



STATE OF WISCONSIN
Legislative Audit Bureau

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Janice Mueller
State Auditor

June 23, 2010

Mr. Richard Frenette, Executive Director
Wisconsin State Fair Park
640 South 84th Street
West Allis, Wisconsin 53214

Dear Mr. Frenette:

We have completed our audit of State Fair Park for fiscal year (FY) 2008-09. This work was performed to meet our audit requirements under s. 13.94(1)(dm), Wis. Stats. Our audit opinion on State Fair Park's financial statements was included in report 10-10.

In this letter, we provide additional detail regarding our concerns related to the need for State Fair Park to improve its financial reporting process, its controls over in-kind support, and its process for distribution of tickets by managers. These concerns were summarized in our Internal Control and Compliance Report that was included in report 10-10.

Your office's responses to our recommendations are included in the text so that readers may see your intended resolution of the matters discussed. In future audits, the Audit Bureau will determine the extent to which the findings in this letter have been resolved.

We appreciate the courtesy and cooperation extended to us during the audit.

Sincerely,

A handwritten signature in cursive script that reads "Janice Mueller".

Janice Mueller
State Auditor

JM/CS/kc

Enclosure

WISCONSIN STATE FAIR PARK

State Fair Park has been home to the Wisconsin State Fair since 1892 and has operated as a separate state agency—the State Fair Park Board—since 1990. As part of our audit of State Fair Park, we reviewed State Fair Park’s internal controls over financial reporting and compliance with laws and regulations, and followed up on prior year findings. In this narrative, we describe in more detail the internal control weaknesses that were summarized in our Report on Internal Control over Financial Reporting and on Compliance and Other Matters for Financial Statements, which was included in report 10-10. This includes weaknesses we identified in State Fair Park’s financial reporting, as well as its use of in-kind support and its process for distribution of tickets by managers.

Internal Controls over Financial Reporting

As part of our annual audit of State Fair Park’s financial statements, we review transaction cycles to determine whether internal controls exist to properly prepare the financial statements in conformity with generally accepted accounting principles. State Fair Park accounting staff are responsible for preparing the necessary financial information for inclusion in State Fair Park’s financial statements. Management is responsible for reviewing and approving the financial statements. However, this process needs improvement. During the course of our audit, we identified two material errors in State Fair Park’s financial statements.

First, we identified an error in the reporting of “Charges for Sales and Services” on the Statement of Revenues, Expenses, and Changes in Net Assets and “Receivables” on the Statement of Net Assets. In August 2009, State Fair Park drew upon a letter of credit against Milwaukee Mile Holdings LLC for outstanding license fees. Since State Fair Park is involved in a legal dispute related to this matter, Financial Accounting Standards Board, *Accounting Standards Codification 450, Contingencies*, requires some of this activity be treated as a gain contingency. According to *Accounting Standards Codification 450*, a gain contingency should be disclosed in the note disclosures, but not reported in the financial statements. However, in its FY 2008-09 financial statements, State Fair Park erroneously reflected this activity by reporting both a revenue and a receivable. As a result, both revenues and receivables were overstated by \$2.0 million.

Second, we identified an error in the reporting of land and construction in progress in the capital asset note disclosure. In FY 2008-09, State Fair Park acquired a 2.54 acre parcel of land located on the fairgrounds. After the land purchase, State Fair Park razed the existing buildings and hired a consultant to conduct environmental studies to evaluate possible pollution. The purchase of the land was completed as of June 30, 2009, and should have been reported as an increase to land in the capital asset note disclosure. Instead of reporting the land purchase separately from the other construction activities on the land, State Fair Park reported all capital expenses related to the land as construction in progress. As a result, land was understated by \$1.5 million and construction in progress was overstated by the same amount in the note disclosure.

Management questioned both of these items during its review of the financial statements. However, steps were not taken to correct the financial statements and notes for these items.

We brought the identified errors to the attention of the State Fair Park accounting staff, who corrected the errors and provided us with revised financial statements.

☑ Recommendation

We recommend State Fair Park continue to improve its controls over preparation of the financial statements, including ensuring a sufficient review is completed to prevent or detect significant errors and ensuring steps are taken to follow through on concerns identified during management's review.

Agency Response: As noted by the auditors, the reporting was questioned by management. However, management failed to follow up with staff to ensure appropriate corrections were made. We agree with the recommendation and believe that the hiring of a new Executive Director will help ensure that controls over the preparation of the financial statements will improve.

Internal Controls over In-Kind Support and Distribution of Tickets by Managers

As part of our annual audit of State Fair Park's financial statements, we also reviewed internal controls over State Fair Park's use of in-kind support and its process for distribution of tickets by managers. We found State Fair Park has inadequate internal controls in both of these areas.

In-Kind Support

State Fair Park solicits in-kind support, in which businesses provide goods and services in exchange for admission tickets, parking passes, main stage concert tickets, space rental, and advertising exposure. In exchange, a participating business provides State Fair Park with goods or services such as advertising, equipment, or other items that were negotiated in the exchange.

In addition, State Fair Park participates in in-kind support that does not necessarily involve the operations of the Wisconsin State Fair. For example, in April 2008, it leased the Wisconsin Products Pavilion to a private business for an event in exchange for \$1,000 in cash and \$3,100 in paint and related supplies, which were then used to paint a building at the fairgrounds.

Given the potential for inappropriate use of in-kind support, it would be expected that State Fair Park would have controls in place to ensure in-kind support activity is conducted appropriately, monitored adequately, and reported properly in its financial statements. In addition, it would be expected that information on this activity would be reported to the State Fair Park Board. However, we found that State Fair Park has few guidelines for department managers to follow in entering into in-kind support transactions. We identified four concerns.

First, State Fair Park has no written policies or procedures related to in-kind support agreements. While State Fair Park does have an unwritten policy that only department managers are allowed to enter into in-kind support, department managers indicated to us that the only guideline they have received is to ensure that in-kind support agreements benefit State Fair Park.

Second, we note that State Fair Park did not consistently document its in-kind agreements. We reviewed a total of 122 in-kind support agreements, including 83 of the 125 agreements that State Fair Park could identify for FY 2008-09 and 39 agreements for FY 2009-10. We found nine instances for which a formal written agreement did not exist; instead, the details of the transaction were agreed upon verbally or informally by e-mail. Further, there were inconsistencies between the number of main stage concert tickets provided to businesses and the numbers included in the agreements. For example, for the 2008 fair, we found that a total of 3,238 main stage concert tickets had been distributed, but documentation in the in-kind support agreements indicated that only 1,450 were to have been provided. It is unclear what happened to, or who received the remaining 1,788 tickets.

Third, while State Fair Park began to develop spreadsheets to track and monitor the use of in-kind support in early 2010, no tracking or monitoring of this activity was completed for FY 2008-09, and spreadsheets developed for FY 2009-10 were incomplete as they only included agreements entered into by the marketing department.

Finally, State Fair Park has not reported in-kind support in its financial statements, as required by Accounting Principles Board Opinion No. 29, *Accounting for Nonmonetary Transactions*. This standard requires that exchanges of nonmonetary assets be recorded at the fair value of either the asset received or the asset given up, whichever is more readily determinable. Further, management has not reported the extent of in-kind support to the State Fair Park Board.

After we brought this financial reporting concern to State Fair Park's attention, management created a spreadsheet of the in-kind support it could identify that was entered into during FY 2008-09, and attempted to estimate the fair value, or what it would have paid in cash to purchase the goods or services. Given the limitations in its documentation, State Fair Park had difficulties but eventually estimated that in FY 2008-09 it had received in-kind support of approximately \$1.0 million in various goods and services. State Fair Park reported this activity on its financial statements as "In-Kind Support" revenue and "Supplies and Services" expense. This estimate was based on the fair value of a portion of the agreements, where fair value was determinable, and the book value of the tickets and space rental provided to the business, in cases in which fair value was not readily determinable.

Fair Tickets

In addition to using fair tickets in in-kind support transactions, State Fair Park provides tickets to its cash sponsors as a sponsor benefit, to event promoters, and for various community outreach efforts. For the 2008 Wisconsin State Fair, State Fair Park distributed:

- 51,000 general admission tickets, as well as parking passes and main stage tickets as part of in-kind support transactions, at a value of \$382,000;
- 57,000 general admission tickets, as well as parking passes and main stage tickets to its cash sponsors, at a value of \$599,000; and
- 3,000 general admission tickets to its event promoters and various community outreach organizations, at a value of \$25,000.

Until the 2008 fair, State Fair Park had few procedures in place to track and account for the distribution of these types of tickets. State Fair Park officials indicated there is an unwritten policy that only department managers are allowed to request and distribute them.

Starting with the 2008 fair, State Fair Park implemented new procedures to better document and track the distribution of tickets by managers. However, as shown in the table, several weaknesses remain in the process.

Ticket Distribution Procedures¹
2008 Wisconsin State Fair

Required Procedure	Concerns
<p>Department managers were to submit ticket request forms to the box office manager, indicating the number of tickets needed.</p> <p>The box office manager was to review the forms for the appropriate department manager's signature.</p>	<p>We identified instances in which tickets were distributed without a ticket request form. In our selection of 22 ticket distributions, ticket request forms were not available in 12 instances.</p> <p>Procedures were not in place to ensure the number of tickets requested agreed with the written agreement or other supporting documentation.</p>
<p>After fulfilling the ticket request, the box office manager was to give the ticket request form to accounting staff, who are responsible for tracking the use of ticket request forms.</p>	<p>The tracking spreadsheet indicates which department manager received the tickets and the number received, but it does not include the business purpose for providing the tickets.</p> <p>Accounting staff did not ensure the number of tickets provided agreed with the signed agreement or other supporting documentation.</p>
<p>After the fair, accounting staff were to reconcile the tracking spreadsheet to the electronic ticketing system.</p>	<p>Accounting staff were unable to reconcile the tracking spreadsheet to the electronic ticket system for the 2008 Wisconsin State Fair.</p> <p>State Fair Park estimated an unreconciled difference of \$18,000, indicating that tickets were likely distributed without a ticket request form.</p>

¹ Tickets include admission tickets, parking passes, and main stage tickets.

State Fair Park has made improvements to this process for the 2009 fair, including updating the ticket request form to include space for department managers to document the business purpose of the tickets they distribute and revising the ticket tracking spreadsheet to include more detail documenting the reasons for providing these tickets or parking passes. In addition, State Fair Park was able to more closely reconcile the electronic ticket system to the ticket tracking spreadsheet. There was an unreconciled difference of \$1,600 remaining when we reviewed the 2009 Wisconsin State Fair reconciliation in May 2010.

Improvements Needed

It is important that State Fair Park implement processes that provide increased accountability over in-kind support and the distribution of tickets by managers. Without improvements in these areas, State Fair Park is at continued risk of inappropriate use of in-kind support and distribution of tickets, including the potential that managers may enter into transactions that do not benefit State Fair Park or result in a personal benefit.

We identified several steps State Fair Park could take to improve its process. First, it is important that State Fair Park develop written policies and procedures, including those that describe the process that is expected to be followed in negotiating in-kind support, as well as formalizing the process for managers to request tickets. Written policies and procedures would be helpful to the department managers who negotiate the transactions, as well as those who have responsibility throughout the process, such as ticket office and accounting staff.

Second, State Fair Park should establish a procedure to ensure the number of tickets requested on the ticket request form agrees with the in-kind support agreement or other appropriate supporting documentation to ensure the number of tickets requested is appropriate. Without this step, State Fair Park is at an increased risk that department managers could request additional tickets for personal or other use. Staff with whom we spoke believe either ticket office or accounting staff could easily add this step to their procedures.

Third, continued improvement of the tracking and reporting of in-kind support and tickets is needed to allow for management to monitor and account for this activity. Procedures should include requiring department managers to return any undistributed admission tickets to the ticket box office so they can be tracked. Steps should also be taken to continue to improve and refine the tracking spreadsheets to ensure:

- the appropriate information is included to allow for a reconciliation to the electronic ticket system; and
- an appropriate amount of detail is included in the tracking spreadsheets to allow management to be able to properly report this activity in both its internal financial reports and its external financial statements.

Finally, State Fair Park management needs to improve communication to the Board on the use of in-kind support. For example, management could include a summary of in-kind support activity in its monthly financial report to the Board or summarize this activity after the Wisconsin State Fair to help the Board better understand all aspects of its financial operations.

Since we raised concerns in this area, State Fair Park officials have indicated that several additional changes will be made for the 2010 Wisconsin State Fair, including:

- creating new ticket request forms to differentiate among the different purposes for distribution of tickets by managers. For example, one form will be required for advertising trade agreements, and another will be required for tickets provided to cash sponsors;

- increasing oversight by the Executive Director, who will review the ticket request forms and all in-kind support agreements to ensure documentation exists and is appropriate before the tickets are printed and distributed to the department managers;
- improving the process used by the box office manager, who will ensure that the number of tickets requested on the ticket request form agrees with supporting documentation and that ticket request forms are appropriately reconciled to the electronic ticket system; and
- auditing of the ticket request forms by accounting staff, which will provide a check on the process.

Recommendation

We recommend State Fair Park:

- *take steps to improve controls and better monitor the use of in-kind support and the distribution of Wisconsin State Fair tickets by managers; and*
- *establish and implement a process to determine the fair value of the in-kind support to allow for accurate and complete reporting in the financial statements.*

Agency Response: Management notes that State Fair Park's control and accountability over tickets and in-kind support have increased over the past several years, but recognizes that additional improvements are needed. Management indicates that the recommendations will be implemented, including the establishment of written procedures and staff training on appropriate practices, such as the negotiation and valuation of in-kind support.
