

**STATE AGRICULTURAL SOCIETY
FINANCIAL AUDIT
FOR THE YEAR ENDED OCTOBER 31, 1991**

FEBRUARY 1992

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

SUMMARY

State of Minnesota
Office of the Legislative Auditor
Centennial Office Building • St. Paul, MN 55155
612/296-4708

STATE AGRICULTURAL SOCIETY

FINANCIAL AUDIT FOR THE YEAR ENDED OCTOBER 31, 1991

Public Release Date: February 27, 1992

No. 92-14

OBJECTIVES:

- EXAMINE THE SOCIETY'S FINANCIAL STATEMENTS.
- EVALUATE INTERNAL CONTROL STRUCTURE: Ticket sales, space rental receipts, cash and investments, fixed asset inventories and depreciation, payroll, and cash disbursements.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We will issue our opinion on the financial statements in the Society's annual report.

We found the internal control structure to be effective.

We found one departure from finance-related legal provisions:

- The Society did not maintain sufficient collateral for the checking account balance.

Contact the Financial Audit Division for additional information.
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Willis Lilliquist, President
Board of Managers
State Agricultural Society

Mr. Michael D. Heffron, Executive Vice President
State Agricultural Society

Members of the State Agricultural Society

Audit Scope

We have audited the financial statements of the State Agricultural Society as of and for the year ended October 31, 1991, and issued our report thereon dated January 9, 1992. We have also made a study and evaluation of the internal control structure of the Society in effect at October 1991.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the society are free of material misstatements.

As part of our examination of the financial statements and our study and evaluation of the internal control structure, we performed tests of the society's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the society is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

Representative Ann Rest, Chair
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Mr. Willis Lilliquist, President
Mr. Michael D. Heffron, Executive Vice President
Members of the State Agricultural Society
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- assets are safeguarded against loss from unauthorized use or disposition; and
- transactions are executed in accordance with applicable legal and regulatory provisions, management's authorization, and recorded properly.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- ticket sales,
- space rental receipts,
- cash and investments,
- fixed asset inventories and depreciation,
- cash disbursements, and
- payroll.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

In our opinion, the internal control structure of the State Agricultural Society in effect at October 1991, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial activities attributable to transactions of the society.

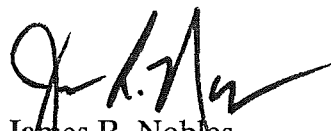
However, we noted certain matters involving the internal control structure and its operation that we reported to the management of the society in a meeting held on January 28, 1992.

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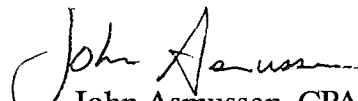
The results of our tests indicate that, except for the issue discussed in finding 1, with respect to the items tested, the society complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the society had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the society. This restriction is not intended to limit the distribution of this report, which was released as a public document on February 27, 1992.

We would like to thank the State Agricultural Society staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 9, 1992

Report Signed On: February 24, 1992

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Audit Participation

The following staff from the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA	Audit Manager
Mary G. L. Jacobson, CPA	Auditor-in-Charge
Sonya Hill	Auditor
Karen Klein	Auditor

Exit Conference

The findings and recommendations presented in this report were discussed with the following staff of the State Agricultural Society at an exit conference held on January 28, 1992:

Mike Heffron	Executive Vice President - General Manager
Rick Frenette	Director of Finance
Marshall Jacobson	General Accounts
Mike Kirch	Payroll and Disbursements
Steve Pooch	Director of Competition
Karen Leach	Director of Entertainment
Jerry Hammer	Media and Public Relations Director
Jim Sinclair	Rental Services Director
Ken Wenzel	Director of Operations
Jim Frost	External Affairs Director

State Agricultural Society

Introduction

The State Agricultural Society was legally organized as a public corporation in 1860. The society operates under Minn. Stat. Chapter 37. However, it is a self-governing body and is exempt from the finance-related rules and regulations applicable to most state agencies.

The operation of the annual State Fair exposition and maintenance of the fairgrounds is administered by the Minnesota State Agricultural Society Board of Managers. The ten member board is comprised of one representative from each of the society's nine regional districts, and a president. Annually the board elects a chief operating officer of the society. Mike Heffron is the executive vice president-general manager of the society.

The State Agricultural Society is financially self-sufficient. For the year ended October 31, 1991, the society reported income of approximately \$12,826,661 and expenses of \$11,753,783, resulting in net income of \$1,072,878. The primary sources of revenue are derived from ticket sales and space rentals. Significant expense classifications include administrative, departmental, premiums, maintenance, and depreciation charges.

Current Finding and Recommendation

1. The State Agricultural Society did not maintain sufficient collateral for the checking account balance.

The society's checking accounts did not have collateral during the audit period, as required by statute. Minn. Stat. Section 37.07 requires the society's depository bank to maintain collateral as required by Minn. Stat. Section 118.01. Minn. Stat. Section 118.01, Subd.(2) states,

...the total in amount of the collateral computed at its market value shall be at least ten percent more than the amount on deposit at the close of the business day, in excess of any insured portion...

In April 1990, the society transferred its accounts to a new bank. The society's checking account balance typically was in excess of the \$100,000 limit for FDIC insurance. Until recently, however, it did not require the bank to pledge collateral on the uninsured balance. During August through October 1991, the society frequently maintained checking account balances over \$1 million, without collateral. The balance was as high as \$5 million during the state fair.

On November 25, 1991, the society obtained a \$1 million U.S. Treasury Note from the bank as collateral on its checking account. However, the current collateral amount may still not be sufficient during certain times of the year. The society must develop a process for monitoring and investing cash balances to ensure they have sufficient collateral as required by Minn. Stat. Section 118.01.

Recommendation

- *The society should secure sufficient collateral as required by Minn. Stat. 118.01, for any amounts deposited in to their checking accounts.*



February 13, 1992

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

Dear Ms. Leifeld:

Provided herewith is a response to the recommendation having to do with the collateralization of society checking accounts contained in your preliminary audit report for the year ending Oct. 31, 1991.

We concur with and have undertaken to implement this recommendation.

The process we have put in place requires that the fair's finance director verify cash balances, by phone, at least once each week throughout the year. Moreover, he is to monitor cash balances on a daily basis during the period Aug. 15 through Sept. 15. A record of this weekly or daily verification will be maintained for your inspection.

North Star Bank has agreed to pledge collateral of \$1 million on a yearly basis, and to pledge an additional \$2 million during the 30 day period ending Sept. 15. Investment adjustments will be made consistent with this base line so as to maintain adequate collateral as required by Minn. Stat. 37.07 and 118.01.

We appreciate very much your cooperation in dealing with society fiscal matters. If I can be of assistance in the ongoing audit process, please let me know.

Sincerely,

Mike Heffron
Executive Vice President

MH/ch

cc: SES

Minnesota State Fair
Como Station, MN 55108
612-642-2200

