Office of
LEGISLATIVE AUDITOR GENERAL
State of Utah

REPORT NUMBER ILR 2014-A
February 24, 2014

A Limited Review of the Utah State Fairpark's Financial Oversight and Controls

The Utah State Fairpark is experiencing financial difficulties that have placed it in the very likely position of needing a private lender loan to bridge operations until state funding becomes available in July 2014. The Fairpark has also requested an emergency "rainy day" appropriation of $750,000 (in addition to its ongoing $675,000 appropriation) to address budget shortfalls. The budget shortfall can be attributed to significant over-spending for the September 2013 fair and reduced fair revenues due to bad weather. If not supported by the state, the Fairpark will exhaust its funds in 2014. Even with state appropriation, the Fairpark's current program does not appear sustainable. Figure 1 shows both fair revenue and attendance since 2008.

Figure 1. Fair Revenue and Attendance. Fair revenue has fluctuated from 2008 to 2013, while attendance has decreased.

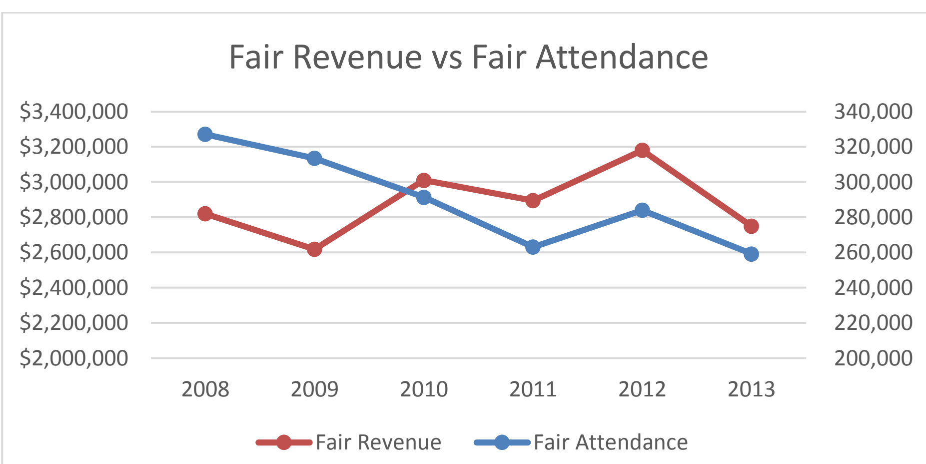


Figure 1 shows that, since 2008, attendance has decreased by 21 percent and fair revenues have fluctuated. Fair revenues did increase from 2009 to 2010 even though attendance decreased, indicating the importance of revenue over attendance. As noted, the decrease in 2013 fair revenues can be largely attributed to bad weather.

The Legislature privatized the Utah State Fair Corporation in 1995, giving the gubernatorial appointed board of directors a mandate to make the fair profitable. We believe the current board should have representatives from affiliated state agencies.

Overly Optimistic Projection Contributed to Over Expending

Increased spending in anticipation of increased fair attendance, which was based on overly optimistic projections approved by the board, and some spending without adhering to a budget, are factors as to why the Utah State Fair is in its current financial predicament. It appears that this predicament will continue unless significantly more funding or revenue is obtained. Figure 2 shows what was projected and what actually occurred.

Figure 2. Projected Fair Revenues and Expenditures Versus Actuals for 2013. Actual amounts were well below the projected amounts.

	Projected	Actual	Difference
Fair Revenues	$4,089,107	$2,748,798	($1,340,310)
Fair Expenses	2,316,060	2,700,920	384,859
Net Income	**$1,773,047**	**$ 47,878**	**($1,725,169)**

As shown in Figure 2, actual revenue was approximately $1.3 million less than projected. Adding to poor revenues, fair expenses were almost $385,000 more than projected. The total impact was a $1.7 million less net income than projected.

Revenue Projections Were Too Optimistic

The Fairpark's revenue from 2008 to 2012 increased at an average rate of 3 percent per year. The largest increase was 15 percent, from 2009 to 2010. We believe a reasonable projection would have fallen within this 3-15 percent range and thus resulted in projected revenue between $3.28 million and $3.66 million. The Fairpark projection for 2013 was slightly above $4 million, which is about a 29 percent increase over 2012 and about 41 percent over the average from 2008 through 2012. The fair board authorized an increase in spending with the anticipation of increasing visitation from 300,000 to 320,000.

Optimism Led to Overspending

The Fairpark's expenditures were higher in 2013 than in 2012, which had the highest fair revenue in recent years. Figure 3 shows how much more spending occurred in 2013 when compared to 2012.

Figure 3. Monthly Expenditures: Two-Year Comparison. The State Fairpark exceeded the previous year's expenditures in 10 of 12 months.

Month	2012	2013	Difference	Percent Change
January	$146,415	$153,353	$6,939	5%
February	135,536	153,318	17,781	13
March	126,188	185,082	58,894	47
April	179,076	189,589	10,514	6
May	172,377	256,641	84,264	49
June	203,304	331,378	128,075	63
July	250,030	292,455	42,426	17
August	421,471	310,014	(111,456)	(26)
September	2,130,413	3,312,860	1,182,447	56
October	180,945	248,734	67,788	37
November	182,716	224,472	41,756	23
December	307,317	102,453	(204,863)	(67)
Total	**$4,435,786**	**$5,760,354**	**$1,324,568**	**30%**

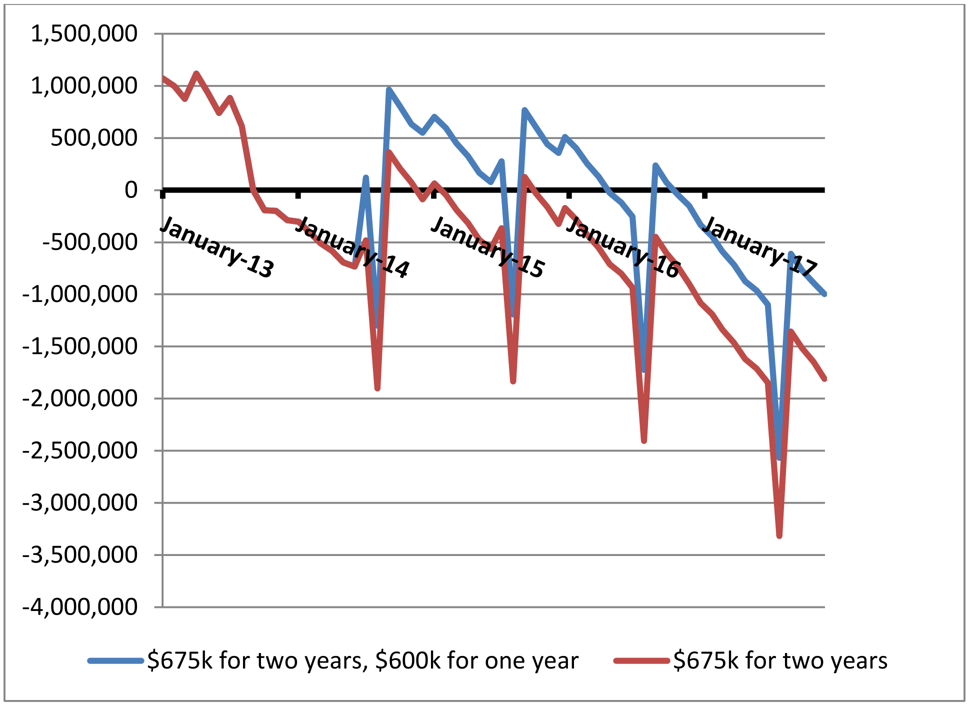
Figure 3 shows that the Fairpark spent $1.3 million more in 2013 than it did in 2012. The most significant increase in spending occurred during the month of the fair. However, there may have been expenses in August that were deferred or recognized at later dates, which might explain a decrease in August spending and a steep spending increase in September.

Current Fair Program Does Not Appear Sustainable

Much of the Fairpark's overspending can be attributed to necessary repairs to the facilities. However, this additional maintenance has resulted in a downturn in the park's cash flow. It does not appear that either the Fairpark's remaining deferred maintenance or its cash flow problems will be fixed by the steps, described below, that are currently being taken.

Without support beyond the current $675,000 state appropriation, the Fairpark's own projections show that, by the end of calendar year 2014, the fair will be in the same negative cash flow position currently being faced. The state's support of $675,000 for fiscal years 2014 and 2015 will keep the Fairpark's cash flow positive through the 2015 State Fair. The additional $600,000 one-time funding in fiscal year 2014 will allow the fair to operate through 2016, but long term sustainability is still in question. Figure 4 demonstrates Fairpark cash flow projections with the state ongoing funding and with one-time funds.

Figure 4. Future Unsustainable at Current Funding Levels. The red line represents the current trend and projects $675,000 state funding for each of the next two years, while the blue line projection adds $600,000 of one-time funding for fiscal year 2014.



The values shown in Figure 4 are derived from reported minimum expenditure and attainable revenue projections based on historical performance. The projection also includes a revolving line of credit of approximately $300,000, which is scheduled to be repaid by the end of September 2014. Both lines show the downward trend of cash flows and demonstrate that neither funding scheme will result in a sustainable Fairpark. At the demonstrated cash flows, no funding is available for additional maintenance or for building a carry-forward fund. At any point, bad weather could result in a scenario similar to that seen in 2013.

Insufficient Policy and Inconsistent Monitoring Aided Overspending

The Utah State Fairpark has limited policies and procedures regarding the purchasing and receiving of goods and services. Moreover, management has failed to effectively monitor compliance with the existent policies. Policy deficiencies and poor enforcement have undermined the intent of these oversight mechanisms.

Purchasing Policies Were Deficient

An audit, released in April 2013 by the Office of the State Auditor, found that the Fairpark was not in compliance with its own internal policy that ". . . requires purchase orders to be prepared and approved before commitments to purchases are made." A recommendation was made to comply with the purchasing policy, with which the Fairpark agreed and pledged to resolve the issue immediately.

We agree with the recommendation by the state auditor, but are concerned that a policy clause allows an exception to the purchase order procedure. The clause asserts that, if the executive director signs the document after the services are rendered, the employee responsible for making the unauthorized purchase is exempt from any wrongdoing.

The state auditor's report cites 16 examples of services rendered before the purchase order was signed. They concluded that "other instances of noncompliance of this nature likely occurred throughout 2012 for various vendor payments." It is unclear whether the intent of the exception clause was to allow this practice to become a common method of procuring goods and services. Regardless of the original intent of the clause, we believe that this policy weakens internal controls and should be reconsidered.

The aforementioned policy also contains specific procurement requirements. Goods or services costing more than $500 require 2-3 telephone quotes and goods or services costing over $2,000 written bids from 2-3 vendors. After reviewing Fairpark financial records, we could not confirm that quotes or bids were requested and received as required by this policy. In addition, the policy does not include a procedure that would allow management to verify that employees were complying with this policy. Obtaining bids from multiple vendors allows the State Fairpark to choose the vendor that provides the highest quality goods or services for the lowest cost. It also ensures transparency in the procurement process.

We were informed by management that the State Fairpark has contracts with many of the vendors that they use. However, these contracts are often open-ended and do not have a monetary cap. The existing procurement policy's requirements for written bids and the use of contracts are not effective monetary controls if the policy is not enforced and the contracts don't set appropriate spending limitations.

Internal policy also requires that an employee receiving the requested and approved goods or services sign and receive a delivery ticket from the vendor. All delivery tickets are supposed to be sent to the accounting office with the purchase orders on the last day of the week. We reviewed records kept by the accounting office in 2013 and did not find delivery tickets accompanying purchase orders in most instances. The use of a delivery ticket helps ensure money is being used appropriately and the Fairpark is not inadvertently or fraudulently billed for any goods or services not received.

The establishment of purchasing and receiving policies alone is not a sufficient means of internal control. We identified examples of management's inability to monitor work performed and enforce compliance with these policies. We also observed the need for additional policies to provide adequate internal control. For example, principles of internal control call for a separation of duties between the person who orders and receives a good or service and the person who receives the vendor invoice. Without this separation of duties, management may be unaware of some expenditures.

The Operations Department Lacked Adequate Oversight

The lack of sufficient monitoring and enforcement of internal controls combined with poor spending oversight allowed the director of operations to exceed greatly his budget during the 2013 state fair. Despite monthly reviews of each department's budget by senior management, the reviews failed to detect that this employee, when compared to his budget, had overspent the month prior to and during the fair.

The former director of operations at the Utah State Fairpark failed to manage his annual budget to pay for the expenses directly associated with the state fair. Each year, the fair represents about half of the Fairpark's total expenditures and the majority of its revenue.

Thus, these expenditures should have been anticipated both by senior management and the director of operations, as the fair is the original motivation behind the creation of the State Fairpark Corporation. By the time the fair had ended, the operations division had incurred about $419,000 of unapproved expenses, which occurred mostly during the state fair.

Management suspected that the operations manager was withholding purchase orders and invoices, but they were unable to enforce compliance with the purchasing policy for several weeks. Although the expenditures were not approved through the purchase order procedure, senior management stated that the majority of the unapproved expenditures were anticipated and necessary for fair operation. The following chart shows the largest unapproved transactions that occurred during the state fair.

Figure 5. Largest Unapproved Expenditures during the 2013 State Fair. The director of operations did not receive approval for numerous large expenditures necessary to the operation of the state fair.

Vendor	Description	Amount
A Class Act	Labor for Fair	$70,000
Pacific National Security	Security for Fair	60,000
AMPCO Parking	Parking	49,500
Labor Ready	Labor for Opening Weekend & Barns	38,407
Contemporary Service Corporation	Event Staff for State Fair	37,806
Utah Building Management	Labor for Buildings	25,000
A Class Act	Post-Fair Labor & Concession Cleanup	18,200
Amp'd Electric	Pre-Fair Electrical Repairs	16,015
Allied Waste	Waste Removal for Fair	16,000
Labor Ready	Labor for Pre-Fair & Last Weekend Cleanup	13,332
Labor Finders	Labor for Barn Changeovers	12,500
Total		**$356,760**

These unapproved expenditures are all essential to the state fair, regardless of whether the expenses were approved. Again, holding an annual state fair was the principle reason for the establishment of the Utah State Fair Corporation. So, while these fair-related expenditures violated policy, much of the overspending (not in Figure 5) occurred in the months prior to the fair and were approved through the appropriate channels.

It was unclear whether or not the director of operations requested quotes from vendors or followed the request for bids (RFP) process, when required by policy. The expenses might have been reduced if he had followed procedure and used the competitive bid process. Management conducted an investigation and believe that no fraudulent activity occurred. We reviewed the expenses in question and compared them with prior years' spending and saw no evidence of fraud from the accounting perspective. Conversely, we did not have the means to physically examine the results of the spending and be fully satisfied with management's conclusion. The employee was terminated on September 24, 2013.

In an effort to find alternative sources of funding, the Fairpark reports that it is close to an agreement with a local bank to open a revolving credit line of $500,000 (of which they plan to utilize approximately $300,000). The State Fairpark also has the ability to bond up to $10.5 million. The state of Utah is protected from any financial obligation created through either of these options, as stated in ***Utah Code*** §63E-2-111: "Except as expressly provided in this title or in an authorizing statute, the state is not liable for any independent corporation's obligations, expenses, debts, and liabilities."

Fairpark Board Lacks State Involvement

The Fairpark board consists of eleven members appointed by the Governor to four-year terms; one quarter of members' terms expire every year. Board members are expected to attend meetings. If a member misses three consecutive board meetings without an excuse, his/her appointment is terminated. At present, the board does not include any state government representation.

The Department of Facilities and Construction Management (DFCM) is responsible for maintaining the structures located at the Fairpark. DFCM was aware that several buildings at the Fairpark needed substantial work, but may not have known how much the buildings had deteriorated in recent years. However, DFCM was unaware of the condition of several buildings on the grounds. By the time DFCM inspected these buildings, three were in such poor condition that they were forced to condemn them. Had DFCM taken a more active role in the administration of the Fairpark, they might have discovered these structural issues earlier.

A board member with state administrative experience could add greater knowledge of state appropriations processes and provide the perspective of state-required fiscal responsibility. A good example of this is provided by a similar quasi-public agency, This Is the Place Heritage Park, which currently has a member of the Utah Senate as well as the Executive Director of the Department of Natural Resources on its board of trustees. We recommend that a state representative be appointed to sit on the board of directors of the Fairpark.

Recommendations

1. We recommend that the Legislature consider studying the long term sustainability of the Fairpark.

2. We recommend that the Utah State Fairpark management work with the board of directors to create a budget that is reasonable, based on historic trends, and sustainable in future years.

3. We recommend that the Fairpark board and management re-evaluate their purchasing and receiving policies and procedures to ensure that necessary internal controls are provided.

4. We recommend that Fairpark management formalize procedures to effectively monitor compliance with internal policies.

5. We recommend that the composition of the Fairpark board of directors be altered to include representatives from affiliated state agencies.

Agency Response

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Memo

To: Legislative Auditor General

From: Utah State Fair Corporation

Date: Monday February 24, 2014

Re: Response to Report Number ILR 2014-A

The audit performed by the Legislative Auditors (LA) occurred between the week of January 27th and February 21st. Utah State Fair Corporation (USFC) worked to ensure that clear and accurate information was provided to the LA's. While much of the information included in their audit report is accurate, it is USFC's position that inaccurate interpretations by the LA's regarding certain financial activity were still included in their report. This memo is a response to the LA's audit report, which provides clarification of the LA's findings, citing particular paragraphs in their report.

Recommendations

#2 – A 2014 budget has been created and approved by the board of directors of USFC. The USFC is poised for growth in attendance and revenue, thus resulting in better performance of the annual Fair. The USFC is on a mission to improve the venue, improve the facilities and make the Fair the best it can be. Growth is expected and demanded for this entity to survive into the future.

#3 and #4 – USFC plans to review its policies and procedures regarding internal controls and update them according to current operational practices.

Implicit Inaccuracies in Audit Report

Page 2, Section "Overly Optimistic Projection Contributed to Over Expending"

In the first paragraph of this section, the LA's cited "spending without adhering to a budget". USFC feels this sentence unfairly suggests that the organization as a whole spent money without adhering to a budget. While the budget may have been optimistic, as opposed to "overly" or "too" optimistic, the budget was adhered to with the exception of the Director of Operations (DO). In numerous instances the DO neglected not only his budget, but also purchasing approvals, RFP policies, and he also retained vendor invoices from the Finance Department. The instances in which the budget was not adhered to, are isolated to this Director. Upon discovery of his actions, he was immediately terminated. USFC also feels that the sentence as a whole is inaccurately interpreted as the only cited factors contributing to USFC's "financial predicament". Much, if not most, of USFC's increased spending was not because of an anticipation of increased Fair attendance. The grounds at the Fairpark were in an unacceptable condition. Beyond needed structural repairs to many of the buildings at the Fairpark, smaller, but equally necessary repairs, maintenance, and services were also needed. The 2013 cash reserve existed because needed repairs, maintenance and services had been ignored during previous years.

Again, while the projection may be accurately termed as optimistic, USFC feels the description of "overly and too" to be inaccurate. It is true that projected revenues were much higher than that of recent years. This was done because of four factors:

a. Higher concessions sales/percentage
b. Higher commercial booth rental
c. Higher parking fees
d. Aggressive marketing & marketing partnership program

Page 5, "Insufficient Policy and Inconsistent Monitoring Aided Overspending

The current policy regarding the purchase and receiving of goods and services states that all department heads, upon needing a service or good, file a requisition order from the Finance Department for that service or good. The department head is to seek the proper approvals for the purchase which include a review of the department's budget, RFP procedures and signoff by the Director. With the approval in hand, a PO is submitted to the Finance Department prior to the service or goods purchased. This procedure was followed, monitored and enforced for all of the departments at USFC (with the exception of the negligent DO). The DO was a seasoned director, a manager recognized throughout the industry, a state fire marshal, with numerous years of Fair experience. A level of trust was given to the DO for this reason.

The language used in this audit report implies that USFC was negligent at a Corporation-wide level with its enforcement and monitoring of purchasing policies and procedures. USFC believes this to be inaccurate. USFC enforced the policies with its entire staff, including the DO. USFC believes that "poor enforcement" leads one to believe that USFC made little effort to track down the DO's activity. Beyond repeated requests for approvals, POs, and invoices, the DO was questioned multiple times whether additional expenses were incurred beyond budget or outside of policy. The DO was terminated on September 24th due to Financial policy breaches.

Page 8, Paragraph 2, Second Sentence

Despite repeated clarifications with the LA's, the report still indicates that Senior Management "..stated that the majority of the unapproved expenditures were anticipated and necessary for fair operation." USFC's senior management never made this statement. The services may have been anticipated and necessary for Fair operation, but the expenditures were not approved were over budget. Had proper approvals been sought, USFC believes that the same services could have been procured and hit budget. The LA's included in their report on page 8, the last paragraph, first sentence that "These unapproved expenditures are all essential to the Fair". Again mis-leading and inaccurate. The services were essential, but not at the price for which the policy breach afforded.

Summary Conclusion
The Utah State Fair Corporation is in this financial situation as a result of investing in its venue and horrible weather during the State Fair. The Utah State Fair suffered nine days of terrible weather, which impacted attendance and spending per person on the grounds during visitation. The weather did not allow the Fair to hit attendance and revenue expectations. One managers departmental spending did not cause this entire event, just contributed to the overall situation.
The USFC is on a mission to revitalize the Fairpark, improve attendance, improve venue utilization for year round events, and deliver a quality event complex the State of Utah can be proud of. The USFC recognizes the work needed to make this happen, and is working towards this goal.
The USFC appreciates the support of the Governor, the Legislature, The Department of Facilities and Construction and The Department of Agriculture. To change this product, to improve on it in the years to come, it will take a dedication and commitment from invested partners, both public and private, pushing for the Fair to be successful.

Michael Steele executive director - CEO
2.24.14