B28197

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

AUDIT REPORT

OF

INDIANA STATE FAIR COMMISSION

STATE OF INDIANA

January 1, 2004 to December 31, 2005

FILED
09/28/2006

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AGENCY OFFICIALS

Office	Official	Term
Executive Director	William Stinson	01-01-04 to 12-15-04
	Cynthia C. Hoye	12-16-04 to 01-11-09
President	Terry Hoffman	10-01-03 to 09-30-06
Chairman	Dr. Gene Sease	06-01-02 to 09-30-06

STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF THE INDIANA STATE FAIR COMMISSION

We have audited the records of the Indiana State Fair Commission for the period January 1, 2004 to December 31, 2005, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Audit Results and Comments. The financial transactions of this office are reflected in the Annual Reports of Indiana State Fair Commission for the years ended December 31, 2004 and December 31, 2005.

STATE BOARD OF ACCOUNTS

June 30, 2006

INDIANA STATE FAIR COMMISSION
AUDIT RESULTS AND COMMENTS
DECEMBER 31, 2005

AUDIT REPORT PERIOD

This compliance audit report covers the two year period of January 1, 2004 to December 31, 2005. The audit reports of the Financial Statements for the years ending December 31, 2004 and December 31, 2005 were issued separately from this compliance report.

CASH FUNDS INTERNAL CONROLS

The following Indiana State Fair Commission cash funds were not properly secured to prevent theft or unauthorized access.

Description	Amount
Cash Register Fund – Skate Shop	$ 200.00
Quarters Change Fund – Skate Shop	500.00
Admission Sales Fund – Skate Shop	100.00
Cash Drawer Fund – Concessions Office	100.00
Stamps, Miscellaneous Fund – Administration Building	53.92
Total	$953.92

In addition, these cash funds were not recorded on the general ledger. Therefore, cash is understated, on the ledger by $953.92. This also indicates there is no record of the funds existing.

Each agency, department, institution or office should have internal controls in effect, which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

SKATE SHOP INTERNAL CONTROLS

The following internal control deficiencies were noted while assessing the operation of the Skate Shop cash register:

(1) There is a lack of separate user IDs and personalized security rights for employees, preventing the tracking of sales transactions and patterns to specific employees. This prevents management oversight and control over functions such as inventory adds and edits and sales price edits.

(2) Sales prices are overridden and edited regularly when making a sale, with no documentation justifying the adjusted price. Cash register generated sales reports are not reviewed by management to ensure the cash register has accurate sales price and list price information and to monitor for errors or fraudulent activity.

(3) The cash register used by the Skate Shop assigns sequential invoice numbers for each sale. We could not account for 19 of these invoices that were missing from the invoice range used by the cash register during 2004. The invoices were also not located on the by-passed invoice report, saved invoice report, voided invoice report, invoice log, or by doing an invoice number search on the system.

(4) The amount the Skate Shop deposits is determined by the amount of sales reported by the cash register sales report, not by the amount of receipts actually collected. No determination is made as to whether or not the cash drawer is long or short. The Skate Shop manager should reconcile the cash register, including the cash drawer, to the cash register report to determine the amount long or short. Any amount long should be deposited.

Each agency, department, institution or office should have internal controls in effect, which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

ASSET CAPITALIZATION POLICY

An "Asset Capitalization Policy" that was adopted by the Indiana State Fair Commission, as recommended in the prior period Audit Report B24744 in April 2005, did not include a description of their depreciation as required by GASB 34 paragraph 115.

GASB 34 paragraph 115 states in part: "Governments should provide these additional disclosures (if applicable) in their summary of significant accounting policies based on the requirements of this Statement: . . . e) the policy for capitalizing assets and for estimating the useful lives of those assets."

ASSET INVENTORY

An inventory of assets owned by the Indiana State Fair Commission was not conducted until the last half of 2005. This inventory was not reconciled to the actual fixed asset schedule maintained by the Commission.

This lack of accountability for state owned equipment could result in misappropriation of assets.

The Commission's fixed asset policy requires that assets with a cost of $5,000 or more be added to a fixed asset schedule, and capitalized.

Assets costing more than $500 must be tagged and listed on an asset control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 10)

Once a year a physical inventory is to be taken and compared to the master listing. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 10)

EMPLOYEE SERVICE RECORDS

Most of the official employee service records for staff are maintained by the payroll clerk, but some are maintained by the secretary of the Building and Grounds Department. There were several errors found in the employee leave balances of the employee service records maintained by the secretary. The payroll clerk does not see time cards for the Building and Grounds employees until after checks are issued. Leave balances are not printed on payroll checks for these employees. These procedures cause a lack of uniformity and accuracy. The payroll clerk should not issue paychecks without having received a signed and approved time card or attendance report.

These deficiencies could result in improper payments to employees.

All attendance reports should be submitted to the administration payroll clerk. All employee service records should be maintained by the administration payroll clerk.

Each agency, department, institution or office should have internal controls in effect, which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

CERTIFIED REPORT NOT FILED

The Indiana State Fair Commission has not filed a certified report of compensation of officers and employees with the State Board of Accounts in compliance with Indiana Code 5-11-13.

Indiana Code 5-11-13 states in part: "Every state, county, city, town, township, or school official, elective or appointive, who is the head of or in charge of any office, department, board, or commission of the state or of any county, city, town, or township, and every state, county, city, town, or township employee or agent who is the head of, or in charge of, or the executive officer of any department, bureau, board, or commission of the state, county, city, town, or township, and every executive officer by whatever title designated, who is in charge of any state educational institution or of any other state, county, or city institution, shall during the month of January of each year prepare, make, and sign a written or printed certified report, correctly and completely showing the names and business addresses of each and all officers, employees, and agents in their respective offices, departments, boards, commissions, and institutions, and the respective duties and compensation of each, and shall forthwith file said report in the office of the state examiner of the state board of accounts. However, no more than one (1) report covering the same officers, employees, and agents need be made from the state or any county, city, town, township, or school unit in any one year.

PROCUREMENT PROCEDURES AND INTERNAL CONTROLS

Several disbursements reviewed were not in compliance with the requirements of Indiana Administrative Code or showed a lack of proper internal controls over the disbursements. They include the following:

(1) More than one third of all disbursements tested (35.86%) were invoiced before the date of the Purchase Order (PO), and none had written Special Procurement justifications that would allow them to avoid the purchase order process in violation of 80 IAC 1-5-10.

(2) One payment had no evidence of proper procurement requirements, including sealed bids or RFPs as required under 80 IAC 1-5-1 and 80 IAC 1-5-2.

Failure of the Indiana State Fair Commission to comply with IAC 80 could result in the misappropriation of funds and the improper awarding of contracts to vendors doing business with the Indiana State Fair Commission.

COMPLIANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Indiana State Fair Commission made several entries to the general ledger that were not in compliance with Generally Accepted Accounting Principles (GAAP). The Financial Statements presented by the Commission were based on this non GAAP compliant ledger. As a result several adjustments, recommended by the State Board of Accounts, were necessary to bring both the ledger and financial statements in conformance with GAAP. These adjustments included, but were not limited to:

Three transactions of grant revenues were posted to a capital account instead of a revenue account. The effect of the incorrect application of these transactions was to understate revenues by $337,448.

Payments of $300,000 to the Center for Agriculture Science and Heritage were recorded as a decrease in Commission Riverboat Tax Distribution revenues, thus understating revenues and expense by $300,000. The disbursement should have been recorded as an expense.

A donation made by the 4H Foundation and other donors was netted against expenditures for furnishings for the newly remodeled 4H Complex. This understated revenues and expenses by $211,067.72.

No accrual is performed by the Commission for Salaries Payable and Compensated Absences Payable. These liabilities total $464,087 as of December 31, 2005.

In addition, the Commission did not generate a Cash Flow Statement or Notes to the Financial Statements, which are both required by GAAP. Failure to produce a Cash Flow Statement could result in the inability for the Commission to account for cash balances held by the Commission.

Indiana Code 15-1.5-3-7 states: "The Commission shall adopt a cost accounting system that is governed by Generally Accepted Accounting Principles."

INDIANA STATE FAIR COMMISSION
EXIT CONFERENCE

The contents of this report were discussed on August 3, 2006, with Cynthia C. Hoye, Executive Director, and Mark Hindsley, Director of Finance. The official response has been made a part of this report and may be found on pages 9 through 13.

The contents of this report were discussed by telephone on August 16, 2006, with William Stinson, former Executive Director.

INDIANA STATE FAIRGROUNDS

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September 14, 2006--Revised

Mr. Bruce Hartman
Indiana State Board of Accounts
302 West Washington Street—Room E-418
Indianapolis, IN 46204

Re: Indiana State Fair Commission
2004-2005 Audit Results

The following is our response to points outlined at the exit conference held in the Administration Building on Thursday, August 3, 2006 at 9 am. Due to the unexpected delays in completing the 2004 audit, we agreed to an expedited 2005 audit to get the ISFC back into audit compliance with the Revenue Bond Covenants. The response covers discussion points from both fiscal years ending December 31, 2004; and December 31, 2005. In attendance were Executive Director Cynthia Hoye, Director of Finance Mark Hindsley, and State Board of Accounts Field Auditors Albert Marshall, Scott Wright, and Jennifer Brand.

Cash Funds Internal Controls

The main focus of this point is that cash in the form of "change banks" exist in the Skate Shop, our year-round hockey and ice skating apparel and equipment retail shop. We do secure these funds at night in the Skate Shop safe. The $500 in quarters change fund is to accommodate the video games and vending machines in the public areas of the Coliseum. We will make the appropriate book entries to show these funds as Cash on Hand—Change Banks, like we have with the Ticket Office and our Parking Department change funds.

The receptionist brings the stamp fund, fax, and copier monies to Accounting when she gets a new roll of stamps for the front desk.

Skate Shop Internal Controls

Skate Shop retail sales totaled $162,000 in 2005; about seven tenths of one percent of ISFC's $23 million budget. However, we take your advice and comments seriously, as we did in 2002 when SBA suggested we beef up the previous manual system of sales and inventory control in the Skate Shop. At that time, we purchased and installed a POS (point of sale) stand-alone computer system to track Skate Shop sales, invoices, and inventory. The fiber-optic cabling to link the Pepsi Coliseum to the Administration building to utilize our Great Plains Accounting software was not accomplished until 2005. We intend to address and resolve the shortcomings you noted with Skate Shop staff this fall as the hockey and ice skating season opens in late September. We are puzzled about the missing 19 invoices from 2004. SBA indicated that the missing invoices were random, rather than in a block. This suggests a computer software glitch we were not aware of, or possibly a procedure that caused the unintentional deletion of information. Either way, we will have our internal Information Technology staff take a look at it.

Asset Capitalization Policy

As you know, we are not experts on Government Accounting Standards Board (GASB) 34 guidelines and practices. So, when SBA recommended we establish an "official" dollar threshold for capitalization, we did so in May, 2005. The finding indicates our efforts were incomplete because we didn't establish the basis for "estimating the useful lives of those assets". We will submit a more complete asset capitalization policy to the Commission for approval.

Asset Inventory

We did accomplish a physical inventory of our major assets during 2005. We also established for the first time a digital photograph of those assets over $5,000. This was accomplished with the help from a summer intern, and a part-time staff person. We will continue efforts to reconcile the two databases by year-end, as well as incorporate changes recommended by SBA; i.e., capitalizing the Krannert Building demolition as a "Land Improvement."

Employee Service Records

The comment concerning "leave balances are not printed on payroll checks" for Building and Grounds employees was corrected in February 2006. However, our payroll system only has two fields to collect paid time off, instead of three. Therefore, vacation hours are shown separately, but sick and personal time in hours is displayed as a total. The payroll clerk does pay from an authorized attendance report; then receives the actual time cards for support documentation after distribution of the payroll checks. We went to an automatic time clock that calculates, and accumulates, daily work hours about a year ago, so the discrepancies in hours worked versus paid are minimal. All original employee service records are maintained by the Payroll Department, but copies are maintained by the Building and Grounds office. Records concerning disciplinary issues are maintained by the Personnel Office.

Certified Report Not Filed

Mark Hindsley advises that this is the first time in his 17 years here that this has been brought to our attention. Possibly because of our quasi-governmental status this has been an oversight? The ISFC maintains its own Accounting and Payroll systems, separate and distinct from those used by the Auditor of the State. We have not been advised as to what constitutes an acceptable format, nor do we know if the intent is to include the 900-1,000 temporary employees we hire for the annual 12-day Indiana State Fair. We can provide SBA with the same W-2 information we provide for employees' Federal and State Tax Reporting, and 1099 information for Board and Commission members' salary per diems.

Procurement Procedures and Internal Controls

We were not advised of the date sequence of this finding, but we will presume it is for the State Fair. It is typical for the six year-round Staff Directors to exercise care and control in their day-to-day purchasing needs. Most items that go through our Purchasing Department are preceded with a "Goods and Services Requisition" that triggers the sourcing and price quoting efforts that lead to the issuance of an ISFC Purchase Order.

That system breaks down in two major areas during the annual State Fair. Because they are not here the other eleven months, the seventeen Fair Board Directors and their First Assistants sometimes forget to go through the Purchasing Department for their purchase orders and/or contracts for services, especially when they are expediting last minute items needed for shows in their barns or exhibit buildings.

Other cases are those where the Directors don't know what the final cost will be until after the Fair, because the cost is based on usage. An example of this would be food products, or linen services, or the four acres of land, seed, fertilizer, and transportation the Pioneer Village "rents" to raise wheat for the old-fashioned threshing demonstrations. These purchase orders are typically written after the Fair to authorize the expenditure. The delay is not intentional to avoid the process. Rather, this group doesn't always remember to think "inside the box" during their two weeks at the Fair!

This is how we intend to improve. Prior to and during the 2006 Fair, we encouraged the Directors to notify Purchasing concerning contracted services so those contracts could be in place for the 2006 Fair. We initiated over 200 contracts this year, and most of them have 3 one-year renewable options, so this should help our compliance in future years. We also intend to explore greater use of "blanket" purchase orders with estimated dollar values based on previous year activity. This would get the authorization on the front end of the process, instead of after-the-fact.

Compliance With Generally Accepted Accounting Principles

I asked Mark Hindsley, Director of Finance, to write this section of the response. We feel compelled to defend our actions, especially the items that occurred in 2004.

The Grants Revenue issue concerns $337,448 received here in 2004. The specifics relate to $119,221 in Homeland Security grant received for the purchase and installation of security cameras around the grounds, $155,421 received from INDOT for reimbursement for a Transportation Enhancement project, and $62,805 from DNR for reimbursement concerning another construction project. In the future we will show grants as revenue.

The $300,000 payments to the Center for Agricultural and Science and Heritage, Inc. in 2004 were a continuation of the problem SBA first alluded to in our 2003 audit. We truly believed that the 2004 payments, like the 2003 payments, were intended to be paid via our Riverboat dollars to C.A.S.H.'s 501 (c) 3 organization as a subsidy to that organization. The memorandum of understanding's definition of what ISFC got in return for the $300,000 was ambiguous enough that it could not be quantified; thus, making it hard to justify as an ISFC operating expense. Instead, we believed the payments were intended be a reduction from our Riverboat Revenue, and we booked it that way. Part of SBA's challenge to the C.A.S.H., Inc. memorandum of understanding was that it constituted a grant. SBA believed ISFC did not have statutory authority to enter into a grant agreement. The legislature changed our relationship in 2005 when C.A.S.H. (the agency) was absorbed into the ISFC. C.A.S.H., Inc. still exists as a separate 501 (c) 3 not-for-profit entity.

The $211,067.72 in 2004 was corporate and individual donations towards the interior furnishings and equipment of the 4-H Exhibit Hall and Boys Dorm buildings. (Revenue Bond money could not be used for personal property purchases.) Having never had significant donations before, we were unaware of "grants revenue" as an income category. We believed the correct entry was to net these monies against the purchased equipment, since it wasn't really ISFC monies paying for the equipment. Since "Grants Revenue" is neither recurring, nor predictable, it tends to skew Revenue upwards. We will have the same concern in 2006 for the match money that was used in the DNR fishing pond project—estimated at $3.2 million.

We understand the SBA's concern for the $464,087 accrual for Salaries Payable and Compensated Absences in 2005. The accrual is equivalent to three pay periods worth of expense. However, the Board's adjustment should have been tempered with the "accrual reversal" that should have been made at the end of 2004. ISFC believed it was important to show the Operating statements with the actual payroll expense from 26 pay periods, and the pre-audited statements do show that. We didn't realize it was a GAAP problem in that it understated potential liabilities if the business were to terminate abruptly. We just celebrated our 150th annual State Fair in 2006—business termination is the furthest thing from our minds!

Concerning the cash flow statement, we have not had the staff or the expertise in-house to design and produce a cash flow statement within the Great Plains Accounting software used by ISFC. Since we budget, report, and evaluate by event codes, departments, buildings, and other revenue and cost centers in formats relevant to ISFC, we find the GAAP statement formats you require, and publish, are not helpful in analyzing our business. However, we will work in tandem with SBA to design and create a secondary set of financial statements in the formats you require for your audit reports. Reports produced in your formats should reduce the on-going staff time expended and audit cost to ISFC.

In conclusion, we appreciate both the opportunity to respond to the audit results and comments with our own comments, and the State Board of Accounts' continued willingness to be a sounding board for us during the year. I would also like to recognize, and thank, Al Marshall for his grasp of the financial complexities that are inherent to the Indiana State Fair Commission, and for his guidance over the last ten years.

Respectfully submitted,

Cynthia C. Hoye
Executive Director

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