COMPLIANCE AND CONTROL AUDIT REPORT

Kansas State Fair

A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
June 2000

00-A

Legislative Post Audit Committee

Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about $9 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the Representatives, three are appointed by the Speaker of the House and two are appointed by the Minority Leader.

As part of its audit responsibilities, the Division is charged with meeting the requirements of the Legislative Post Audit Act which address audits of financial matters. Those requirements call for two major types of audit work.

First, the Act requires an annual audit of the State's financial statements. Those statements, prepared by the Department of Administration's Division of Accounts and Reports, are audited by a certified public accounting firm under contract with the Legislative Division of Post Audit. The firm is selected by the Contract Audit Committee, which comprises three members of the Legislative Post Audit Committee (including the Chair and Vice-Chair), the Secretary of Administration, and the Legislative Post Auditor. This audit work also meets the State's audit responsibilities under the federal Single Audit Act of 1984.

Second, the Act provides for a regular audit presence in every State agency by requiring that audit work be conducted at each agency at least once every three years. Audit work done in addition to the annual financial statement audit focuses on compliance with legal and procedural requirements and on the adequacy of the audited agency's internal control procedures in areas not covered by the annual audit. These compliance and control audits are conducted by the Division's staff under the direction of the Legislative Post Audit Committee.

LEGISLATIVE POST AUDIT COMMITTEE

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Senator Anthony Hensley
Senator Pat Ranson
Senator Chris Steineger
Senator Ben Vidricksen

Representative Kenny Wilk, Vice-Chair
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June 7, 2000

To: Members, Legislative Post Audit Committee

Senator Lana Oleen, Chair	Representative Kenny Wilk, Vice-Chair
Senator Anthony Hensley	Representative Richard Alldritt
Senator Pat Ranson	Representative John Ballou
Senator Chris Steineger	Representative Lynn Jenkins
Senator Ben Vidricksen	Representative Ed McKechnie

This report contains the findings, conclusions, and recommendations from our completed compliance and control audit of the Kansas State Fair.

We would be happy to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other State officials.

Barbara J. Hinton

Barbara J. Hinton
Legislative Post Auditor

Question 1: Does the State Fair Have Adequate Procedures to Ensure that Receipts and Change Funds Are Handled Appropriately?

The State Fair generally has adequate procedures to ensure that receipts and change funds are handled appropriately. *To ensure that appropriate amounts are collected and deposited the Fair uses pre-numbered tickets and reconciles the cash collected with the tickets and cash register tapes. In addition, that cash is deposited promptly and isn't used to pay for other expenses. Our testwork showed that staff generally followed these cash handling procedures.* .... page 2

The Fair also has procedures for segregating cash handling duties. In other words, it makes different people responsible for recording transactions and for handling cash, where possible. However, we determined this procedure wasn't being followed for space rentals at the Fair. The same individuals who negotiate the rental agreement also collect the rental fees, which increases the risk of loss or misuse of those monies.

Recommendation: .... page 4

Question 2: *Does the State Fair Have Adequate Procedures to Ensure That Local Moneys Are Spent Appropriately and that Payments to Vendors Are Timely?*

The Fair's procedures for processing local expenditures were well designed but weren't being followed in 2 areas. *The Fair has good purchasing procedures like requiring prior authorization, filing invoices, and segregating purchasing duties, and we determined staff followed these procedures. However, our testwork showed that staff didn't always sign-in or provide other documentation that goods or services were received before payments were made. This lack of documentation creates a risk that the Fair might not get some goods or services it's paid for.* .... page 5

The Fair also has effective payroll procedures for temporary employees. Supervisors filled out and reviewed timesheets for all the employees we reviewed, but most of the paychecks for these employees (64%) were mailed rather than picked up in person as set-out in Fair policy. This practice increases the risk that paychecks can be collected for employees that don't exist.

In addition, we determined that the Fair generally paid its vendors on a timely basis. In all, 47 (96%) of the 49 payments we reviewed were paid promptly. The other 2 payments were only one and 8 days late, respectively.

Recommendation: ..... page 8

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This audit was conducted by Anthony Perez and Jennifer Wagner. Randy Tongier was the audit manager. If you need additional information about this audit's findings, please contact Mr. Tongier at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You may also call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us.

Kansas State Fair

The Legislative Division of Post Audit has conducted compliance audit work at the Kansas State Fair. Compliance and control audits can identify noncompliance with applicable requirements and poor-financial-management practices. The resulting audit findings often identify needed improvements that can help minimize the risk of potential future loss or misuse of State resources.

At the direction of the Legislative Post Audit Committee, this audit focused on how the Kansas State Fair ensures that receipts and expenditures are handled appropriately. The audit addresses the following specific questions:

1. **Does the State Fair have adequate procedures to ensure that receipts and change funds are handled appropriately?**

2. **Does the State Fair have adequate procedures to ensure that local moneys are spent appropriately and that payments to vendors are timely?**

To answer these questions, we identified applicable standard or "best practice" financial-management procedures. We also reviewed the Fair's written procedures, interviewed appropriate personnel, and reviewed a sample of receipts and expenditures to see if the Fair's procedures were consistent with those practices and were working as intended. In conducting this audit work, we followed all applicable government auditing standards.

Our findings are discussed on the following pages.

Question 1: Does the State Fair Have Adequate Procedures To Ensure That Receipts and Change Funds Are Handled Appropriately?

The Fair's procedures for handling receipts generally were well-designed and have operated effectively. That situation tends to minimize the risk of any loss or misuse of moneys. However, the Fair's procedures don't adequately segregate the responsibilities for handling revenues from rental of space on its grounds, which increases the potential for loss or misuse of those specific receipts. The basis for our conclusions is presented below.

The Fair Generally Has Adequate Procedures to Ensure That Receipts and Change Funds Are Handled Appropriately

During fiscal year 1999, the Fair collected close to $4 million in receipts. Almost 90% of that total related to the operation of the State Fair itself in September 1998. The State Fair receives its major revenues from gate admissions, grandstand shows, space rentals, and the Fair's percentage of food and game concessionaires' revenues. The Fair also collects moneys from non-Fair events held at its grandstand and other buildings.

Mainly through its business office, the State Fair is responsible for ensuring that appropriate amounts are collected and deposited. To maximize that likelihood, the Fair should have put in place certain procedures for handling receipts. Those procedures would include the following:

- establishing initial controls over money/checks due and received by using pre-numbered tickets, cash registers, and similar methods
- reconciling cash actually collected with tickets and register tapes
- depositing receipts promptly and "intact," that is not using some of the cash received for paying expenses or creating a change fund
- properly controlling any change funds used
- having different people be responsible for recording transactions and for handling cash, where possible

To find out the Fair's practices in this area, we interviewed appropriate agency officials, reviewed written procedures, and examined a sample of applicable documents. Our review focused on what receipt-handling procedures had been put in place, and their likely effectiveness in preventing any loss or misuse of receipts. Although we found the Fair's receipt-handling procedures generally included all the good practices noted above to ensure that receipts were not lost or misused, we noted a weakness in one area.

The State Fair isn't adequately segregating responsibilities for handling revenues received from renting space on its grounds. The same Fair officials who negotiate rental agreements with people who will be using space in the Fair's building and on its grounds also collect the fees for the agreements. Those officials periodically submit receipts summaries of receipts and the related fees to the Fair's accounting office.

When the same officials both record the payment of rent due and handle the moneys received, the risk of loss or misuse is increased. For example, if those officials received a rental payment, marked the rental agreement as paid, then either misplaced or misappropriated the moneys, the Fair would have no way of knowing that those moneys had been lost or misappropriated. That's because the rental agreement would be marked as paid, even though the moneys wouldn't have been sent to the business office. The loss or misappropriation would go undetected.

One way to address this risk would be to have those people renting space to send their rental payments directly to the business office. The business office then could notify the space rental staff of payments received. Periodically, the space rental staff could review the contracts for unpaid amounts and follow up as needed. That way, the business office and space rental staff could serve as independent checks on space rental revenues, which would reduce the risk of loss or misuse.

RECOMMENDATION To reduce the risk of loss or misuse of space rental fees, the State Fair should segregate the receipt of those moneys from the tracking of space rental amounts due. One way to do this would be to have all rental fees sent directly to the business office.

Question 2: Does the State Fair Have Adequate Procedures to Ensure That Local Moneys Are Spent Appropriately and That Payments To Vendors Are Timely?

The Fair had adequate procedures for processing local expenditures to ensure that those expenditures were appropriate. Generally those procedures were being applied in a manner that ensured the Fair's funds weren't being spent in an inappropriate manner. However, we found 2 areas were the Fair's procedures weren't being followed–documenting that goods or services had been received before paying vendors, and requiring temporary employees to pick up their payroll checks in person. We also found that the Fair's payments to vendors generally were timely. Our findings our summarized below.

The Fair's Procedures for Processing Local Expenditures Were Well Designed but Weren't Being Followed in 2 Areas

Unlike most State agencies, State law allows the Fair to transfer moneys from the State Fair Fee Fund and the General Fund into its local bank account for use in operating and conducting Fair and non-Fair events. This exception makes the Fair's procedures for controlling "local" expenditures of money very important, because they are exempted from the normal controls built into the State's expenditure system.

The Fair's business office is responsible for ensuring that local moneys are spent appropriately. To do this, the Fair should have put in place certain financial-management practices, including the following:

- requiring prior authorization for purchases
- requiring a "sign-in" for goods or services received
- requiring documentation to support expenditures, such as an invoice
- having different people be responsible for authorizing, processing and recording, reviewing, and handling purchased goods and materials
- requiring temporary employees to fill out timesheets
- requiring temporary employee timesheets to be signed by a supervisor and having temporary employees pick up their paychecks in person

To find out the Fair's practices in this area, we interviewed appropriate agency officials, reviewed written procedures, and examined a sample of applicable documents. Our review focused on whether local expenditure procedures existed, and how effective they were likely to be in preventing any loss or misuse of funds. We found that the Fair's local expenditure procedures generally included the "best practices" listed above. We also found that most of the time the Fair was following its adopted procedures. However, we did identify 2 areas where Fair employees weren't consistently following the Fair's procedures.

Fair employees didn't always sign-in or provide other documentation that goods or services were received before payments were made. The Fair's adopted procedures call for employees to document that goods or services have been received before it pays vendors. To see if the Fair's adopted procedures were being followed, we looked at a sample of 50 local expenditures and found that there wasn't documentation showing the goods or services had been received for 17 (34%) of those expenditures.

This lack of documentation creates a risk that the goods and services paid for weren't actually received. For example, an invoice for $1,241 for cleaning supplies didn't include a signature showing that the delivered goods had been counted to ensure that all the invoiced goods had been received. Most of the instances occurred at or near the time of the Fair, a time when the Fair receives a majority of the goods and services it purchases. It's likely that during this busy time Fair employees were hurried and either didn't have time or simply forgot to sign the goods in.

The Fair's business office didn't always require temporary employees to pick up their paychecks in person. The Fair hires around 600 temporary employees to work during the Fair season. Because they are employed for such a short time, the payroll for these temporaries is handled through the Fair's administrative office, rather than the through the typical State accounting system (STARS). As a result, the typical controls that protect against payroll fraud aren't in place. That means it's easier for a regular Fair employee who supervises temporary employees to put a fictitious employee on the payroll, approve a fictitious timesheet, and have the resulting payroll check sent to a place where the Fair employee can pick it up.

To limit the risk of this kind of fraud, the Fair has adopted a procedure that calls for temporary employees to pick up their paychecks in person after showing identification. This practice helps ensure that each temporary employee actually exists and has a valid source of identification.

To see if this procedure was actually followed, we looked at a sample of 50 checks issued to temporary employees. We found that 32 times (64%) the Fair allowed the temporaries to have their checks mailed instead of picking them up in person. By not following its adopted practice, the Fair is at an increased risk of being defrauded.

In their response to the draft report, State Fair officials pointed out that following the established procedure isn't always practical. According to those officials, many temporary employees have full-time jobs or don't live in Hutchinson. Requiring those employees to pick up their paychecks in person would impose too much of a hardship, and in their opinion the remaining limited risk of loss or misuse is not excessive.

We concur that requiring temporary employees to pick up their paychecks in person may not be feasible in all cases. Nevertheless, the State Fair's established procedure does provide protection from loss or misuse, and should be followed whenever practical.

The Fair generally paid its vendors on a timely basis. In addition to reviewing the appropriateness of local expenditures, we looked at whether those payments were made on a timely basis. We considered a payment to be timely if it was made within the time allowed by the terms of the invoice (for example, 10 days from the invoice date), or if it was made within 30 days of the invoice date if no terms were specified. Of the 49 payments we reviewed with due dates, 47 (96%) were made on a timely basis. The other two payments were made only 1 and 8 days late, respectively.

RECOMMENDATION

To help ensure that its local expenditures are appropriate, the State Fair should remind applicable staff about and monitor adherence to its adopted procedures that call for documenting that goods or services were received before making payment, and requiring temporary employees to pick up their payroll checks in person after showing appropriate identification.

Appendix A

Agency Response

On May 24, 2000 we provided copies of the draft audit report to the State Fair. Its response is included as this appendix.

The Department's response pointed out that it's not always feasible to follow its established procedure requiring temporary employees to pick up their paychecks in person. Fair officials pointed out that many temporary employees have other full-time jobs or live outside of Hutchinson, and it's not practical for them to return in person to collect their paychecks. They consider the remaining risk of loss or misuse not to be excessive. We have added language in the report to address this viewpoint.

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KANSAS State Fair

BILL OGG, GENERAL MANAGER
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May 30, 2000

LEGISLATIVE POST AUDIT
JUN 2 2000

Randy Tongier
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Dear Mr. Tongier:

The Kansas State Fair has reviewed the draft copy of our compliance and control audit, and our response is enclosed.

We thank you for working our agency into your schedule. We also look forward to your return visit, and suggest you visit during the Fair itself to get the true feel of what the Fair is all about.

Sincerely,

Stephanie Haden

Stephanie Haden
Finance Director

KANSAS STATE FAIR (373)
AUDIT RESPONSE
May 30, 2000

Recommendation #1 (regarding procedures for receipts and change funds)

The receipts for space rental during the Fair are initially handled by the space sales department. This department consists of three individuals. The clerk receives the payments, finds the contract for which the payment is being made, marks it paid, and attaches the payment. This is then forwarded to the assistant, who process the receipt voucher document, accounting for the payment according to the revenue codes recognized by STARS. The receipt voucher and backup documentation are then forwarded to the Space Sales Director for approval before being submitted to the accounting department to be sent to Topeka. We feel that with the staff available, this is the most efficient procedure.

The receipts for space rental during the Non Fair season are in the process of being reorganized to allow the billing to be handled by the accounting department; however, having the accounting department responsible for billing and receipt of payment both is not necessarily an improvement. We hope to keep the responsibility and oversight balanced between the two departments.

Recommendation #2 (appropriate spending of local moneys)

The accounting department has already placed an increased emphasis on requiring documentation that goods and services are received. All staff have been informed that they are to sign for any goods received, and forward packing slips to accounting in order for payment to be processed.

There are multiple vendors during the Fair that do not provide any sort of packing slip, and there is no documentation that goods are received; however, these vendors are providing something so important to the functioning of the Fair that had it not been received, it would be noted by the Finance Director. An example of this is the video screens and forklifts rented for use in the grandstand. Were these not to show up, the performances in the grandstand would not take place.

The payroll is a more complicated issue. Our employees are temporary employees, many of whom have full time jobs and/or do not live in Hutchinson. It would be very difficult to require these employees to return to Hutchinson one week later to pick up their paycheck. We would be open to other suggestions to reduce the risk of fraud, but feel this recommendation is not feasible.

We do require that a W-4, an I-9 and the timesheet be completed and signed by the employee. The average income for our fair time employees is in the $500-600 range, which makes it hardly worth the trouble to come up with the false identification that would be needed.