
State Agricultural Society

Financial Audit

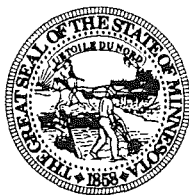
For the Year Ended October 31, 1995

April 1996

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

96-16



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL BUILDING, 658 CEDAR STREET • ST. PAUL, MN 55155 • 612/296-4708 • TDD RELAY 612/297-5353

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Howard Morris, President
Board of Managers
State Agricultural Society

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

Members of the State Agricultural Society

We have audited the State Agricultural Society for the year ended October 31, 1995. The primary objective of our audit was to issue an opinion of the financial statements of the Society for the year then ended. The State Agricultural Society Annual Report for the year ended October 31, 1995 includes our opinion thereon dated February 9, 1996. The following Summary highlights the audit objectives and conclusions. We discuss our conclusions and concerns more fully in the body of this report.

We conducted our audit in accordance with generally accepted government auditing standards. As part of obtaining reasonable assurance about whether the Society's financial statements are free from material misstatement, we performed tests of the Society's compliance with certain provisions of laws, regulations, contracts, and grants. We also obtained an understanding of the Society's internal control structure. Our conclusions on compliance and internal control are included within this report as a *Report on Compliance Based on an Audit of Financial Statements* and an *Auditor's Report on the Internal Control Structure*.

This report is intended for the information of the Legislative Audit Commission and the management of the State Agricultural Society. This restriction is not intended to limit the distribution of this report, which was released as a public document on April 12, 1996.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 9, 1996

Report Signed On: April 4, 1996

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, 1995

Public Release Date: April 12, 1996

No. 96-16

Agency Background

The State Agricultural Society operates under Minn. Stat. Chapter 37. The Minnesota State Agricultural Society Board of Managers administers the operation of the annual State Fair exposition and the maintenance of the fairgrounds.

Financial Highlights

At October 31, 1995, the State Agricultural Society reported net income of \$1,559,641. The Society generated \$19,643,807 in revenues during the fiscal year, including both fair-time and non-fair event revenues. The Society has total assets of \$21,839,733.

Objectives

The audit objectives were to:

- issue an audit opinion on the Society's financial statements
- evaluate internal control structure of the Society
- test compliance with significant finance-related legal provisions

Conclusions

We issued an unqualified opinion on the Society's financial statements.

We believe that the Society should improve controls over the revenue collected from the state fair's carnival ticket sales.

Contact the Financial Audit Division for additional information.
296-1235

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
Charlie Gill	Auditor-in-Charge
Mary Annala, CPA	Auditor
Anna Lamin	Intern

Exit Conference

We discussed the results of the audit at an exit conference with the following staff of the State Agricultural Society on April 2, 1996:

Mike Heffron	Executive Vice President
Marshall Jacobson	Finance 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 Minnesota State Agricultural Society Board of Managers administers the operation of the annual state fair exposition and the maintenance of the fairgrounds. 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 an executive vice president for the society. Mike Heffron continues to serve as the executive vice president of the society.

The State Agricultural Society is financially self-sufficient. The society reported net income of \$1,559,641 for the year ended October 31, 1995 and \$490,683 for the year ended October 31, 1994. The society's primary sources of revenue are fair-time ticket sales and space rentals. Significant expense classifications include activities and support, plant maintenance, plant operations, administrative, and depreciation charges. The society's annual report, which includes its audited financial statements, is available from the society.



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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Auditor's Report on the Internal Control Structure

Mr. Howard Morris, President
Board of Managers
State Agricultural Society

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

Members of the State Agricultural Society

We have audited the financial statements of the State Agricultural Society, as of and for the year ended October 31, 1995, and have issued our report thereon dated February 9, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The management of the State Agricultural Society is responsible for establishing and maintaining an internal control structure. 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 assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations on 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.

In planning and performing our audit of the financial statements of the State Agricultural Society for the year ended October 31, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Mr. Howard Morris, President
Mr. Michael D. Heffron, Executive Vice President
Members of the State Agricultural Society
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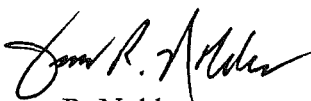
We noted a matter discussed in Finding 1 involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the society's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.


A material weakness is a reportable condition in which the design or operation of one or more 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 statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not believe that the reportable condition described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we reported orally to the management of the State Agricultural Society at an exit conference held on April 2, 1996.

This report is intended for the information of the State Agricultural Society management and the Legislative Audit Commission. However, this report is a matter of public record, and its distribution is not limited.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

February 9, 1996



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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Report on Compliance Based on an Audit of Financial Statements

Mr. Howard Morris, President
Board of Managers
State Agricultural Society

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

Members of the State Agricultural Society

We have audited the financial statements of the State Agricultural Society, as of and for the year ended October 31, 1995 and have issued our report thereon dated February 9, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the State Agricultural Society is the responsibility of the society's management. As part of obtaining reasonable assurance about whether the financial statements are free from material misstatement, we performed tests of the society's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended for the information of the State Agricultural Society management and the Legislative Audit Commission. However, this report is a matter of public record, and its distribution is not limited.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

February 9, 1996

Current Finding and Recommendation

1. The State Agricultural Society did not adequately control receipts from the state fair's carnival ticket sales.

The State Agricultural Society did not implement effective control procedures to adequately control carnival ticket sales. As a result, the society was unable to account for \$41,983 of carnival receipts.

To increase its profit from the midway, the society decided to internally manage carnival activities for the 1995 state fair. In previous years, the society had contracted with a carnival vendor to organize the rides and games, sell tickets, and handle the cash. The contract had provided the society with a percentage of the ticket sales. For the 1994 state fair, the society earned \$841,484 from the carnival contract. Beginning in 1995, the society negotiated contracts with individual ride and game vendors, managed the ticket sales, processed all cash generated from ticket sales, and paid the ride and game vendors based on their ticket sales. As a result, the society earned a net profit of \$1,287,580 from the carnival during the 1995 state fair, a net increase of \$446,096 over the previous year.

In anticipation of managing carnival activities, the society established procedures for cash pickup, vault processing, and cash or ticket delivery to sellers. The procedures were similar to those the society had used for outside gate ticket sales during past fairs. The procedures called for reconciliations of each ticket seller's actual tickets sold to the seller's cash on hand.

Once the fair began, however, the society discovered that the predetermined procedures would not work effectively. Ticket volume was much greater than the society had anticipated. During the fair, the carnival sellers collected nearly \$4.5 million in receipts. In addition, the physical layout of the ticket booths created logistical problems. Fair personnel were unable to reach all 24 carnival ticket booths to replenish tickets. As a result, sellers shared tickets with each other, adversely affecting each seller's accountability for ticket inventories. The runners also were unable to collect cash in a timely manner, so sellers put unreconciled cash in bags for delivery to the vault. The vault personnel had great difficulty organizing and counting the sellers' cash. The fair staff worked each night after the fair closed and throughout the next day to verify carnival ticket activity.

All of these issues affected the accuracy of the carnival ticket sale reconciliations and each seller's accountability. Seller ticket reconciliations resulted in numerous overages and shortages. After accumulating all the individual overages and shortages, the society was unable to account for \$41,983 of carnival cash.

Recommendation

- *Society staff need to revise their carnival ticket procedures to provide adequate control over carnival ticket receipts.*



April 2, 1996

Ms. Jeanine Leifeld
Audit Manager
Minnesota Legislative Auditor
Centennial Building
658 Cedar St.
St. Paul, Mn. 55155

Dear Ms. Leifeld:

Society management is equally concerned that the integrity of its carnival cash handling operation be effectively safeguarded, and agrees that ticket selling procedures used during the 1995 State Fair did not demonstrate adequate control.

Absent a successful working model to guide our first effort, we failed to anticipate the volume and rate of cash activity, as well as the impact of having ticket booths located at great distances, one from another and each from the central vault facility.

The following will outline changes planned for 1996 to address the reconciliation and control problems noted in your audit findings:

We will utilize larger, six-position sales facilities to place a larger number of sellers in fewer locations. Each booth will contain a central reconciliation area with a supervisor stationed inside to facilitate check-out, check-in, settlement, lunch breaks and immediate delivery of tickets and change. Central vault personnel will not deal with the needs of individual sellers, but rather, will provide daily reconciliation of each multiple-position booth.

The benefits derived from this change will be several; most specifically, it will isolate each seller, allow for selective, instantaneous reconciliation and provide a mechanism for encapsulating overages and shortages in small amounts.

These corrective measures were designed jointly by the finance division (Marshall Jacobson), who will supervise ticket sales and cash management and the sales division (Jim Sinclair), who will oversee ticket collections and contractor settlement(s); these measures will be in place for the 1996 State Fair.

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,

Mike Heffron
Executive Vice President

MH/ch

cc: SES

