

**METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON
COUNTY**

INTERNAL AUDIT SECTION



**PERFORMANCE AUDIT OF THE
TENNESSEE STATE FAIR
AUDIT REPORT – JULY 19, 2005**

Metropolitan Government of Nashville and Davidson County

Internal Audit Section

Report on Tennessee State Fair

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Report of Internal Audit Section

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July 15, 2005

Mr. David Jeter, Executive Director
Tennessee State Fair
Metropolitan Board of Fair Commissioners
Rains & Wedgewood Avenues
Nashville, TN

Report of Internal Audit Section

Dear Mr. Jeter and Metropolitan Board of Fair Commissioners:

We are in the process of conducting a performance audit of the Tennessee State Fair. We are performing this audit in two stages. The first stage focused on reviewing procedures and controls surrounding financial and other operations. The second stage will more thoroughly address performance compared to peers and industry best practices. *Government Auditing Standards* issued by the Comptroller of the United States define performance audits as follows:

Performance audits entail an objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria as well as assessments that provide a prospective focus or that synthesize information on best practices or cross-cutting issues. Performance audits provide information to improve program operations and facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and improve public accountability.

A performance audit is different than a financial statement audit, which is limited to auditing financial statements and controls, without reviewing operations and performance.

Background

The mission of the Tennessee State Fair is to be a major venue for agricultural, exhibition, entertainment, cultural, and educational uses for the purposes of enhancing the economic and social benefits to the residents and visitors of the Middle Tennessee region. The major event for the State Fair is the annual Tennessee State Fair that showcases agriculture, commerce, technology, and industry of the region and provides quality educational and entertainment opportunities for its purpose. The State Fair also hosts a variety of events including flea market, consumer shows, trade shows, banquets and many other special events.

The Fair Director reports to the Metropolitan Board of Fair Commissioners. State Fair has a total of 19 budgeted full-time positions and 450 seasonal/part-time positions that are equal to 150 full-time equivalents. The following is a summary of the FY 04 budget:

Revenues & Transfers

Charges, Commissions, & Fees	\$4,254,200
Other Program Revenue	151,000
Transfers from other Funds & Units	<u>0</u>
Total Revenue & Transfers	<u>\$4,405,200</u>

Expenditures

Salaries and fringes	\$1,253,900
Other Services	1,728,500
Other Expense	451,100
Pension, Annuity, Debt & Other Costs	<u>553,500</u>
Total Expense & Transfers	<u>\$3,987,000</u>

Objectives, Scope and Methodology

The overall objectives of this performance audit included: (1) Review State Fair business processes, (2) Evaluate key operating and financial controls, (3) Identify weaknesses and strengths in processes and control systems, and (4) Develop findings and recommendations for any areas where performance could be improved.

For the purpose of this report, we have classified the processes tested into the following categories:

- Payroll and personnel
- Revenue and Cash Receipts
- Purchasing and Expenditures
- Petty Cash
- Fixed Assets

The scope of the work included the State Fair primary operations and focused on the fiscal year ending June 30, 2004 financial transactions and the calendar year ending December 30, 2003 for payroll and personnel and the policies and procedures in place during that time.

The methodology employed throughout this review was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information, and various forms of data, reports and information maintained by the State Fair and other Metro Departments. Various aspects of State Fair operations were observed, and personnel were interviewed.

We performed the audit procedures in accordance with generally accepted government auditing standards.

Findings and Recommendations

Payroll/Personnel

1. The Former Fairgrounds Director earned and used comp-time.

The Fair Board Personnel Policy does not address whether the Director may earn comp-time and there was no mention in the Commission Board meeting minutes that the former Director was given permission to earn comp-time. However, the former Director earned and used comp-time while he was employed by the Fairgrounds. He was paid for 28 hours of unused comp-time when he left employment.

Recommendation:

The Director of the State Fair should not earn compensatory time unless it has been approved by the Board of Fair Commission. This would be inconsistent with the Civil Service Rules section 5.7 C which states; Top-level management employees are not eligible for overtime or compensatory time off. Top-level management employees are defined in chapter nine of the Civil Service Rules as employees in classifications designated on the job description as ineligible for overtime or compensatory time off. These include, but are not limited to Department Directors and Assistant Directors. Additionally, the Board of Fair Commission should formally address this issue.

2. Current performance evaluations could not be located for two of the employees.

Current annual performance evaluations could not be located for two of the ten employees selected for review. If annual evaluations are not performed, employees will not receive the necessary feedback to help them develop and improve future performance.

Recommendation:

Each employee's job performance should be evaluated at least on an annual basis. Additional evaluations may be done when necessary. Performing annual evaluations gives employees feedback on their job performance and helps them improve future performance.

Revenue/Cash Receipts

3. The former Director entered into a special rental rate agreement without approval from the Board.

The former Director of the Fairgrounds entered into a special arrangement with the wrestling promoter for a reduced building rental rate. The Board was not consulted on the decision. This could result in the Director entering into special rental arrangements that are not in the best interest of the Fairgrounds.

Recommendation:

Any special rental agreements should be approved by the Board. This will provide adequate oversight to any special rental arrangements made by the Director.

Purchasing and Expenditures

4. The Fairgrounds did not follow Metro's central purchasing procedures for acquiring certain services.

The former Director entered into a verbal agreement with Hugh Bennett Productions for sound system work. This agreement did not follow the central purchasing procedures. Per the Procurement Monitoring Report issued by the Metro Office of Support Services dated September 26, 2003, the Fairgrounds paid Hugh Bennett Productions through Metro's procurement card \$45,397 by dividing sound system work into invoices that total less than \$1,000. Additional invoices were discovered by the Fairgrounds staff in May 2004 which dates back to July 2003. The Fairgrounds reached an agreement with Hugh Bennett Productions for the outstanding invoices with the assistance of Metro Legal in the amount of \$43,055. A total of \$88,452 was paid for services that did not follow Metro's purchasing procedures.

Recommendation:

The Fairgrounds should follow Metro's central purchasing procedures.

5. The Fairgrounds exceeded contract amount for marketing services.

The Fairgrounds has a marketing services contract with Pomeroy Marketing. The Fairgrounds pays a flat annual fee of \$45,000 for "staff services and time for consulting, strategic planning, creative development and execution and senior staff time for all sales/proposal meeting with potential sponsors and strategic partners, news media, media sales representatives, media promotional managers, and other marketing partners". However, the vendor submitted invoices for services that appear to have been included under the terms of the contract. The former Fairgrounds Director approved payment for these invoices in addition to the annual fee. These invoice exceeded the contract total annual amount by \$30,330.

Recommendation:

The terms of the contract with Pomeroy should be followed.

Petty Cash

6. Improvements need to be made to the petty cash process.

Our review of petty cash revealed the following:

- The Director does not review/approve the purchases made by the petty cash custodian. This could result in errors not being detected.

- The low usage of the petty cash fund does not justify the current petty cash fund balance of \$1,500. Having an excessive amount of petty cash increases the chance of loss.
- Six transactions for \$75 each were noted for the weed eater repair. Splitting petty cash purchases circumvents the intended purpose of petty cash by not following purchasing guidelines.
- One employee was reimbursed on two different dates for the original and copy of the same invoice.

Recommendation:

- The Director or his designee should review/approve the purchases made by the petty cash custodian. This will help ensure errors will be detected.
- Management should perform an evaluation of the current and future needs of petty cash. Procurement cards can be utilized for most of the small purchases required at the Fairgrounds.
- Splitting petty cash purchases should be eliminated.
- Employees should only be reimbursed for the original invoice on any petty cash purchase.

Fixed Assets

7. The oversight of fixed assets is not adequate.

A complete current FASTnet inventory of assets is not maintained by the Fairgrounds. Also, the individual who is responsible for fixed assets has not received training regarding Metro's fixed asset procedures. Poor oversight leads to the potential loss or misappropriation of assets.

Recommendation:

The oversight of fixed assets should be improved. A complete physical inventory of fixed assets should be conducted and the FASTnet fixed asset records should be updated. The individual responsible for fixed assets at the Fairgrounds should receive the necessary training. Proper oversight will reduce the potential for assets being misappropriated or lost.

Cell Phones

8. The Fairgrounds has not developed written policy and procedures for the use and staff needs requirements for cell phones.

The Fairgrounds has not developed written policy and procedures for cell phones. Our review indicated that a business purpose could not be determined for twenty-three percent of the 43 calls in our sample.

Recommendation:

The Metro cell phone policy should be used by the Fairgrounds. The adoption of the Metro cell phone policy will guide the Fairgrounds in monitoring and utilizing cell phones.

* * * *

Management's response to the audit recommendations is attached to this report.

We appreciate the cooperation and help provided by the Fairgrounds staff.

This report is intended for the information and the management of the Metropolitan Government of Nashville and Davidson County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Internal Audit Section

Don Dodson
Assistant Audit Manager

Copy: Mayor Bill Purcell
Karl F. Dean, Director of Law
David L Manning, Director of Finance
Eugene Nolan, Associate Director of Finance
Metropolitan Council Audit Committee
Richard V. Norment, Assistant to the Comptroller
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Metropolitan Government of Nashville and Davidson County

Internal Audit Section

Report on Tennessee State Fair

Section II

Management's Response



July 15, 2005

Mr. Don Dodson
Metro Department of Finance
Internal Audit Division
222 Third Avenue North, Suite 401
Nashville, TN 37201

Dear Mr. Dodson:

This letter is acknowledgement that the Tennessee State Fair has received the Performance Audit report of the Tennessee State Fair completed by Internal Audit.

We have reviewed the report and are in agreement with its findings. We have implemented a number of policies and procedures that address many of the findings in the report and will work diligently to implement the remaining recommendations.

Sincerely,

David R. Jeter
Executive Director
Tennessee State Fair