

**STATE AGRICULTURAL SOCIETY
FINANCIAL AUDIT
FOR THE YEAR ENDED OCTOBER 31, 1992**

APRIL 1993

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-13

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, 1992

Public Release Date: April 2, 1993

No. 93-13

OBJECTIVES:

- EXAMINE THE SOCIETY'S FINANCIAL STATEMENTS.
- EVALUATE INTERNAL CONTROL STRUCTURE: Ticket sales, space rental revenue, cash and cash equivalents, fixed asset inventories and depreciation, administrative expenses and payables, and employee payroll.
- 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 purchased over \$2,000 in furnishings from an employee.

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

FINANCIAL AUDIT DIVISION



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Eileen Roehlke, 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 (the Society) as of and for the year ended October 31, 1992, and issued our report thereon dated January 21, 1993. We have also made a study and evaluation of the internal control structure of the Society in effect at October 1992.

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:

Senator Phil Riveness, Chair
Members of the Legislative Audit Commission
Ms. Eileen Roehlke, President
Mr. Michael D. Heffron, Executive Vice President
Members of the State Agricultural Society
Page 2

- assets are safeguarded against loss from unauthorized use or disposition; and that
- 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 revenues,
- cash and cash equivalents,
- fixed asset inventories and depreciation,
- administrative expenses and payables, and
- employee 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 State Agricultural Society.

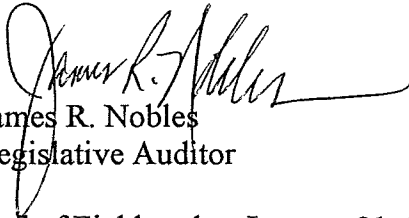
However, we noted certain matters involving the internal control structure and its operation that we reported to the management of the Society in a meeting held on February 2, 1993.

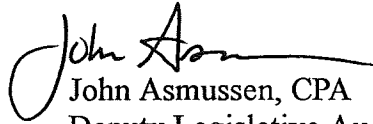
Senator Phil Riveness, Chair
Members of the Legislative Audit Commission
Ms. Eileen Roehlke, President
Mr. Michael D. Heffron, Executive Vice President
Members of the State Agricultural Society
Page 3

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 April 2, 1993.

We 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 21, 1993

Report Signed On: March 26, 1993

Table of Contents

	Page
Introduction	1
Current Finding and Recommendation	2
Agency Response	4

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
Sonya Hill, CPA	Auditor-in-Charge
Karen Klein	Auditor
Carrie Brown	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 February 2, 1993:

Mike Heffron	Executive Vice President
Jim Frost	Acting Finance Director
Marshall Jacobson	Accountant

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. The Society reported net incomes of \$79,072 and \$1,072,878 for the years ended October 31, 1992 and 1991, respectively. The primary sources of revenue are derived from ticket sales and space rentals. Significant expense classifications include administrative, departmental, premiums, maintenance, and depreciation charges. The society's annual report, which includes its audited financial statements, is available from the society offices.

Current Finding and Recommendation

1. The society purchased over \$2,000 in furnishings from an employee.

On two different occasions, the society negotiated purchases of furniture and equipment with an employee. In fiscal year 1990, the society purchased apartment furnishings from the employee. In fiscal year 1992, the society purchased office furniture from the employee.

In fiscal year 1990, the society's assistant manager for public affairs resigned. As part of his job responsibilities, he had lived in an apartment on the fairgrounds. Shortly after he resigned, the society agreed to purchase various apartment furnishings from the employee for \$1,715. The purchase included a pool table and accessories, refrigerator, couch, books, rugs, and posters. To satisfy its financial obligation, the society paid the former employee \$1,015 and allowed him to take his office chair, which it valued at \$700.

The same employee returned to employment at the society in 1992. At that time, the society repurchased the office chair from the employee, along with a desk, file cabinets, credenzas, and bookcases. The society paid the employee \$1,085 for that furniture.

We believe the society should have been more cautious in dealing with the employee because of the potential problems associated with these transactions. In particular, we think the executive vice president should have advised the board of managers and other society employees of the justification for these purchases. It was important for the executive vice president to show that he had not compromised the society's interests in order to unjustly benefit one employee.

In addition, Minn. Stat. Section 37.07 states that, for all expenditures,

"The [secretary's] affidavit must state: . . . (2) that neither the secretary nor any person in the secretary's behalf . . . had any pecuniary or other interest in any purchase made or services rendered, or received any pecuniary or other benefit from the purchases or services, directly or indirectly. . ."

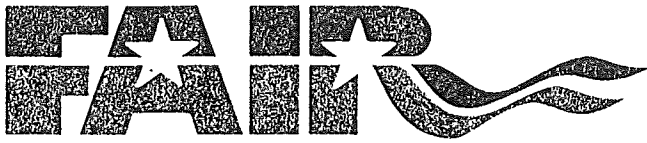
The society's board of managers was not notified nor consulted concerning the transactions. The society's executive vice president told us that he believes the society got good value for its purchases and that the society needed the items anyway. He believes the society paid appropriate prices for the purchases. However, he did not document the basis for the purchasing decision. It is difficult for us to determine whether the society dealt with the employee in a similar manner as an external vendor.

State Agricultural Society

Recommendation

- *The society should refrain from entering into financial transactions with employees whenever possible. When financial dealings with employees are necessary, the society must be cautious to provide sufficient notification about the transaction. The society must adequately document that the transactions are in the society's best interest and that any goods or services it receives are at a fair price.*

MINNESOTA STATE



March 3, 1993

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

Dear Ms. Leifeld:

With my approval, the State Agricultural Society acquired specific items of furniture from one of its employees. Cost to the society was \$2,800; initial cost to the employee had been in excess of \$5,400. Furniture and original invoices were available for my inspection.

The purchases were beneficial to the society and were recorded on public documents. All applicable laws, society rules and procedures were followed; caution was exercised in effecting these transactions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mike Heffron'. The signature is fluid and cursive, with a long horizontal stroke at the end.

Mike Heffron
Executive Vice President

MH/ch

MINNESOTA STATE FAIR
Minnesota State Agricultural Society
1265 Snelling Ave N
St. Paul, MN 55108-3099
(612) 642-2200 • (612) 642-2440 FAX

