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OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

State Agricultural Society
Two Years Ended October 31, 2006



June 14, 2007

07-15

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 forty 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.

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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If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us



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FINANCIAL AUDIT DIVISION

Centennial Building – Suite 140

658 Cedar Street – Saint Paul, MN 55155

Telephone: 651-296-4708 • Fax: 651-296-4712

E-mail: auditor@state.mn.us • Web site: <http://www.auditor.leg.state.mn.us>

Through Minnesota Relay: 1-800-627-3529 or 7-1-1

Table of Contents

	Page
Report Summary	1
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	2
Current Finding and Recommendation	4
Status of Prior Audit Issues	5
Agency Response	6

Audit Participation

Cecile Ferkul, CPA, CISA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Marla Conroy, CPA	Auditor-in-Charge
John Hakes, CPA	Auditor
Melanie Greufe	Auditor
Xin Wang	Auditor

Exit Conference

We discussed the results of the audit at an exit conference with the following staff of the State Agricultural Society on June 1, 2007:

Jerry Hammer	Executive Vice President
Marshall Jacobson	Chief Financial Officer

Report Summary

Audit Conclusions:

On June 7, 2007, we separately issued an unqualified opinion on the State Agricultural Society's financial statements for the two years ended October 31, 2006.

This is a related report on internal control over financial reporting and compliance with certain legal requirements. It contains one finding as described below.

Key Finding:

- The State Agricultural Society did not adequately separate duties to ensure that \$2.5 million in coliseum and grandstand ticket sales remitted by a contract vendor were adequately safeguarded. ([Finding 1, page 4](#))

Audit Scope:

Audit Period: The two years ended October 31, 2006

Programs Audited:

- Cash and Cash Equivalents
- Capital Assets
- Revenue Bond Liabilities
- Ticket Sales
- Payroll Expense
- Entertainer Payouts and Other Expenses

Agency Background:

The State Agricultural Society operates Minnesota's annual state fair and maintains the state fairgrounds. It earned about \$32 million in operating revenues during fiscal year 2006 and had total assets of nearly \$47 million on October 31, 2006.

The society included the activities of the State Fair Foundation in its annual report as a discretely presented component unit.



Representative Rick Hansen, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Lyle Steltz, President
State Agricultural Society Board of Managers

Members of the State Agricultural Society

Mr. Jerry Hammer, Executive Vice President
State Agricultural Society

In auditing the State Agricultural Society's financial statements for the year ended October 31, 2006, we considered the society's internal controls over financial reporting and tested the society's compliance with significant legal provisions. This report contains our finding and recommendation. However, given the limited nature of our audit work, we do not express an overall opinion on the effectiveness of the society's internal controls or compliance. In addition, our work may not have identified all significant control deficiencies or instances of noncompliance with legal requirements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we communicate significant internal control deficiencies and noncompliance to management and those charged with governance. We consider the internal control deficiency described in Finding 1 in the accompanying section, entitled Current Finding and Recommendation, to be a reportable condition. According to the auditing standards, reportable conditions indicate significant deficiencies in the design or operation of one or more of the internal control components that do not reduce to a relatively low level the risk that misstatements caused by error or fraud 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.

Management's response to our finding and recommendation is presented in the accompanying section of this report titled, Agency Response. We did not audit the response and, accordingly, we express no opinion on it.

State Agricultural Society

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. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 14, 2007.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

March 19, 2007

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

Current Finding and Recommendation

- 1. The State Agricultural Society did not adequately separate duties to ensure coliseum and grandstand ticket sales remitted by a contract vendor were properly safeguarded.**

The society did not adequately separate duties when depositing \$2.5 million of coliseum and grandstand ticket receipts. The society contracted with a company to sell tickets to coliseum and grandstand events. The vendor processed telephone and internet sales and remitted weekly sales reports and checks to the society for the total sales amount less applicable service fees. The society did not adequately separate duties over the accounting for these funds upon receipt; one of the society's employees who had access to the checks also maintained the accounting records and prepared the monthly bank reconciliations. There were no mitigating controls, such as an independent review of the sales reports and bank deposits, to ensure the propriety of those transactions.

Good internal controls require that duties be separated so that a person who has access to receipts cannot either post transactions to the accounting system or prepare the bank reconciliations. Without proper separation of duties, errors in accounting for the deposits or misappropriation of coliseum and grandstand ticket receipts could go undetected.

Recommendation

- The society should separate duties involving the deposit of coliseum and grandstand ticket receipts from the record keeping and reconciliation responsibilities.*

State Agricultural Society

Status of Prior Audit Issues As of March 19, 2007

Most Recent Audit

The Office of the Legislative Auditor performs an annual audit of the State Agricultural Society. Legislative Audit [Report 06-15](#), dated May 24, 2006, covered the fiscal year ended October 31, 2005. The audit scope included those areas material to the society's financial statements. The report did not contain any findings.



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

June 8, 2007

Dear Jim,

Following is the State Agricultural Society's response to the finding in the draft report of the OLA's audit:

The State Fair contracts with Ticketmaster as a vendor to provide retail ticket sales services for Grandstand and Coliseum events. The vendor's standard operating procedure has been to send checks for ticket sales revenue on a weekly basis to the State Fair box office manager who, in turn, has forwarded the check to the fair's controller for audit prior to deposit. As part of the process, the fair has annually maintained and provided to the legislative auditor complete documentation verifying the accuracy of all accounts and deposits related to Grandstand and Coliseum ticket sales activity. This process has not changed since 2000 – the first year that the Society contracted with Ticketmaster. Nevertheless, the vendor and the Society are establishing a new method of ticket revenue transfer that involves electronic direct deposit.

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

Sincerely,

/s/ Jerry Hammer

Jerry Hammer
Executive Vice President