



Department of Agriculture

Amusement Ride & Safety Program Audit

Audit Period: May 1, 2011 through August 31, 2011



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Executive Summary

Background

The Department of Agriculture's (AGR) Division of Amusement Ride and Safety is responsible for licensing, inspecting and regulating amusement rides, games, water parks, and portable devices that operate throughout the state. The amusement ride industry is comprised of ride owners and operators who are predominately transient for both in-state and out-of-state based operations. In fiscal year 2011, the division collected approximately \$1,133,650. Of the revenue collected, approximately 99% was attributed to rides, water parks, and portable devices fees and the remaining 1% was associated with concessionaire game fees.

The scope of this audit included the initial licensing and revenue collection processes. Our scope did not include the inspection and enforcement processes.

During the audit, OIA identified opportunities for AGR to strengthen internal controls and improve business operations. A summary, along with detailed observations, have been provided. OIA would like to thank AGR staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.



Scope and Objectives

OIA staff was engaged to perform assurance work related to the Amusement Ride and Safety program. This work was completed between July 7, 2011 and August 30, 2011. The scope of this audit included the following areas:

- Initial licensing process
- Revenue collection process

The following summarizes the objectives of the review along with a conclusion on the effectiveness of management's internal controls.

Objective	Conclusion ¹
Evaluate the design and effectiveness of controls over the amusement ride and concessionaires permit process.	Well-Controlled with Improvements Needed
Evaluate the design and effectiveness of controls over the fee revenue collections and reconciliation process.	Improvements Needed - See Observation 1

¹ Refer to Appendix A for classification of audit objective conclusions.



Summary of Observations

The Summary of Observations includes only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions above.

No.	Observation	Risk ²
1.	<p>Collection and Timely Deposit of Permit and Inspection Fees – The Department is not consistently collecting the permit and inspection fees with the Ohio Ride Permit application. An Amusement Ride Inspector collects the permit and inspection fees from the amusement ride owner at the time the inspection is conducted and issues a license if the inspection has passed. The Amusement Ride Inspector mails the collected fees along with the completed inspection and re-created application forms twice weekly to the central office for processing and deposit. In 21 of 25 transactions tested, transactions were not deposited within two business days of collection by the Amusement Ride Inspector.</p>	<p>Moderate</p>

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

² Refer to Appendix A for classification of audit observations.



Detailed Observations and Recommendations

Observation 1 – Collection and Timely Deposit of Permit and Inspection Fees

Ohio Revised Code requires the owner of an amusement ride to submit an application for a permit, together with the appropriate permit and inspection fee, to the Department prior to the operation of the amusement ride and annually thereafter. Additionally, Ohio Administrative Code requires state agencies to deposit all monies collected, within two business days of receipt, into the state treasury.

The Department is not consistently collecting the permit and inspection fees with the Ohio Ride Permit application. Once an application is received and has been verified for completeness, the amusement ride is scheduled for an inspection. An Amusement Ride Inspector will collect the permit and inspection fees from the amusement ride owner at the time the inspection is conducted and issues a license if the inspection has passed. The Amusement Ride Inspector mails the collected fees along with the completed inspection and re-created application forms twice weekly to the central office for processing and deposit. In 21 of 25 transactions tested, transactions were not deposited within two business days of collection by the Amusement Ride Inspector. Additionally, from May 2011 through July 2011, the office received returned checks totaling \$18,550. The Department's current process allows licenses to be issued without payment being validated.

Not collecting the appropriate fees with the application increases the risk of lost, stolen, or misappropriated revenue, as well as noncompliance with the Ohio laws.

Recommendation

Revise current procedures to require submission of permit and inspection fees with the application. Procedures should be developed to ensure receipt of appropriate fees prior to scheduling an inspection of a ride. Implementation of these procedures may eliminate the need to collect most fees in the field and assist the division in depositing funds collected within two days. Furthermore, inspector duties would be more focused on conducting inspections rather than performing administrative functions related to fee collection.



Management Response

The Amusement Ride Safety Division will implement a request for inspection form to serve as a notification for rides needing inspections. Management will continue to emphasize to the amusement ride industry the importance of sending in payments with this form. Additionally, management will emphasize to the industry the importance of providing sufficient funds in bank accounts to cover payment of checks drawn on those accounts. Collection efforts on checks returned from banks will be pursued aggressively by program staff. Ride owners that bounce checks will be required to submit certified banks checks or money orders for future payments to license amusement rides. Applications will be completed by the applicant and inspector in the field at the time of inspection in order to validate plate number on rides. Because of the transient nature of this industry, there are instances where payment cannot be received with the request for inspection form.

For those instances, the Division will seek guidance from the Treasurer of State’s Office to pursue the possibility of depositing payments in the state treasury at the local branch offices. The Treasurer of State bank is Key Bank. Key Bank does not have banking offices in all Ohio counties. Other banking options will be explored by management for prompt deposit of receipts. In the interim, all inspectors will be directed to mail deposits to the program office on a daily basis.

Risk	Remediation Owner	Estimated Completion Date
Moderate	Amusement Ride Safety Supervisor	December 2011



Appendix A – Classification of Audit Objective Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Major Improvements Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.
Improvements Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Well-Controlled with Improvements Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	State Audit Committee, Senior Management, Department Management
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	State Audit Committee, Senior Management, Department Management
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Department Management, Senior Management (Optional), State Audit Committee (Not reported)



Appendix B – Audit Follow-up Procedures

OIA will periodically follow-up on management's plans to remediate high and moderate risk audit observations. Follow-up activities may generally be broken down into three categories:

- Detailed** Detailed follow-up is usually more time-consuming and can include substantial audit customer involvement. Verifying and testing procedures implemented as well as substantiating records are examples. The more critical audit observations usually require detailed follow-up.

- Limited** Limited follow-up typically involves more audit customer interaction. This may include actually verifying procedures or transactions and, in most cases, cannot be accomplished through memos or telephone conversations with the audit customer but requires onsite observation or testing.

- Informal** This is the most basic form of follow-up and may be satisfied by review of the audit customer's procedures or an informal telephone conversation. Memo correspondence may also be used. This is usually applicable to the less critical observations.

Low risk audit observations will not result in an OIA audit follow-up, although these observations will be factored into the continuous risk assessment process for future OIA engagements.