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**OFFICE OF THE LEGISLATIVE AUDITOR**  
**STATE OF MINNESOTA**

Management Letter

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**State Agricultural Society**  
**For the Year Ended October 31, 1999**



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**APRIL 27, 2000**

**00-14**

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## Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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All OLA reports are available at our Web Site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at [auditor@state.mn.us](mailto:auditor@state.mn.us)



## Report Summary

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### Management Letter

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### **State Agricultural Society** **For the Year Ended October 31, 1999**

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#### Key Finding and Recommendations:

- The State Agricultural Society has not adequately documented its computerized accounting systems. We recommended that the society create documentation for its computer system and programs. Also, the society should require any computer consultants to provide documentation as one of the consultant contract deliverables.

This **management letter** addresses an internal control weakness we found during our annual audit of the State Agricultural Society. The State Agricultural Society operates Minnesota's annual state fair and maintains the state fairgrounds. The society earned about \$23 million in operating revenues during fiscal year 1999 and had total assets of almost \$27 million on October 31, 1999. The society's response to our recommendations is included in the report.

# State Agricultural Society

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## Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA, CISA	Audit Manager
Susan Kachelmeyer, CPA, CISA	Auditor-in-Charge
Mike Willis, CPA	Auditor
Ching-Huei Chen	Auditor

## Exit Conference

We discussed the results of the audit at an exit conference with the following staff of the State Agricultural Society on April 17, 2000:

Jerry Hammer	Executive Vice President
Marshall Jacobson	Finance Director
Shelly Kinnunen	Accountant



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**OFFICE OF THE LEGISLATIVE AUDITOR**  
**State of Minnesota • James Nobles, Legislative Auditor**

Representative Dan McElroy, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Donald Simons, President  
Board of Managers  
State Agricultural Society

Mr. Jerry Hammer, Executive Vice President  
State Agricultural Society

Members of the State Agricultural Society

We have audited the State Agricultural Society for the year ended October 31, 1999. The primary objective of our audit was to issue an opinion on the financial statements of the society for the year then ended. The State Agricultural Society's Annual Report for the year ended October 31, 1999, includes our opinion thereon dated March 22, 2000.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. As part of obtaining reasonable assurance about whether the society's financial statements are free from material misstatement, we performed tests of the society's compliance with certain provisions of laws, regulations, contracts, and grants. We also obtained an understanding of the society's internal control structure. Our conclusions on compliance and internal control are included within this report as the *Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.

This report is intended for the information of the Legislative Audit Commission and the management of the State Agricultural Society. This restriction is not intended to limit the distribution of this report, which was released as a public document on April 27, 2000.

/s/ James R. Nobles

James R. Nobles  
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: March 22, 2000

Report Signed On: April 24, 2000



**Report on Compliance and on Internal Control over Financial Reporting  
Based on an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

Mr. Donald Simons, President  
Board of Managers  
State Agricultural Society

Members of the State Agricultural Society

Mr. Jerry Hammer, Executive Vice President  
State Agricultural Society

We have audited the financial statements of the State Agricultural Society as of and for the year ended October 31, 1999, and have issued our report thereon dated March 22, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the State Agricultural Society's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the State Agricultural Society's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State

Agricultural Society's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We describe the reportable conditions as Finding 1 in the accompanying section entitled *Current Finding and Recommendations*.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described in Finding 1 to be a material weakness.

We also noted other matters involving the internal control over financial reporting that we have reported orally to the management of the State Agricultural Society at an exit conference held on April 17, 2000.

This report is intended solely for the information and use of the State Agricultural Society's management and the Legislative Audit Commission and is not intended to be and should not be used by anyone other than these specified parties.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Claudia J. Gudvangen*

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

March 22, 2000

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## Current Finding and Recommendations

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### **1. The society has not adequately documented its computerized accounting systems.**

The society does not have formal, written documentation to show how its computer programs relate to each other and how data flows through and between the various programs. The society also does not adequately document changes made to its computer programs. The society is heavily dependent on one person, its computer consultant, for software maintenance and support.

The society's computer system consists of a customized group of software programs that support general accounting, payroll, ticket sales, space rentals, and other functions of the fair. The society's current computer consultant originally programmed the various components of the computer system several years ago. The computer consultant continues to be under contract with the society to program and maintain the society's computer information system. Under this contract, the consultant's duties include the following:

...program and assist in managing the society's computer information systems . . . complete programming as requested by the society, properly maintain the computer system, including, but not limited to, file and system maintenance and file backups.

The contract does not require the consultant to create or maintain system or program documentation as part of the contractual deliverables. The computer consultant received approximately \$182,000 in fees from the society in fiscal year 1999.

The society does not have detailed documentation to support either the computer programs' original design or the subsequent changes that have been made. The society does not have overall system or program documentation that shows how transactions are processed through the system and how the computer programs are intended to operate. It also does not have diagrams or narrative descriptions of how data is processed through each program and how the output from the various subsystems feed the society's general ledger. After consultation with the society's management, the computer consultant solves software problems and makes enhancements. The consultant also makes emergency programming changes when needed. However, the society and its consultant have not followed industry standards in documenting or establishing controls over changes. The consultant relies on program end users to test the changes and to create any supporting documentation the society's employees believe is necessary.

The lack of computer system documentation makes the society dependent on the consultant to keep its computer programs functioning. Unlike agencies that purchase

## State Agricultural Society

ready-made packaged software, the society could have difficulty finding alternate vendors who could service its existing computer programs. Without an overall system architecture and adequate program documentation, a vendor unfamiliar with the customized software would need a substantial amount of time to learn to effectively manage the society's computer system. A computer system failure if the consultant became unavailable could have potentially serious implications for the society.

In addition, as the society continues to develop its overall system architecture, changes should be based on the society's long- and short-range business goals. The computer system and any changes made to it should be well-planned, documented, and support the society's system architecture.

### *Recommendations*

- *The society should create documentation for its computer system and programs, including detailed descriptions of processes and data flows. The society should update this documentation whenever system or program changes are made.*
- *The society should require any computer consultants to provide documentation as one of the consultant contract deliverables.*

## **State Agricultural Society**

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### **Status of Prior Audit Issues As of March 22, 2000**

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#### **Most Recent Audit**

An audit of the State Agricultural Society is performed annually by the Office of the Legislative Auditor. Legislative Audit Report 99-22, dated February 19, 1999, covered the fiscal year ended October 31, 1998. The audit scope included those areas material to the society's financial statements. There were two findings in the report. We consider all prior recommendations to have been implemented.

# FAIR

## THE GREAT MINNESOTA GET-TOGETHER

12 DAYS OF FUN ENDING LABOR DAY

Jeanine Leifeld, Audit Manager  
Office of the Legislative Auditor  
Centennial Building, 658 Cedar St.  
St. Paul, MN 55155

April 17, 2000

Dear Jeanine,

We interpret the issue as follows: The State Agricultural Society's computer software for accounting systems would have greater stability if detailed operating manuals were created for our custom software programs. We agree. Further, in our discussions with you after the conclusion of field work, the issue appeared to boil down to the benefits of custom software and its inherent dependence on a programming consultant versus the benefits of off-the-shelf programs and their more readily-available manuals and support.

In the mid- and late-'80s, as the Society's operation was gradually computerized, custom software was created because the highly-specialized programs necessary to meet the unique needs of operating a state fair did not exist with off-the-shelf programs. It was determined that custom software was the best and, in fact, the only way for us to go at that time. To a large extent, that remains true today. Regardless, the programs were designed to meet our very specific needs, and they continue to work very well for us.

The issue of creating operating manuals for our custom software has been discussed regularly among staff over the years; the expense, however, has been prohibitive. Current estimates show that it will take anywhere from \$65,000 to \$200,000 to create the manuals. Since we are half-way through fiscal 2000, it is unlikely that we will be able to make much headway this year; however, we will do what we can in 2000 while looking ahead to 2001.

The bigger issue is the direction we are taking with our computer system; part of the process will be to decrease our reliance on custom software where we can, and we are already headed in that direction. For example, one of the largest components of our custom computer operation – ticket sales – is being outsourced to a commercial ticket firm this year and will no longer be maintained in-house. Our custom payroll program – another large part of our computer accounting system – is scheduled for replacement this fall with an off-the-shelf program. These changes are a result, in part, of our annual detailed computer systems analysis.

Thank you for your efforts.

Sincerely,

*/s/ Jerry Hammer*

Jerry Hammer  
Executive Vice President