



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Management Letter

State Agricultural Society
For the Year Ended October 31, 2000



APRIL 20, 2001

01-19

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.

This document can be made available in alternative formats, such as large print, Braille, or audio tape, by calling 651-296-1727 (voice), or the Minnesota Relay Service at 651-297-5353 or 1-800-627-3529.

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

State Agricultural Society

Table of Contents

	Page
Report Summary	1
Management Letter	2
Report on Compliance and Internal Control over Financial Reporting	3
Current Findings and Recommendations	5
Status of Prior Audit Issues	8
State Agricultural Society Response	9

Audit Participation

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA, CISA	Audit Manager
Susan Kachelmeyer, CPA, CISA	Auditor-in-Charge
John Hakes, 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 3, 2001:

Jerry Hammer	Executive Vice President
Marshall Jacobson	Finance Director
Shelly Kinnunen	Finance Accounting Supervisor
Amy Siegel	Finance Staff

Report Summary

Key Findings and Recommendations:

- The State Agricultural Society has not adequately documented its computerized accounting systems. It 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. We first reported these issues in our 1999 audit. During fiscal year 2000, the Society partially implemented the finding and recommendations by outsourcing its grandstand ticket sales function for the state fair. In January 2001, the Society also implemented a new system to process its payroll. The Society should continue to create documentation for its computer systems, including detailed descriptions of processes and data flows. (Finding 1, page 5)
- The Society's internal controls over fair time payroll need to be improved. The Society did not have proper documentation for certain payroll payments and did not always follow its regular payroll processing requirements during fair time. The Society should ensure that all employment and payroll documents relating to fair time payroll are properly signed and approved. It should enforce the same approval process over fair time payroll check runs as it uses for regular payroll processing. (Finding 2, page 6)
- The Society did not ensure that it received the entire amount due from the sale of Pronto Pass tickets. The Pronto Pass combined a gate ticket to the fair with a pass to ride any Metro Transit bus to and from the fair. The Society should develop internal controls to adequately account for all Pronto Pass tickets, either sold or unsold. (Finding 3, page 6)

The State Agricultural Society operates Minnesota's annual state fair and maintains the state fairgrounds. The Society earned about \$26.5 million in operating revenues during fiscal year 2000 and had total assets of over \$29 million on October 31, 2000.

The primary objective of our audit was to issue an opinion on the financial statements of the State Agricultural Society for the year ended October 31, 2000. The Society's Annual Report for fiscal year 2000 includes our opinion thereon dated February 22, 2001. This **management letter** addresses internal control weaknesses we found during our audit. The Society's response to our recommendations is included in the report.



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

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

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 State Agricultural Society for the year ended October 31, 2000. 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, 2000, includes our opinion thereon dated February 22, 2001.

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 20, 2001.

/s/ James R. Nobles

/s/ Claudia J. Gudvangen

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 22, 2001

Report Signed On: April 16, 2001



**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, 2000, and have issued our report thereon dated February 22, 2001. 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.

State Agricultural Society

We describe the reportable conditions as Findings 1 through 3 in the accompanying section entitled *Current Findings 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, of the reportable conditions described in the *Current Findings and Recommendations*, we consider 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 3, 2001.

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

February 22, 2001

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

Current Findings and Recommendations

1. PRIOR FINDING PARTIALLY RESOLVED: The Society has not adequately documented its computerized accounting systems.

The Society does not have formal, written documentation to show how its computer programs related to each other or how data flows through and between the various programs. The Society also does not adequately document changes made to its computer programs. We first reported these issues in our 1999 audit. During fiscal year 2000, the Society partially implemented the finding and recommendations by outsourcing its grandstand ticket sales function for the state fair. In January 2001, the Society also implemented a new system to process its payroll.

The Society does not have overall system or program documentation for its customized group of software programs that support general accounting, space rentals, and other functions of the fair. It is important for the Society to maintain detailed documentation to support its computer programs' original design as well as subsequent changes that have been made. This documentation is necessary to show how transactions are processed through the system and how the computer programs are intended to operate. The lack of computer system documentation makes the Society heavily dependent on the computer consultant who 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.

During fiscal year 2000, the Society outsourced its grandstand ticketing function by contracting with a nationally known ticket sales vendor. This outsourcing was fully operational for the 2000 Minnesota State Fair. In January 2001, the Society began using a purchased payroll software package. Outsourcing a key function and using a ready-made software have decreased the Society's reliance on its customized software programs.

Recommendations

- *The Society should continue to 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

2. The Society's internal controls over fair time payroll need to be improved.

The Society's internal control process for its fair time payroll needs to be strengthened. The Society spent nearly \$2 million on fair time payroll in 2000. We found that the Society did not have proper documentation for certain payroll payments. We also found that the Society did not always follow its regular payroll processing requirements during fair time.

First, we found that the Society did not always require employees and supervisors to sign the appropriate employment and payroll forms. We found cases where employees did not sign the Society's employment forms, federal W-4 forms, or their timesheets. Timesheets, employment forms, and fair time pay raises were frequently authorized by a rubber stamp or by a non-supervisory employee. Because of the risk of unauthorized payroll disbursements during the busy fair time season, the Society needs to ensure that all documents relating to its fair time employees are properly signed and approved. The Society needs to review its policies concerning authorized signers, and the control over the use of rubber stamp signatures.

In addition, we found cases where the Society's normal payroll processing practices were not followed for fair time payroll accounting, preparation, and authorization. In addition to the weakness noted for controls over employment forms, timecards, and pay rate changes, we noted that the Society did not follow its regular practice of having the fair time payroll "check runs" authorized by the person normally responsible for payroll accuracy. Someone should review and approve the fair time check runs in the same manner as the normal payroll check runs.

Finally, we found weaknesses in the budgeting for fair time payroll. Several of the Society's fair time payroll budget projections were completed in pencil. We noted examples where budget amounts had numerous erasures and changes. None of the adjustments were initialed. An important way of controlling the Society's significant fair time payroll expenses is through a complete and formal budgeting process.

Recommendations

- *The Society should ensure that all employment and payroll documents relating to fair time payroll are properly signed and approved. It should enforce the same approval process over fair time payroll check runs as it uses for regular payroll processing.*
- *The Society should improve its controls over fair time payroll budget and expense projection approval so it is clear that unauthorized changes have not been made.*

3. The Society did not adequately control its Pronto Pass tickets.

The Society did not ensure that it received the entire amount due from the sale of Pronto Pass tickets. In fiscal year 2000, the Society implemented a new promotion for the state fair. The

State Agricultural Society

promotion was called the, “Pronto Pass” and was a cooperative effort with Metro Transit. The Pronto Pass combined a gate ticket to the fair with a pass to ride any Metro Transit bus to and from the fair. The Society’s outside vendor printed and certified 100,000 adult and youth Pronto Passes. The Society then delivered the majority of the passes to Metro Transit, who distributed the Pronto Passes to sales outlets and collected the money due from those sites.

The Society did not require Metro Transit to return unsold Pronto Pass tickets. Normally, the Society collects either the money due for tickets sold or requires the return of unsold tickets from the advance sale vendors and its on site ticket takers. Metro Transit reported sales of only 9,918 Pronto Passes out of the 100,000 certified tickets and remitted \$48,196 to the Society. Since Metro Transit did not return any of the remaining tickets, the Society cannot ensure that those tickets were not improperly distributed or used.

Recommendation

- *The Society should develop internal controls to adequately account for all Pronto Pass tickets, either sold or unsold.*

**Status of Prior Audit Issues
As of February 22, 2001**

Most Recent Audit

An audit of the State Agricultural Society is performed annually by the Office of the Legislative Auditor. Legislative Audit Report 00-14, dated March 22, 2000, covered the fiscal year ended October 31, 1999. The audit scope included those areas material to the Society's financial statements. There was one finding in the report, stating that the Society had not adequately documented its computerized accounting systems. The Society has partially resolved the prior finding. We repeat the remaining portions as Finding 1 in the current report.



THE GREAT MINNESOTA GET-TOGETHER
12 DAYS OF FUN ENDING LABOR DAY

Jeanine Leifeld, CPA
Office of the Legislative Auditor
Room 140, Centennial Building
658 Cedar St.
St. Paul, MN 55155

April 12, 2001

Dear Jeanine,

Response to audit finding one: *The Society has not adequately documented its computerized accounting systems.*

Our response to last year's audit stated that it was not possible during fiscal 2000 for us to fully implement the audit recommendation regarding documentation of computer programs. We did, however, make substantial progress by decreasing our reliance on custom software. We are currently putting systems into place that create documentation of our remaining custom programs; completion of the documentation process is a priority during 2001.

Response to audit finding two: *The Society's controls over fair-time payroll need to be improved.*

We agree with the finding, but feel obligated to lend some perspective.

For the 2000 State Fair, our payroll staff processed federal forms, state forms, time sheets and time cards for 2,407 fair-time employees working in 76 departments. A total of 146 time sheets were unsigned; 144 of those belonged to employees who either quit (142) or who did not return to work due to illness (2). Our employee letters of agreement and federal W-4 forms were incorporated into a single sheet; 19 were unsigned. Improved procedures regarding signatures and approval have been implemented for 2001 and beyond.

Our three largest departments use signature stamps – police (341 employees), admissions (247 employees) and parking (213 employees). During our exit conference with legislative audit staff, the auditors made it clear that use of signature stamps is acceptable, provided adequate measures are taken to secure the stamps. We agree, and have implemented security procedures through our payroll department.

Regarding fair-time payroll check runs, we agree that they should be approved in the same manner as our regular year-around payroll, and have implemented procedures for this year.

Finally, 10 of 76 payroll budget projection sheets were done in pencil. From now on, all will be done in ink.

Response to audit finding three: *The Society did not adequately control its Pronto Pass tickets.*

This was the single exception to what the legislative audit team referred to during the exit conference as our “excellent ticket control program.” If we continue to utilize Pronto Passes in the future, existing internal controls will be implemented.

Our thanks to you and the audit team for your efforts on our behalf.

Sincerely,

/s/ Jerry Hammer

Jerry Hammer
Executive Vice President