

STATE AGRICULTURAL SOCIETY

FINANCIAL AUDIT

FOR THE YEAR ENDED OCTOBER 31, 1993

MARCH 1994

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

94-11

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, 1993

Public Release Date: March 25, 1994

No. 94-11

OBJECTIVES:

- EXAMINE THE SOCIETY'S FINANCIAL STATEMENTS.
- EVALUATE INTERNAL CONTROL STRUCTURE: Ticket sales, space rental revenues, 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 of the financial statements in the Society's annual report.

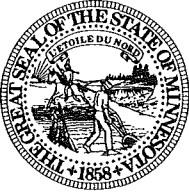
We found one area where the internal control structure needed improvement:

- The Society needs to improve controls over certain discount coupons.

We found no departures from finance-related legal provisions.

Contact the Financial Audit Division for additional information.
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, 1993, and issued our report thereon dated January 18, 1994. We have also made a study and evaluation of the internal control structure of the Society in effect at October 1993.

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
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Ms. Eileen Roehlke, President
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- 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

Our study and evaluation disclosed the condition discussed in finding 1 involving the internal control structure of the State Agricultural Society. We consider this condition to be a reportable condition under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

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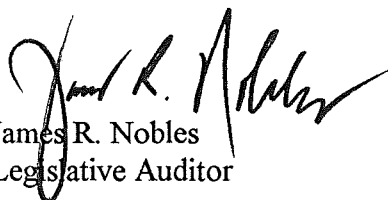
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We do not believe the reportable condition described above is a material weakness.

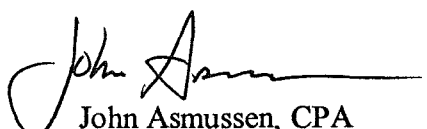
We also noted certain matters involving the internal control structure and its operation that we reported to the management of the Society in a meeting held on March 9, 1994.

The results of our tests indicate that, 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 March 25, 1994.

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 18, 1994

Report Signed On: March 18, 1994

State Agricultural Society

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Audit Participation

The following members of 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
Carl Otto, CPA	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 March 9, 1994:

Mike Heffron	Executive Vice President
Marshall Jacobson	Finance Director

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 10-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 of the society.

The State Agricultural Society is financially self-sufficient. The Society reported net incomes of \$1,309,047 and \$79,072 for the years ended October 31, 1993 and 1992, respectively. The primary sources of revenue are derived from ticket sales and space rentals. Significant expense classifications include departmental, maintenance, administrative, and depreciation charges. The society's annual report, which includes its audited financial statements, is available from the society offices.

Current Finding and Recommendations

1. The State Agricultural Society needs to improve controls over certain discount coupons.

The State Agricultural Society has not properly accounted for admission discount coupons. In 1992, the Society began offering coupons worth \$2 off gate admission as a discount to bus riders. However, the Society did not sufficiently revise its procedures and forms to properly account for the new coupon process.

When reconciling gate receipts, the Society did not differentiate cash from coupons at the individual seller level. Because the gate captains did not differentiate cash from coupons on the deposit slips, the Society could not verify the exact mix of cash and coupons collected by individual sellers. Under that system, the Society would not be able to detect discrepancies between the cash totals and the coupon totals.

In addition, there is no independent verification performed between the individual seller reconciliations and the daily overall gate reconciliation. The vault treasurer receives the daily cash, tickets sold, and coupons redeemed. The treasurer should verify not only that the number of coupons received agrees in total with the gate captain's overall gate reconciliations, but also should verify coupons collected to the individual seller reconciliations. This would ensure that the overall gate reconciliations properly summarize the individual seller reconciliations.

Finally, one gate at the fair redeems most of the bus coupons. This gate collected between \$2,280 and \$6,436 in coupons per day during the fair. For 11 days out of the 12-day fair, we did not find any individual seller deposit slips attached to the reconciliation for the gate. Because of this lack of documentation, we were unable to verify that the coupons collected by the individual sellers agreed with the overall gate reconciliation.

Recommendations

- *The State Agricultural Society should differentiate cash and coupons on the individual and gate deposit slips and the individual and gate reconciliations.*
- *An independent person should verify coupons reported on the individual reconciliations with the coupons reported on the gate reconciliation.*



March 15, 1994

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

Dear Ms. Leifeld:

Society management shares your concern for safeguarding the cash integrity of its gate operation. A clear manifestation of that concern was evident at our exit conference in the discussion pertaining to how, in the future, bus coupons would be issued and protected and also how coupon redemption would be limited.

We acknowledge that good record keeping is at the core of this control mechanism and that a better system must be put in place at the '94 fair. We will work to that end.

Thank you for your cooperation in dealing with Society fiscal matters. If I can be of assistance in the ongoing audit process, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Mike Heffron". The signature is fluid and cursive, with a long horizontal line extending to the right.

Mike Heffron
Executive Vice President

MH/ch

cc: SES

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