
State Agricultural Society

Financial Audit

For the Year Ended October 31, 1998

April 1999

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

99-22

SUMMARY

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State Agricultural Society

Financial Audit

For the Year Ended October 31, 1998

Public Release Date: April 15, 1999

No. 99-22

Agency Background

The State Agricultural Society was legally organized as a self-governing, public corporation in 1860. The Society operates under Minn. Stat. Chapter 37. The Minnesota State Agricultural Society Board of Managers operates the annual state fair exposition and maintains the state fairgrounds. The 10-member board is comprised of one representative from each of the Society's nine regional districts and a president. Mr. Jerry Hammer serves as the executive vice president of the Society.

Financial Highlights

The State Agricultural Society is financially self-sufficient. The society reported net income of \$1,987,740 for the year ended October 31, 1998, and \$3,038,160 for the year ended October 31, 1997. The Society generated \$22,618,708 in revenues during fiscal year 1998, including both fair-time and non-fair event revenues. The Society's primary sources of revenue are fair-time ticket sales and commercial space licenses. Significant expense classifications include activities and support, plant maintenance, plant operations, administrative, and depreciation charges. The Society had total assets of \$26,028,051 as of October 31, 1998.

Audit Objectives and Conclusions

The audit objectives were to:

- issue an audit opinion on the Society's financial statements as of October 31, 1998,
- obtain an understanding of the Society's internal control structure, and
- test the Society's compliance with significant finance-related legal provisions.

We issued an unqualified opinion, dated February 19, 1999, on the State Agricultural Society's financial statements for the year ended October 31, 1998. The Society's annual report, which includes its audited financial statements, is available from the Society's offices.

We found that the Society's board of managers did not approve a rate decrease for one of the Society's attractions, as required by the Society's governing rules. In addition, the Society did not have current signed contracts on file for certain of its vendors.

The Society agreed with our recommendations and are taking actions to resolve the issues.



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Vern Prokosch, 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, 1998. The primary objective of our audit was to issue an opinion of the financial statements of the Society for the year then ended. The State Agricultural Society Annual Report for the year ended October 31, 1998, includes our opinion thereon dated February 19, 1999.

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 15, 1999.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 19, 1999

Report Signed On: April 13, 1999

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	Audit Manager
Susan Kachelmeyer, CPA	Auditor-in-Charge
Mike Willis	Staff Auditor
Terry Hansen	Staff 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 2, 1999:

Jerry Hammer	Executive Vice President
Marshall Jacobson	Finance Director



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

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

Mr. Vern Prokosch, 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 financial statements of the State Agricultural Society, as of and for the year ended October 31, 1998, and have issued our report thereon dated February 19, 1999. 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described as Finding 1 in the accompanying section entitled *Current Findings and Recommendations*.

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 one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Mr. Vern Prokosch, President
Board of Managers
Mr. Jerry Hammer, Executive Vice President
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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 condition as Finding 2 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, we believe the reportable condition described above is not 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 2, 1999.

This report is intended for the information of the State Agricultural Society management and the Legislative Audit Commission. However, this report is a matter of public record, and its distribution is not limited.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

February 19, 1999

Current Findings and Recommendations

1. The Board of Managers did not approve a rate decrease for one of the Society’s attractions.

In one case, the Society did not comply with its rules governing license rates for its fair-time attractions. The Society’s “Rules Governing the Management and Control of the Minnesota State Fairgrounds and the Minnesota State Fair” require that the Society’s Board of Managers approve all license rates for commercial space. According to its meeting minutes, the Society’s Board of Managers formally approved a ticket price of \$4 for one of its 1998 state fair attraction licensees. Later, without obtaining formal board approval, the Society’s management decreased the price of the attraction to \$3.

Recommendation

- *The State Agricultural Society Board of Managers should formally approve all license rates, including changes to previously approved rates.*

2. The Society did not have current signed contracts on file for certain of its vendors.

In some cases, the Society did not adequately document its contracts with certain event and service providers.

First, the contract with the provider for the largest non-fair event was never signed. The event generated nearly \$162,000 in fiscal year 1998 income. In addition, the Society did not retain proof of insurance for the same event. Proof of insurance is a Society contract requirement for all fairground activities.

In addition, the Society did not have a signed contract with its information system consultant during fiscal year 1998. The contract for fiscal year 1998 was signed and dated November 6, 1998, six days after the fiscal year ended. The Society paid the consultant approximately \$128,000 during fiscal year 1998. Not having written contracts in force during the contract period creates the risk that the Society may not be able to enforce certain provisions of its agreements.

Finally, certain original, written contracts with continuing service providers were very old, some in excess of 10 years. The majority of these older, continuing contracts had multiple re-approvals, additions, and attachments. In one case, the Society could not even produce an original, written contract with one of its advertising service providers. This contract dated back to 1989. In another case, the Society had not retained union wage rate sheets that were referenced as an essential part of the contract. Union wage rates had changed periodically throughout the contract’s duration. The existence of old, often amended contracts increases the risk that the current provisions and terms of the contracts could be misinterpreted or not enforceable.

State Agricultural Society

Recommendations

- *The Society should complete written contracts for all of its event and service agreements in a timely manner.*
- *The Society should renew or renegotiate contracts with continuing providers on a periodic basis.*
- *The Society should retain all documentation relating to its contracts, including:*
 - *original signed contracts,*
 - *proof of insurance for all fairground activities, and*
 - *essential attachments referenced pursuant to contracts.*

**Status of Prior Audit Issues
As of October 31, 1998**

Most Recent Audit

An audit of the State Agricultural Society is performed annually by the Office of the Legislative Auditor. **Legislative Audit Report 98-18**, dated March 13, 1998, covered fiscal year ended October 31, 1997. The audit scope included those areas material to the Society's financial statements. No audit issues were noted in the report.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.



Ms. Jeanine Leifeld
Audit Manager
Minnesota Legislative Auditor
Centennial Building
658 Cedar Street
St. Paul, MN 55155

April 7, 1999

Dear Ms. Leifeld,

Response to finding number one

At a business meeting June 2, 1998, the State Agricultural Society's board of managers approved a maximum ticket price of \$4 for the "Dinosaurs In Motion" attraction. Approval was granted with the understanding that the State Fair's administrative staff would attempt to lower the approved admission price through reducing the production costs associated with presenting the exhibit. The intent was to provide a better value for fair guests. The staff was successful in reducing costs, and the price was accordingly dropped to \$3. The board formally approved the price reduction at its Jan. 17, 1999, regular business meeting.

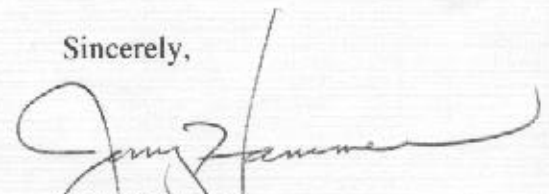
Response to finding number two

The Society executes approximately 4,000 contracts annually with a wide variety of vendors, exhibitors, entertainers, service providers, interim event producers, construction contractors and storage customers. Of the contracts mentioned in the audit recommendation, each are with long-term business associates of the State Fair. In a few cases contracts are dated, but working documents outlining terms are on file for all. All of the terms in these agreements were satisfactorily met.

Nevertheless, we agree that some of our older agreements need to be updated and that all contracts should be fully executed. We have begun a process to review all of our contracts and documentation to insure that all are current and complete. The process is being conducted by State Fair senior staff (assistant managers Karen Leach, Steve Pooch and Jim Sinclair, finance director Marshall Jacobson, administration director Mary Goiffon and operations director Ken Wenzel). In the future, this process will be conducted on an annual basis.

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

Sincerely,



Jerry Hammer
Executive Vice President