

Arizona Exposition and State Fair

Procedural Review

As of November 9, 2016
Report 16-307



A Report to the Arizona Legislature

Debra K. Davenport
Auditor General





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December 2, 2016

Wanell Costello, Executive Director
Arizona Exposition and State Fair

We have performed a procedural review of the Arizona Exposition and State Fair's (Agency) internal controls in effect as of November 9, 2016. Our review consisted primarily of inquiries, observations, and selected tests of internal control policies and procedures, accounting records, and related documents. The review was more limited than would be necessary to give an opinion on internal controls. Accordingly, we do not express an opinion on the effectiveness of internal controls or ensure that all deficiencies in internal controls are disclosed.

Specifically, we reviewed cash receipts, cash disbursements, travel, payroll, capital assets, information technology access controls, and compliance with certain Arizona Revised Statutes.

As a result of our review, we noted certain deficiencies in internal controls that the Agency's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate internal controls. Our findings and recommendations concerning these deficiencies are described in the accompanying summary.

This report is intended solely for the information and use of the Agency and is not intended to be and should not be used by anyone other than the specified party. However, this report is a matter of public record, and its distribution is not limited.

Should you have any questions concerning our procedural review, please let us know.

Sincerely,

Jay Zsorey, CPA
Financial Audit Director





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The Agency should establish policies and procedures to ensure compliance with Arizona conflict-of-interest laws

Criteria—Arizona Revised Statutes (A.R.S.) §38-503 regarding conflicts of interest states that any public officer or employee of a state agency who has, or whose relative has, a substantial interest in any contract, sale, purchase, or service to that particular public agency shall make known that interest in that state agency's official records and shall refrain from voting upon or otherwise participating in any manner as an officer or employee in such contract, sale, or purchase. In addition, state agencies must complete and submit to the State's General Accounting Office (GAO) Form 51 each year if the agency has any related-party transactions that aggregate to \$100,000 or more for financial statement reporting purposes.

Condition and context—The Agency did not have controls to ensure that employees in management positions disclosed potential conflicts of interest and, as a result, the Agency could not determine if there were any conflicts of interest or related-party transactions.

Effect—There is a risk that a conflict of interest may exist and expenditures may have occurred that resulted in employee personal gain or were otherwise inappropriate. Further, the Agency may fail to report related-party transactions to the GAO.

Cause—The Agency was not aware that employees in management positions must disclose potential conflicts of interest.

Recommendation—The Agency should develop and implement internal controls to require that all employees in management positions disclose potential conflicts of interest to help ensure compliance with A.R.S. §38-503. When a conflict of interest exists, those employees with a conflict must refrain from voting upon or otherwise participating in any manner as an officer or employee in such contract, sale, or purchase. In addition, the Agency should monitor and maintain documentation of any related-party transactions related to a conflict of interest. Further, if the Agency has related-party transactions that aggregate to \$100,000 or more, they should be reported to the GAO for disclosure in the State's financial statements.



The Agency should improve internal controls over its capital assets

Criteria—To comply with the State of Arizona Accounting Manual (SAAM) Topic 25 (Long-lived Resources), §05, §40, and §50, the Agency should have effective internal controls over its capital assets that are sufficient to control, safeguard, and accurately report capital assets. In addition, state agencies that have fixed assets must complete and submit to the State's General Accounting Office (GAO) the required forms in the fixed asset closing package for financial statement reporting purposes.

Condition and context—The Agency did not maintain an accurate and complete listing of its capital assets on the State's Fixed Asset Module (FAM). Specifically, auditors tested 20 capital assets and noted the following:

- 14 assets were not tagged with a property identification number.
- Two tagged assets could not be found on the FAM list because the list lacked detailed information.
- A road maintenance expenditure was incorrectly listed as a capital asset on the FAM.
- Three asset groups were incorrectly listed as capital assets on the FAM. The assets were purchased in bulk; however, none of the individual assets met the State's capitalization threshold.

Further, the Agency did not complete the Fixed Assets Checklist—Form 44 as part of the Agency's closing package.

Lastly, the Agency had not designated a property control officer, and it had no record of when it last performed a physical inventory of its capital assets.

Effect—Without effective internal controls, the Agency's capital assets are exposed to theft or misuse. Further, the Agency is not communicating accurate information to the GAO for financial reporting purposes.

Cause—The Agency did not have a process to comply with the State's capital assets policies and procedures.

Recommendation—The Agency should comply with the State's capital assets policies and procedures to help ensure its capital assets are properly controlled, safeguarded, and reported in the State's financial statements. Specifically, the Agency should:

- Maintain an accurate and complete list of its capital assets on the FAM that includes, at a minimum, the property identification number, asset's description and location, acquisition method, funding source, acquisition date, disposal date, purchase document number, and cost, as applicable.
- Designate a property control officer who is responsible for ensuring the Agency complies with the requirements outlined in the SAAM.
- Conduct a physical inventory of its capital assets and update the FAM list for any changes at least annually.
- Complete and submit to the GAO the required forms in the fixed asset closing package for financial statement reporting purposes.

AGENCY RESPONSE



2016 Audit Response

Findings 1- The Agency should establish policies and procedures to ensure compliance with Arizona conflict of interest laws.

Agency Response:

The agency will adopt policies and procedures to ensure compliance with A.R.S 38-503.

All employees in executive management positions will complete a conflict of interest or related party disclosure upon hiring and yearly. The agency will file forms even if there are no conflicts noted and maintain the form for administrative and audit purposes. Annual Declaration and disclosure form have been completed for 2016.

Findings 2- The Agency should improve internal controls over its capital assets.

Agency Response:

The Agency will conduct a comprehensive physical count of the capital assets and the count will be reconciled to the capital assets recorded in AFIS. We will develop a procedure to ensure that a physical count is conducted yearly. Appropriate action is taken to investigate and document missing fixed assets. We agree with the recommendations and will designate a property control officer who is responsible for ensuring compliance with the requirements in SAAM. Accounting functions for fixed assets are performed by personnel other than those responsible for custody of related assets. The Fixed Asset Checklist- Form 44 as part of the Agency's closing package has been completed for FY 2016.

