairgrounds consist of approximately 200 acres located in Detroit.

* See glossary at end of report for definition.

MSFEC also leases the fairgrounds and buildings for various events throughout the year.

MSFEC operations are accounted for in the General Fund. For fiscal year 1996-97, MSFEC's revenue and expenditures totaled \$6,078,656 and \$6,880,262, respectively.

The 1997 Fair was held August 19 through September 1, 1997. The Fair's reported paid attendance was 334,581. During the Fair, MSFEC had 19 full-time, 1 intermittent, and 43 temporary employees.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To assess the adequacy of MSFEC's internal control structure*.

Conclusion: Our assessment of MSFEC's internal control structure disclosed a reportable condition* related to cash receipts (Finding 1).

Audit Objective: To assess MSFEC's compliance with applicable laws and regulations that could have a material effect on MSFEC's financial schedules.

Conclusion: Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on MSFEC's financial schedules.

Audit Objective: To audit MSFEC's financial schedules for the fiscal year ended September 30, 1997.

Conclusion: We expressed an unqualified opinion on MSFEC's financial schedules.

* See glossary at end of report for definition.

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Michigan State Fair and Exposition Center for the period October 1, 1996 through September 30, 1997. Our audit was conducted in accordance with generally accepted auditing standards and *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.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our report contains one finding and one recommendation. MSFEC indicated that it agreed with the finding and will take steps to comply with the recommendation.

MSFEC complied with our prior audit recommendation.

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Ms. Kathleen M. Wilbur, Director
Department of Consumer and Industry Services
G. Mennen Williams Building
Lansing, Michigan

Dear Ms. Wilbur:

This is our report on the financial audit of the Michigan State Fair and Exposition Center, Department of Consumer and Industry Services, for the period October 1, 1996 through September 30, 1997.

This report contains our executive digest; description of agency; audit objectives, audit scope, and agency responses and prior audit follow-up; comments, finding, recommendation, and agency preliminary response; and independent auditor's reports on the internal control structure, on compliance with laws and regulations, and on the financial schedules. This report also contains the Michigan State Fair and Exposition Center's financial schedules and notes to the financial schedules; supplemental financial schedules; and a glossary of acronyms and terms.

Our comments, finding, and recommendation are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

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

AUDITOR GENERAL

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Description of Agency

Act 361, P.A. 1978 (Sections 285.161 - 285.176 of the *Michigan Compiled Laws*), created the Michigan State Fair and Exposition Center (MSFEC) within the Department of Natural Resources. Executive Order 1993-25 transferred MSFEC to the Department of Commerce, effective February 1994. The Department of Commerce was combined with the Department of Labor to form the Department of Consumer and Industry Services (CIS), effective May 15, 1996.

CIS is responsible for conducting an annual State Fair and other exhibits or events for the purpose of promoting all phases of the economy of the State. The fairgrounds consist of approximately 200 acres located in Detroit. MSFEC also leases the fairgrounds and buildings for various events throughout the year.

MSFEC operations are accounted for in the General Fund. For fiscal year 1996-97, MSFEC's revenue and expenditures totaled \$6,078,656 and \$6,880,262, respectively.

The 1997 Fair was held August 19 through September 1, 1997. The Fair's reported paid attendance was 334,581. During the Fair, MSFEC had 19 full-time, 1 intermittent, and 43 temporary employees.

Audit Objectives, Audit Scope, and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our financial audit of the Michigan State Fair and Exposition Center (MSFEC), Department of Consumer and Industry Services, had the following objectives:

1. To assess the adequacy of MSFEC's internal control structure.
2. To assess MSFEC's compliance with applicable laws and regulations that could have a material effect on MSFEC's financial schedules.
3. To audit MSFEC's financial schedules for the fiscal year ended September 30, 1997.

Audit Scope

Our audit scope was to examine the financial and other records of the Michigan State Fair and Exposition Center for the period October 1, 1996 through September 30, 1997. Our audit was conducted in accordance with generally accepted auditing standards and *Government Audit 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.

Agency Responses and Prior Audit Follow-Up

Our report contains one finding and one recommendation. MSFEC indicated that it agreed with the finding and will take steps to comply with the recommendation.

The agency preliminary response which follows the 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 Consumer and Industry Services to develop a formal response to our audit finding and recommendation within 60 days after release of the audit report.

MSFEC complied with our prior audit recommendation.

COMMENTS, FINDING, RECOMMENDATION, AND AGENCY PRELIMINARY RESPONSE

INTERNAL CONTROL STRUCTURE

COMMENT

Audit Objective: To assess the adequacy of the Michigan State Fair and Exposition Center's (MSFEC's) internal control structure.

Conclusion: Our assessment of MSFEC's internal control structure disclosed a reportable condition related to cash receipts.

FINDING

1. Cash Receipts

MSFEC did not have effective controls to help ensure that cash receipts were supported by adequate documentation.

Sound internal control requires that management maintain adequate documentation to support cash receipts and that management reconcile the receipts with supporting documentation.

Our review of internal control for cash receipts disclosed that MSFEC deposited admission receipts daily but did not reconcile admission receipts to the admission tickets, coupons, and reports detailing the total number of admission tickets issued for each day.

The lack of controls over cash receipts could result in material errors and irregularities not being detected.

RECOMMENDATION

We recommend that MSFEC establish effective controls to help ensure that cash receipts are supported by adequate documentation.

AGENCY PRELIMINARY RESPONSE

MSFEC agreed with the finding and informed us that it will use a computer program designed to document all cash receipts. Furthermore, MSFEC will set up control points in the cash receipting area that will help it monitor, reconcile, and document cash receipts.

COMPLIANCE WITH LAWS AND REGULATIONS

COMMENT

Audit Objective: To assess MSFEC's compliance with applicable laws and regulations that could have a material effect on MSFEC's financial schedules.

Conclusion: Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on MSFEC's financial schedules.

FINANCIAL ACCOUNTING AND REPORTING

COMMENT

Audit Objective: To audit MSFEC's financial schedules for the fiscal year ended September 30, 1997.

Conclusion: We expressed an unqualified opinion on MSFEC's financial schedules.

Independent Auditor's Report on
the Internal Control Structure

October 30, 1998

Ms. Kathleen M. Wilbur, Director
Department of Consumer and Industry Services
G. Mennen Williams Building
Lansing, Michigan

Dear Ms. Wilbur:

We have audited the General Fund financial schedules of the Michigan State Fair and Exposition Center, Department of Consumer and Industry Services, for the fiscal year ended September 30, 1997 and have issued our report thereon dated October 30, 1998.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement.

The management of the Michigan State Fair and Exposition Center and the management of the Department of Consumer and Industry Services are responsible for establishing and maintaining an internal control structure, which operates in conjunction with the Statewide internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial schedules in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of

changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial schedules for the fiscal year ended September 30, 1997, we obtained an understanding of the Michigan State Fair and Exposition Center's internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedules and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted a certain matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Michigan State Fair and Exposition Center's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules. The reportable condition is more fully described in Finding 1.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the Michigan State Fair and Exposition Center's reportable condition described above is not a material weakness.

AUDITOR GENERAL

Independent Auditor's Report on
Compliance With Laws and Regulations

October 30, 1998

Ms. Kathleen M. Wilbur, Director
Department of Consumer and Industry Services
G. Mennen Williams Building
Lansing, Michigan

Dear Ms. Wilbur:

We have audited the General Fund financial schedules of the Michigan State Fair and Exposition Center, Department of Consumer and Industry Services, for the fiscal year ended September 30, 1997 and have issued our report thereon dated October 30, 1998.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Michigan State Fair and Exposition Center is the responsibility of the Michigan State Fair and Exposition Center's management and the Department of Consumer and Industry Services' management. As part of obtaining reasonable assurance about whether the financial schedules are free of material misstatement, we performed tests of the Michigan State Fair and Exposition Center's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial schedules was not to provide an opinion on overall compliance with such provisions. 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*.

AUDITOR GENERAL

Independent Auditor's Report on
the Financial Schedules

October 30, 1998

Ms. Kathleen M. Wilbur, Director
Department of Consumer and Industry Services
G. Mennen Williams Building
Lansing, Michigan

Dear Ms. Wilbur:

We have audited the accompanying schedule of General Fund revenue and schedule of sources and disposition of General Fund authorizations of the Michigan State Fair and Exposition Center, Department of Consumer and Industry Services, for the fiscal year ended September 30, 1997. These financial schedules are the responsibility of the Michigan State Fair and Exposition Center's management and the Department of Consumer and Industry Services' management. Our responsibility is to express an opinion on these financial schedules based on our audit. The financial transactions of the Michigan State Fair and Exposition Center are accounted for in the General Fund of the State of Michigan.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1b, the accompanying financial schedules include only the revenue and the sources and disposition of authorizations for the Michigan State Fair and Exposition Center's General Fund accounts, presented on the modified accrual basis of accounting. Accordingly, these financial schedules are not intended to

constitute a complete financial presentation of either the Michigan State Fair and Exposition Center or the State's General Fund in accordance with generally accepted accounting principles.

In our opinion, the financial schedules referred to in the first paragraph present fairly, in all material respects, the revenue and the sources and disposition of authorizations of the Michigan State Fair and Exposition Center for the fiscal year ended September 30, 1997 on the basis of accounting described in Note 1b.

Our audit was made for the purpose of forming an opinion on the Michigan State Fair and Exposition Center's financial schedules. The accompanying supplemental financial schedules, consisting of the schedule of General Fund revenue by source and the schedule of General Fund expenditures, are presented for purposes of additional analysis and are not a required part of the Michigan State Fair and Exposition Center's financial schedules referred to in the first paragraph. The information in the supplemental financial schedules has been subjected to the auditing procedures applied in the audit of the Michigan State Fair and Exposition Center's financial schedules and, in our opinion, is fairly stated in all material respects in relation to the Michigan State Fair and Exposition Center's financial schedules.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 30, 1998 on our consideration of the Michigan State Fair and Exposition Center's internal control structure and a report dated October 30, 1998 on its compliance with laws and regulations.

AUDITOR GENERAL

MICHIGAN STATE FAIR AND EXPOSITION CENTER

Department of Consumer and Industry Services

Schedule of General Fund Revenue

Fiscal Year Ended September 30, 1997

REVENUE

Miscellaneous Revenue:

Fair revenue	\$ 4,591,569
Non-Fair revenue	<u>1,487,087</u>
Total Revenue	<u>\$ 6,078,656</u>

The accompanying notes are an integral part of the financial schedules.

MICHIGAN STATE FAIR AND EXPOSITION CENTER
Department of Consumer and Industry Services
Schedule of Sources and Disposition of General Fund Authorizations
Fiscal Year Ended September 30, 1997

SOURCES OF AUTHORIZATIONS (Note 2)

Budgetary transfers in	\$ 885,000
Restricted financing sources	<u>6,078,656</u>
Total	<u><u>\$ 6,963,656</u></u>

DISPOSITION OF AUTHORIZATIONS

Expenditures	\$ 6,880,262
Balances lapsed	<u>83,394</u>
Total	<u><u>\$ 6,963,656</u></u>

The accompanying notes are an integral part of the financial schedules.

Notes to the Financial Schedules

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial schedules report the results of the financial transactions of the Michigan State Fair and Exposition Center (MSFEC), Department of Consumer and Industry Services, for the fiscal year ended September 30, 1997. The financial transactions of MSFEC are accounted for in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The footnotes accompanying these schedules relate directly to MSFEC. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Pension Benefits and Other Postemployment Benefits, Compensated Absences, Leases, and Interfund Receivables and Payables.

b. Basis of Accounting and Presentation

The financial schedules contained in this report are prepared on the modified accrual basis of accounting, as provided by generally accepted accounting principles for governmental funds. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedules include only the revenue and the sources and disposition of authorizations for MSFEC's General Fund accounts. Accordingly, these financial schedules are not intended to constitute a complete financial presentation of either MSFEC or the State's General Fund in accordance with general accepted accounting principles.

Note 2 Schedule of Sources and Disposition of General Fund Authorizations

The various elements of the schedule of sources and disposition of General Fund authorizations are defined as follows:

- a. Budgetary transfers in: Legislatively approved transfers of spending authorization between accounts of MSFEC, between MSFEC and other Department of Consumer and Industry Services' accounts, or between MSFEC and other departments' accounts. These also include administrative transfers, such as entries to complete the financial closing of the State's fiscal year, that are approved by the Office of Financial Management, Department of Management and Budget.
- b. Restricted financing sources: Collections of restricted revenue, restricted operating transfers, and restricted interfund expenditure reimbursements to finance department programs as detailed in the appropriations act. These financing sources are authorized for expenditure up to the amount appropriated. Depending upon program statute, any amounts received in excess of the appropriation are, at year-end, either converted to general purpose financing sources and made available for general appropriation in the next fiscal year or carried forward to the next fiscal year as either restricted revenue - authorized or restricted revenue - unauthorized.

SUPPLEMENTAL FINANCIAL SCHEDULES

MICHIGAN STATE FAIR AND EXPOSITION CENTER

Department of Consumer and Industry Services

Schedule of General Fund Revenue by Source

Fiscal Year Ended September 30, 1997

REVENUE

Fair Revenue:

Gate admissions	\$ 1,954,190
Fair parking	350,667
Midway percentage - rides	680,879
Midway contract - games	177,320
Concessions and exhibits	383,797
Stickers and passes	61,664
Entry and stall fees	66,582
Sponsorship	809,158
Other	<u>107,312</u>
Total Fair Revenue	<u>\$ 4,591,569</u>

Non-Fair Revenue:

Charges for labor and utilities	\$ 333,459
Non-Fair rentals - buildings and grounds	463,433
Non-Fair commission on concessions	68,787
Non-Fair date receipts	46,533
Non-Fair parking and camping	380,846
Other	<u>194,030</u>
Total Non-Fair Revenue	<u>\$ 1,487,087</u>

Total Revenue	<u>\$ 6,078,656</u>
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MICHIGAN STATE FAIR AND EXPOSITION CENTER
Department of Consumer and Industry Services
Schedule of General Fund Expenditures
Fiscal Year Ended September 30, 1997

EXPENDITURES

Administration	\$ 1,425,154
Buildings and grounds maintenance	2,607,743
Security	523,106
First aid	27,622
Advertising	214,330
Marketing	234,046
Agriculture and livestock	562,951
Community arts	151,118
Entertainment	1,113,755
Miscellaneous	<u>20,436</u>
Total Expenditures	<u>\$ 6,880,262</u>

Glossary of Acronyms and Terms

CIS	Department of Consumer and Industry Services.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
internal control structure	The management control environment, accounting system, and control policies and procedures established by management to provide reasonable assurance that resources are safeguarded; that resources are used in compliance with laws and regulations; and that financial transactions are properly accounted for and reported.
MSFEC	Michigan State Fair and Exposition Center.
reportable condition	A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in the design or operation of the internal control structure.
<i>SOMCAFR</i>	<i>State of Michigan Comprehensive Annual Financial Report.</i>