



**AUDITOR
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**Clark County Auditor's Office:
Audit of Fairgrounds Site Management
Group Revenue Handling Procedures**

**Report #14-01
September 16, 2014**

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Overhead
view of
Clark
County
Fairgrounds
2013

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Executive Summary

The Fairgrounds Site Management Group (FSMG) was established as a non-profit entity to manage all activities at the Fairgrounds in conjunction with the County's construction of the Fairgrounds Exhibition Hall in 2004. Its creation represented a milestone in the Fairground's transition from its roots as a volunteer, family-run operation to its current status as a professionally managed, multi-million dollar business. With regard to that transition there are a number of significant legacy and new issues to address that should ensure the operation's continued success.

The Clark County Auditor's Office conducted this audit of a separate, non-profit entity as part of its stewardship responsibilities for County funds. FSMG has two major lines of business; the ten-day County Fair which accounts for about 75% of its revenue, and year round rental and event operations that are not related to the Fair which account for about 25% of the revenue. This audit focused specifically on the latter mission, management activities and revenue generation not related to the annual County Fair.

This audit was undertaken to evaluate both the management controls environment and the timeliness and effectiveness of cash handling procedures currently in use at the Fairgrounds Events Center.

In general, our audit found FSMG management and staff to be dedicated, conscientious, and professional. There have been significant changes in management, including the CEO and Finance Manager. While the new management team has taken steps to improve controls, the organization did not demonstrate the level of management oversight expected for the quantity of funds for which it was responsible. We found elevated risk with some contractors. Internal controls over funds are not always consistent with common or best practices, and are in need of further development. Specifically, the organization's risk is heightened due to:

- a. An insufficient control environment with an underdeveloped system of internal control policies and procedures largely characterized by limited managerial oversight of financial activities.
- b. Lack of consistency between the Fair and non-Fair financial and management reporting, which hampers management's ability to effectively run the business.
- c. Limited oversight of the contracted activities, especially concessions and parking.

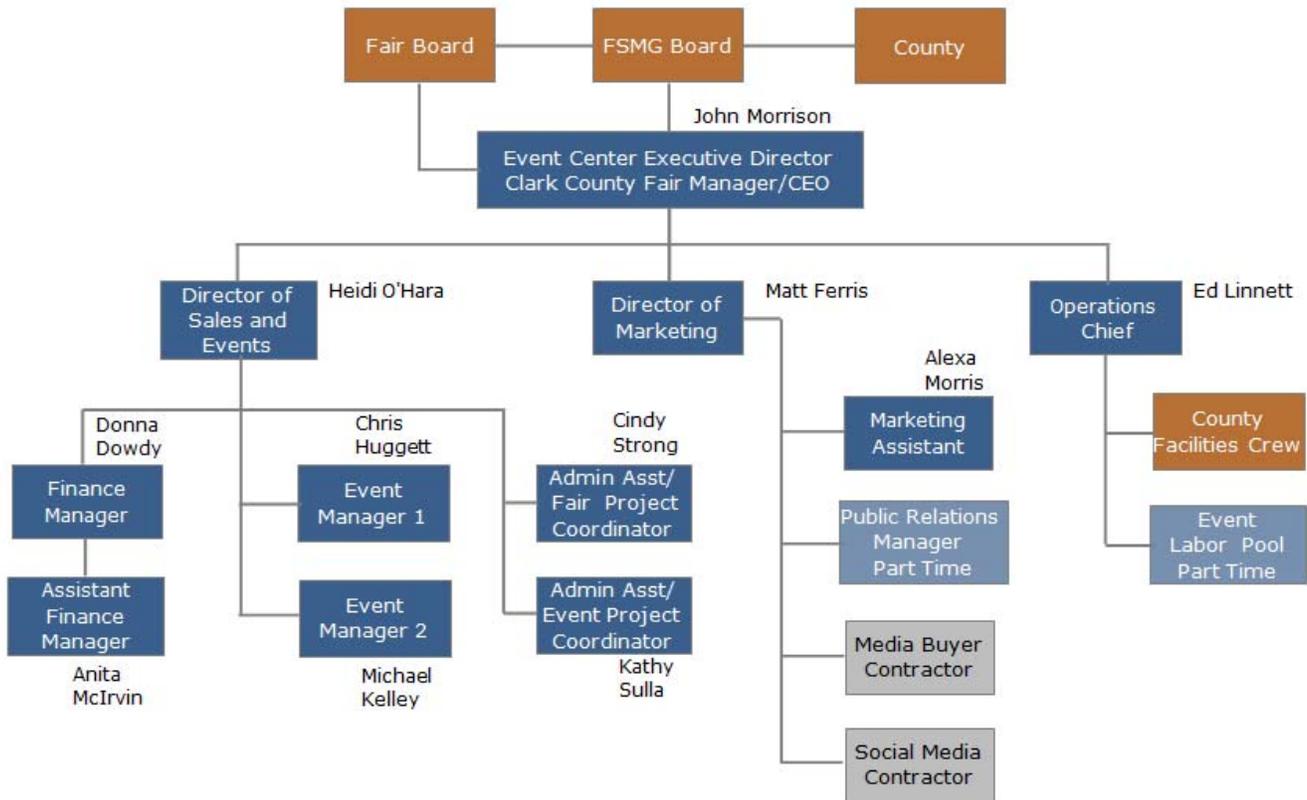
Our report contains 14 findings and 23 recommendations to address the findings. We wish to thank the management and staff of FSMG for their time, information, and cooperation during this audit process. Management has generally agreed with the comments and recommendations in this report. Their complete response to this audit can be found in *Appendix B: Management Comments*.

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2014 EVENT CENTER ORGANIZATIONAL CHART



Organizational Chart as of June, 2014

Introduction

The Fairgrounds Site Management Group (FSMG) is a non-profit organization that is responsible for the management and operations of the Clark County Events Center (also known informally as “The Fairgrounds”) on a continuing basis. The Fairgrounds generate approximately four million dollars in revenue annually. As such, its business operations require a professional work environment, effective procedures and controls, and close attention to detail to be consistently successful.

Objectives, Scope, and Methodology

This performance audit was undertaken to determine if revenue generated by FSMG managed activities was handled accurately, in a timely manner, and with appropriate management controls. The objectives of our audit were to: (1) Evaluate the effectiveness of the internal control environment, in which the FSMG operates; and (2) Determine if revenue is properly controlled and deposits are timely and accurate.

We completed this audit by conducting interviews; researching similar audits and best practices; reviewing laws, regulations and policies; and analyzing available financial data. In addition, we looked at one weekend in 2014 with a high activity level and four separate events operating simultaneously to see if revenue was handled safely, accurately, and consistent with good policies and practices. This work was conducted between May and August of 2014. More information on this work is available in *Appendix A: Full Audit Methodology*.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on our audit objectives. We believe the evidence obtained in this audit does provide a reasonable basis for the findings and conclusions, based on our audit objectives.

Background

In conjunction with construction of the Exhibition Hall, in 2004, Clark County established FSMG as a separate non-profit entity to manage events on a contractual basis for Clark County. Prior to 2005, the Fairgrounds were managed by the non-profit Clark County Fair Association (CCFA). The CCFA now plans the Fair and manages volunteer staff. FSMG is responsible for management of all revenue-generating activities that take place throughout the year at all Clark County Fairgrounds facilities, including the Clark County Fair, but generally do not include amphitheater activities.

The FSMG manages markets and operates the Clark County Fairgrounds Facilities, which includes the Exhibition Hall and the Dr. Jack Giesy Arena (known as the “Arena” or “Horse Arena”). Its Board of Directors consists of 5 appointed directors, two of whom are appointed by the Clark County Fair Association. The other three are appointed by

Clark County, one of whom must be a senior county staff member who acts as chairman and votes only in the event of a tie.

In 2013, the Event Center generated approximately \$4 million in revenue, of which approximately \$3 million or 75 percent was generated by the County Fair. Sources of revenue include ticket sales, parking fees, exhibition hall rental, concession commissions and ATM fees from the Event Centers three ATM cash dispensers. Excluded from Event Center operations is the amphitheater, which is managed under a separate contract with Qincunx® Corporation.

The Clark County Auditor's Office previously reviewed Events Center operations in its 2006 Controls over Revenue Contracts audit. The audit recommended strengthening of internal controls over cash handling, better documentation of procedures, and more timely deposits.

In addition, the Auditor's Office performed an Internal Control Review (ICR) of the Events Center's ATM cash dispensers on April 17, 2014. The review made several recommendations concerning the ATM machines, including more frequent reconciliations, improved physical security for the machines, and strengthening of internal controls over employee access to the machines.

Audit Results

I. Governance & Control Environment

Section Summary

The control environment sets the overall tone of an organization and affects its attitudes towards internal controls. It encompasses all aspects of an entity's operation: the integrity and ethical values of its people, management's philosophy and operating style, and the assignment of authority and responsibility. Governance is intertwined with the control environment because it is through an effective system of controls that the board of directors and senior management can best achieve the entity's goals and objectives.

What we found in our audit of the Event Center is that while both management and staff are dedicated, conscientious and professional individuals, the FSMG lacks a strong system or framework of controls, both at the strategic and the operational level. This includes no mission statement defining the FSMG's primary purpose; unclear delineations of responsibility over financial activities, little fraud awareness training for staff, and no systemic approach for assessing high risk areas of the operation.

Finding 1: The FSMG Mission or Purpose is Unclear

While there is some guidance concerning FSMG operations, such as that provided in the management contract with the County, the FSMG has not developed a mission statement or equivalent statement of purpose to clearly define the purpose of its existence. As such, it is not clear whether the Events Center is to be operated primarily

as a money-making business, a place for agricultural education, a community activity center, or some other combination of functions.

Without clarity of purpose, FSMG is at risk of misallocating its limited resources towards projects or activity that do not align with its mission. Conversely, if the mission is clear, it will be easier for management to evaluate whether they are focused on the correct activities and lines of business to support their purpose. It will also be easier for employees to understand their role as it relates to FSMG's overall mission, and prioritize their work accordingly.

Recommendation:

R1. We recommend that the FSMG develop a mission statement or other statement of purpose with regard to its role of managing the Events Center. The mission should be integrated into the scope of the pending 2014 updated management contract.

Current Status: A mission statement was developed and disseminated throughout FSMG in July; not yet included in contract. The mission identifies a focus and direction:

“Our mission is to operate the Clark County Event Center in a fiscally sound and high quality manner in order to create positive economic impact and stimulate economic growth for the region. We will successfully produce and host first-class events and the annual Clark County Fair for the enrichment of our community and the benefit of our citizens. This will be done in such a manner that makes the Event Center self-supporting and known for top-quality customer service.”

Finding 2: Professional Development, Ethics, and Anti-Fraud Training Needed

The FSMG does not currently have any training programs to address fraud awareness. Currently, there are no policies in place requiring such training despite the fact that approximately \$4 million in revenues pass through the Event Center annually, most of that in the form of cash receipts. There is an elevated risk for fraud or abuse where a clear set of ethical and professional standards are not reinforced through multiple means including management communications, training and mentoring. Reinforcement of ethics through training and mentoring has not yet been a high priority for FSMG.

Similarly, there does not appear to be support for the staff's other professional development, such as accounting software use, office management courses, professional certifications, etc. Instead, staff training largely consists of on-the-job work. An important element of an effective control environment is a robust training regimen to reinforce the organization's basic values with regard to its employees and its mission. In the case of fraud awareness, such training could focus on the types of fraud most likely to occur, how to report incidents of fraud, and the controls necessary to prevent or detect incidents of fraud. In addition, training provided for professional development would demonstrate management's commitment to a competent, professional workforce.

Recommendation:

R2. We recommend management implement professional training and development planning that guides development of FSMG staff through professional certifications or other means. More formal employee professional development planning should be provided for employees in key positions, as well as general ethics and fraud awareness training for all staff.

Current Status: FMSG states that starting with the current evaluation cycle, each employee will be given professional development goals, options for attaining those goals, information on training opportunities available and the opportunity to identify their desires to pursue certifications and advanced education commensurate with their positions and duties.

Finding 3: Finance Function Requires Additional Management Oversight

In general, we found there was limited oversight with regard to financial activities within the FSMG above the first line management level. The Finance Manager reports directly to the Sales and Events Manager organizationally; however, the Sales and Events Manager provides only general supervision to the Finance Management group. In terms of the control environment the lack of oversight creates a perception that internal controls are not a high priority. With limited oversight comes an increase in the risk of fraud, abuse, or the appearance of impropriety.

The organization needs more regular management review of internal control procedures above the Finance Manager level. Specifically, there is no supervisory review of internal controls over cash-handling activities, e.g., no review of reconciliations, no random cash counts performed, or cash deposits verified. This level of oversight is of particular concern because the Finance Manager is relatively new to her position, and therefore, should warrant closer supervision and mentoring.

As cited in our prior report on internal controls over the Event Center's ATM operations, the previous Finance Manager had inappropriately used cash from parking revenues to restock the ATMs. This appeared to be a one-time incident, and the CEO has taken corrective action. Nevertheless, this demonstrates the need for vigilance in the form of oversight, as part of strong control environment.

Recommendation:

R3. We recommend management take a more active role in financial oversight to reduce organizational risk through random transactional testing, cash counts, or periodic reviews of bank reconciliations or other financial accounts.

Current Status: The organizational structure has been realigned to place the Finance Manager directly under the Executive Director. Accounts and transactions will be tested and reconciled randomly by the Executive Director and the Finance Manager for all financial accounts.

Finding 4: Non-Compliance with FSMG Employee Policy

FSMG Employee Policy #2.4 "Employment of Relatives," allows family members to work within the same organization as long as one does not supervise the other. We found two examples of seasonal working relationships that increase the level of inherent risk and should be addressed by management:

- The Finance Manager's spouse works seasonally in the finance organization. In the past, he worked in this capacity directly for his wife, who was the Finance Assistant. Although she was promoted to Finance Manager in 2014, it is unclear whether the working relationship has significantly changed. Job descriptions do not indicate who supervises the spouse, but it appears to be a high risk relationship that violates FSMG Employee Policy.
- The Operations Manager's spouse works seasonally for him, assisting with temporary employee hiring by inputting application information and helping with the hiring process of over one hundred part-time employees. While it is an unpaid, volunteer position it appears to have significant potential impact on the hiring process. Again this appears to be a risk prone relationship that violates FSMG Employee Policy.

We would expect situations such as these to be identified as part of a routine risk-assessment of an entity's operations. In a small organization, such as the FSMG the ability to fully implement certain internal controls may be limited. In such instances, compensating controls, such as increased monitoring may be required to mitigate risk.

Recommendation:

R4. We recommend that employees should not be directly supervised by spouses or other family members. If it is desirable that both parties continue working within FSMG, the higher risk should be acknowledged and mitigating controls developed to protect the employees, the family members, and FSMG.

Current Status: In any instances where a spouse or immediate family member is to be employed in an area where the other family member is employed, there will be a separate level of supervision assigned that does not result in family members directly supervising other family members. To minimize this occurrence, all hiring or promotional decisions that result in the above condition must be reviewed and approved by the Executive Director. This solution is pending documentation.

II. Internal Controls Over Cash Handling

Section Summary

As previously stated, the control environment refers to the overall tone or attitude within an organization with regard to internal controls. The internal controls, themselves concern the specific policies and procedures that govern an entity's operations. In the case of cash handling operations there are four basic functions: (1) record keeping, (2) authorization, (3) reconciliation, and (4) custody/safeguarding of cash. The internal controls concept of segregation of duties requires that no individual employee should handle more than one of the aforementioned functions.

We identified a number of internal control weaknesses in cash handling for FSMG's Event Center operations, ranging from security of cash, to inadequate segregation of cash handling duties, to procedures for handling of voided receipts. In addition, user names and passwords for a former employee in a key position were not removed from the accounting system software to prevent unauthorized access.

These internal control weaknesses appeared primarily because FSMG had not yet developed and implemented clear, comprehensive policies and procedures to ensure that cash handling duties were performed in accordance with best practices.

Finding 5: Cash Receipts and Deposits Are Not Safeguarded Adequately

There were internal control weaknesses regarding the custody and safeguarding of cash receipts and deposits:

- Revenue from the cash drawer is provided to the Finance Assistant folded in the end of day closing sheet, or in an envelope if it includes loose change or is after the cashier has left for the day. The deposit is made the next working day.
- Revenue from weekend events is provided to the Finance Assistant in a sealed paper envelope deposited in the drop safe. The deposit is made the next working day.
- Daily combined deposits for FSMG are placed in sealed plain paper envelopes by the Finance staff and brought to the bank for deposit. Tamper resistant bank bags are not used.

Whenever custody over cash changes hands, the risk of loss increases. Best practices require that whenever possible, cash should be transported in tamper-resistant, preferably lockable bank bags, whether being transported from the cash drawer to the office safe, or from the office safe to the bank for deposit.

Recommendations:

- R5.** We recommend cash drawer proceeds should be prepared as a deposit by the individual operating the cash drawer, under supervision, prior to end of each shift, and provided to Finance in tamper resistant plastic bank deposit bags with detailed deposit tickets.
- R6.** We recommend financial staff evaluate whether the current procedure using paper envelopes and the drop safe is the best approach for this group.
- R7.** We recommend deposits should be made using sealed tamper-resistant plastic bank bags that are sealed by the cash handler at the lowest level possible.

Current Status: FSMG has implemented procedural changes. At the end of the day, the cash drawer is balanced and the deposit along with the balancing sheet and receipts are brought to the Finance Office where it is re-counted prior to anyone leaving for the day. After careful evaluation, FSMG will not change existing weekend event procedures, but tamper resistant plastic deposit bags have been ordered and will be used for all bank deposits.

Finding 6: Key Cash Handling Duties Are Not Segregated

Some financial staff members have access to multiple financial functions that are normally considered incompatible duties. Counting cash, preparing deposits, approving refunds and reconciling deposits should ideally be completed by different people. In some instances, the person who balances the cash drawer also authorizes voids then prepares the deposits. In addition, the FSMG maintains only one cash drawer at the Event Center, which results in more than one cashier sharing the cash drawer during their shift.

In the case of smaller operations like the Event Center, full segregation of duties may not always be possible. Under such circumstances, management should implement compensating controls to mitigate the risk of theft or embezzlement. Typically this would involve increased monitoring to ensure that cash receipts are accurately recorded, and cash assets are appropriately safeguarded.

Recommendations:

- R8.** We recommend that duties and responsibilities be reviewed with staff to identify how to improve segregation of duties. Duties that are potentially incompatible include:
- a. Physical cash handling
 - b. Ability to make adjustments in the accounting system
 - c. Reconciliation of accounts
 - d. Ability to authorize voids and refunds

Compensating controls such as periodic management review of adjustment reports should be considered where adequate separation of duties is not feasible.

- R9.** We recommend each employee receiving cash as a regular part of their job should have an individual cash drawer; this would simplify issues with employees who have trouble balancing the drawer. Each employee should balance their cash drawer, under supervision, and prepare their own deposit.

Current Status: FMSG has reviewed the cash handling duties the Finance Manager alone will now have access to the accounting system general ledger. Additionally, other modules not necessary to complete daily tasks have been blocked to other users. All voids and returns must be approved by a manager. Additionally, after review FSMG believes individual cash drawers are not feasible in their environment at this time and will use other compensating controls to manage the risk.

Finding 7: Some Transactions Are Not Adequately Documented

Checks resulting from sales during the Junior Livestock Auction (JLA) are presented at the register to be held for the recipient but are not recorded or logged. Because of this, staff does not have a record of when the checks are received, the check date, the payee, or the amount of the check. According to staff, the JLA checks are intentionally kept separate from the cash to keep them from being deposited, which would require a new check to be cut if they were deposited. Instead, the checks are held at the office in the safe until they are claimed by the recipients. Best practices require that all cash receipts be recorded timely and accurately, and that transfer of custody be documented

when the recipients claim their checks. Failure to do so puts employees at risk of being implicated in a loss if there is no record of the checks being received or distributed.

In addition, not all copies of receipts from voided transactions are kept in the receipt book. Best practices require that all original void slips be maintained in the receipt book.

Recommendations:

R10. We recommend JLA checks should be individually recorded in a separate register that captures the date, check number, the payee, and the amount. In addition, recipients should sign the check log when they pick up their check.

R11. We recommend all void and refund transactions include the original receipt or a notation in the receipt book why it is not available.

Current Status: When JLA checks are received, they are receipted in a separate receipt book. The checks are then secured in the safe in the Finance office and a note is placed in the JLA distribution box alerting them that there are checks to pick up. The JLA treasurer can then retrieve the checks from the Finance Manager or Assistant.

Additionally, written procedures have been updated to reflect updated process for void and refund transactions.

Finding 8: Former Employees Have Access to the Accounting System

Management maintains the Peachtree Financial Accounting System access with multiple former employees as users without assigned access, and the former Finance Manager still had two active accounts with full access, one under her maiden name. A temporary (Fair) employee has full access to all modules although his job only requires limited access. There is no requirement to review job requirements and remove employees from the system when they leave or change jobs.

Inappropriate access by current and former employees is possible and may compromise the financial system.

Recommendation:

R12. We recommend staff purge the Peachtree Financial System of former employees and employees who no longer need access, assigning only the minimum level of access required for employees to do their jobs. The access list should be reviewed annually, or whenever an employee with access changes roles or position.

Current Status: All former employees have been deleted from Peachtree, and current users other than the Finance Manager have access restricted (including the Finance Assistant). This will be reviewed annually or when someone leaves FSMG employment.

III. Financial Reporting

Section Summary

Financial activity reporting for FSMG operations is largely segregated between the County Fair and non-Fair, Event Center activities. However, the financial reporting

between the two lines of business is not presented in a consistent manner. As a result, the financial information cannot be consolidated to present comprehensive, accurate, and timely reporting of revenue and expenses for FSMG operations, as a whole.

Furthermore, we noted several discrepancies in the Event Center financial activity reports. For example, overhead costs associated with the operation were presented on an annual basis, rather than allocated quarterly throughout the year in the quarterly financial reports. In addition, there were errors in the allocation of revenues in the 2013 and 2014 reports.

We attributed the cause to two factors: (1) the FSMG does not have policies in place to ensure consistency and accuracy in financial reporting, and (2) expense testing is not being performed by a qualified independent agent as required by the existing 2004 management contract between Clark County and FSMG. Had this testing been performed, both the inconsistencies and inaccuracies may have been brought to management's attention.

Finding 9: Financial Activity Reporting Between Activities is Inconsistent

Financial reporting is inconsistent between Fair and non-Fair activities. Reports from these two major lines of business cannot currently be combined to present comprehensive, accurate, and timely reporting of revenue and expenses for the combined operation. We noted the following with regard to the Fair and Event Center financial reports:

- Revenue and expense data are more detailed in the Fair reports than for Event Center activities.
- Within the Event Center operations, categories and total amounts used for representing revenue and expenses in reports by Sales & Events and Finance are not consistent.
- Data within the existing Event Center management system (Event Pro[®]) includes detail for arena rentals only; all other rental detail must be tracked by spreadsheet until new event management software is fully operational, which is expected later this year.

The FSMG does not have financial policies in place to ensure consistency in reporting revenue generating activities. Financial activities for all non-Fair Event Center activities are handled by permanent fairgrounds staff. Additionally, current event management software does not fully integrate financial data.

Further, annual revenue and expense testing is not being performed by a qualified independent agent as required by the existing 2004 management contract between Clark County and FSMG.¹ The required testing was never initiated, and contract compliance is not being monitored.

¹ (V)2. "On an annual basis conduct revenue and expense testing performed by a qualified independent agent. The revenue testing shall consist of a sampling of fifteen days of operation as specified by the County Auditor's office. If this testing reveals significant departures from the procedures called for in this contract, the County may, at FSMG expense, require additional testing."

Management requires a consistent, comprehensive approach to reporting financial activity that includes all lines of business throughout the year. Current reporting does not provide management with the information necessary to analyze its operations as a whole, nor to communicate results clearly to its stakeholders. As a result, management's decisions on how best to maximize revenues and minimize expenses with regard to fairgrounds/event center activities are less than fully informed.

Recommendations:

- R13.** We recommend non-Fair activity and financial reports be consistent in format and content to provide the same essential information as the Fair's "summary statement of activities." The two reports should allow for a consolidated report of operations for which FSMG is responsible, both revenue and expenses. Events, activities, and other categories of revenue should be consistent between financial reports and marketing reports.
- R14.** We recommend that the current contractual requirement for independent revenue and expense testing be added to the 2014 contract revision and exercised annually beginning in 2015.

Current Status: The Finance Manager will begin the process of setting up the necessary coding in FMS to enable the expanded reporting as of January 2015. The Director of Sales and Events will setup the same categories in the new Event software to provide consistent reports.

FMSG recognizes the value of independent revenue and expense testing. Their preliminary inquiries suggested that the cost of this could be prohibitive. They have requested that the Clark County Auditor's Office evaluate the feasibility of this testing being done "in-house" by the Clark County Auditor's Office as part of an annual visit at least for the initial year or two of the upcoming contract period.

Finding 10: Allocated Costs Are Not Reflected in Non-Fair Financial Reports

Non-Fair Event Center financial performance data as provided was incomplete as it did not include allocated overhead costs in the quarterly reports, only direct costs. The FSMG traditionally has not included allocated costs until the end-of-year reports. Administrative and overhead indirect costs are allocated quarterly by the county but are only integrated into financial data by FSMG annually. As a result, management cannot accurately assess its financial performance on a timely basis.

Recommendation:

- R15.** We recommend that for the most accurate assessment of financial performance, indirect allocated costs be integrated into the quarterly financial activity reports.

Current Status: This will be done quarterly.

Finding 11: Revenue Allocations Are Inaccurate in Reports

Revenue entries for 2013 and 2014 were not always accurate. We noted the following errors:

- 2013 revenue allocation did not give the Arena credit for all of its rentals due to errors in implementing updated financial category codes in Peachtree.
- Data provided to Audit Services for the 2014 test weekend included multiple revenue errors, caused partially by a manual spreadsheet that had not been updated from the previous year.
- A number of revenue coding errors for 2013 and 2014 were discovered by the newly promoted Financial Manager while compiling requested audit data.

Since the 2013 report has already been issued, FSMG should annotate any local copies distributed to reflect corrected revenue allocation. The 2014 data can be properly aligned through the use of manual journal vouchers.

Recommendation:

R16. We recommend that financial performance data for 2013 should be annotated with accurate revenue allocation information, and that 2014 be corrected in the financial system through the use of journal vouchers.

Current Status: 2014 entries have been corrected in FMS and after determining the accurate 2013 figures, annotations will be made.

IV. Revenue Generation Activities

Section Summary

Event Center activities draw revenues from several revenue streams, including facilities rent, parking, commissions on food concessions, and ATM user fees. Based on our review of four separate events in May 2014, it appears that FSMG can do more to maximize its revenues. Parking was not charged for two of the four events, and rental rates appear to be heavily discounted. Further, FSMG does not monitor controls or verify revenue received from its parking vendor. In addition, we were unable to verify the accuracy of the commissions paid on food concession sales because the information provided by the vendor was incomplete.

Clark County currently provides over \$250 thousand per year to the FSMG to cover operational expenses in excess of revenues. We recognize that Event Center staff need a certain amount of discretion to negotiate rates with would be users of the Event Center. However, to the extent that FSMG can take the necessary steps to maximize its revenue, it may ultimately become a fully self-funded entity.

Finding 12: Facility Rental Rates Charged Vary From Printed Schedule

Rental revenue does not appear to be maximized and rental rates are not charged consistent with existing procedures and policy. Based on the sample weekend, contract prices can vary significantly from the posted fee structure. Variances from published rates are generally at the discretion of the Sales and Events Manager, and currently do not require additional approval from the CEO.

A sample weekend in May 2014 with four rental activities was selected for review. Lost potential revenue could be as much as \$2,475 (or more if all paid parking) for variances from the stated prices. However, we acknowledge that some events might not have occurred but for the FSMG's willingness to negotiate on contract price.

- **Rental #1: Dog Training (Horse arena area)**
Variance from rates: \$150 load in-day fee waived, no parking fee charged and rental deposit not consistent with other rentals.
FSMG explanation: Parking is not charged for this rental area. Horse arena renters are charged one day use as deposit; all other rentals pay 25% of total.
- **Rental #2: Private Party**
Variance from rates: \$250 discount on rental equipment; no parking fee charged.
FSMG explanation: Discount based on providing self-service setup, parking is not charged for small to medium private parties.
- **Rental #3: Body Building Competition**
Variance from rates: \$550 rental discount; \$275 load-in discount.
FSMG explanation: Customer wanted area "B" sized rental which wasn't available. FSMG provided a larger area at "B" price to rent an area that wasn't in use.
- **Rental #4: Tattoo Body Art**
Variance from rates: \$4500 for three load-in days waived.
FSMG explanation: Contract error. Actually \$1500 for one day load-in waived.

Recommendations:

R17. We recommend that a policy planning document identifying rental rates should be developed that include the following:

- How often each area is to be evaluated including, recurring and one-time facilities; long and short term storage; office space; and reserved fields. Rental rate evaluation, method used and result should be documented annually.
- Basis for the evaluation - comparability, market, cost recovery or other means.
- Identify if the rates vary based on specific criteria such as private vs. public, party size, etc.
- When (and what) variances are allowed in rental rates to include parking based on the type of event and the facility rented.
- Deposits and deposit variances allowed. The practice for the horse arena is not consistent with written policy.

R18. We recommend rentals that vary from published rates have a second level review to ensure the rental is consistent with policy and goal of the organization.

Current Status: FSMG states that development of a planning document has begun for rental rate evaluation, and criteria for parking variances indicating waived, paid or buy-out options per event type. Rental variations will be reviewed and approved by either the Director of Sales and Events or the Executive Director as appropriate.

Finding 13: Parking Contractor Has Limited Management Oversight

Parking revenue is not maximized. Parking control is contracted out to Coast to Coast, Inc. While management indicates that they occasionally spot check the use of passes, there is not any specific requirement or tool in common use. There are no management controls used to check the vehicle count or passes in use, or to analyze revenue being generated versus projected. Given that the FSMG relies solely on the vendor for its financial information, this is a high risk area for potential loss. We found the following areas of concern:

- Total attendance is based on customer estimates at time of contracting.
- Controls to ensure all required customers pay for parking are not strong.
- “Buy-out” parking charges are based on customer estimates. “Buy-out” is when the rental customer contracts to purchase parking for their event up front. Their estimate is commonly used as the basis to contract for full rental of the parking. There is no process to “true-up” the estimate with actual attendance if the customer significantly under estimates attendance.
- For the purpose of charging for parking, staff uses the customer’s attendance estimate and assumes the number of occupants per vehicle to always be 2.8, regardless of the type of event. This is not consistent with best practices.
- No total traffic count is made to compare to revenue collected.
- Use of parking passes is not monitored or audited after issuing them.
- No known management controls are in use to minimize loss such as:
 - 1) Sellers waving people through without paying
 - 2) Sellers pocketing cash and not issuing ticket
 - 3) Attendees representing as attending concurrent free event

Recommendations:

- R19.** We recommend vehicle capacity estimates be adjusted based on the event type. While this will not have a significant effect on small events, it will affect parking revenue for larger ones.
- R20.** We recommend if “buy-outs” are used, that the contract indicate charges will be corrected after the event if found to vary significantly from the estimate, either higher or lower.
- R21.** We recommend parking counts and revenue handling during major events should be spot checked by management. Ideally, a vehicle count vs. revenue would be most appropriate.
- R22.** We recommend parking counts and revenue handling during major events should be spot checked by management. Ideally, a vehicle count vs. revenue would be appropriate. The vehicle count entering the parking lot can potentially be compared to attendance to determine if occupancy estimates were correct, and if revenue for parking is near what is expected. The revenue collected should

approximately equal individual parking fees per vehicle times the number of vehicles minus valid passes.

Current Status: FSMG is evaluating the vehicle counting and parking system and will implement improvements that include:

- Standardizing the vehicle capacity estimating system based on best practices
- Implementing a “buy-out” process to allow adjustments based on actual count
- Testing and potentially purchasing or renting a traffic count device, allowing management to better monitor actual traffic for events.

Finding 14: Catering Contract Gross Revenue Information is Not Verified

Commissions are calculated based on gross revenue reported to FSMG by the food and beverage vendor (Ovations). This information is not currently verified through any other means. FSMG’s reliance on the vendor for accurate information creates an elevated risk that errors in revenue calculation may go undetected.

Recommendation:

R23. We recommend management evaluate if there is a reasonable way to verify sales figures provided in monthly reports or if there are improved tools that could be incorporated into the next contract.

Current Status: FSMG has verified Ovations sales reports with the data provided by the company and all reports represent accurate calculations of net and commissions for 2013 and 2014. FSMG has initiated oversight with Ovations that includes jointly running the register “Z-Tape” at the beginning and end of the event to capture the number of transactions. This will be added to the contract as a requirement.

V. Conclusion

The Fairgrounds Site Management Group is evolving from its past as a volunteer and family run operation to a professionally managed multi-million dollar business. As such, there are a number of significant new and legacy issues that must be addressed for the group to continue improving their business operations.

The FSMG has two significantly different major lines of business. First, the ten day annual County Fair which is a relatively mature business with established reporting and management tools that have been evolving for over one hundred and forty years. It represents three-quarters of their current revenue. The second line of business, management of the fairgrounds as a non-Fair revenue producing operation, has been a separate business for just over nine years and lacks the focus and management controls that appear to be in use with the Fair.

During this audit, the organization did not demonstrate management oversight expected for the value of funds flowing through the operation, and there is considerable risk with some contractors. Revenue was generally handled well once in control of FSMG personnel; however, internal controls are not always consistent with common or best practices, and are in need of further development.

The FSMG governance and the control environment, as well as specific internal control policies and procedures are not as strong as they need to be for an operation of its complexity and cash flow. However, the organization is open to change and has the ability to make substantive improvements in the near future.

Audit Findings Summary

Below are the 14 findings identified within this report; additionally, there are 23 recommendations.

I. Governance and Control Environment

Finding 1: The FSMG Mission or Purpose is Unclear

Finding 2: Professional Development, Ethics and Anti-Fraud Training Needed

Finding 3: Finance Function Requires Additional Management Oversight

II. Internal Controls Over Cash Handling

Finding 4: Non-Compliance with FSMG Employee Policy

Finding 5: Cash Receipts and Deposits Are Not Safeguarded Adequately

Finding 6: Key Cash Handling Duties Are Not Segregated

Finding 7: Some Transactions Are Not Adequately Documented

III. Financial Reporting

Finding 8: Former Employees Have Access to the Accounting System

Finding 9: Financial Activity Reporting Between Activities is Inconsistent

Finding 10: Allocated Costs Are Not Reflected in Non-Fair Financial Reports

IV. Revenue Generation Activities

Finding 11: Revenue Allocations Are Inaccurate in Reports

Finding 12: Facility Rental Rates Charged Vary From Printed Schedule

Finding 13: Parking Contractor Has Limited Management Oversight

Finding 14: Catering Contract Gross Revenue Information is Not Verified

Appendix A: Full Audit Methodology

Objectives

- a. Objective 1: Evaluate the effectiveness of the control environment, in which the FSMG operates.
- b. Objective 2: Determine if revenue is properly controlled and deposits are timely and accurate.

Scope

This audit primarily focused on how major forms of revenue were handled on one weekend, May 11-13, 2014, which included four separate scheduled events. It did not include the ATM account since it was just completed as part of an internal controls review within the past 60 days.

Three sources of revenue were excluded from this work.

- a. Smaller forms of revenue that are ongoing, such as rent payments, vehicle & RV storage, or other minor sources of revenue that are ongoing and not part of the weekend activities.
- b. Capital expenditures, carnival and amphitheater financials, since they are not part of the management contract.
- c. The County Fair. It is a separate major event, approximately ten days in duration. Accounting and operations are different due to its size and complexity. It is handled as a single discrete “super-event,” and as such is not considered part of normal Event Center operations.

Methodology

- a. Identify governance structure, authority and issues through document research and interviews with key management and financial personnel.
- b. Examine revenue from all sources during the period of May 11-13, 2014 and determine if collections, deposits, and reconciliations follow identified procedures.
 - 1) Establish the control environment.
 - 2) Identify risk elements.
 - 3) Identify control activities in place.
 - 4) Identify management monitoring tools in use.
 - 5) Verify cash machine operations, refills, revenue.
 - 6) Verify deposit dates, accounts and amounts for parking & events & food services.
 - 7) Examine tools used to keep track of operations (daily sales recaps, reconciliation sheets, etc.) deposit slips tied to recap sheets by site.
- c. Determine through interviews, observation, and document review if internal controls and management oversight for the same revenue and time period is effective.

Appendix B: Management Comments

From: Morrison, John
Sent: Wednesday, September 03, 2014 09:20 AM
To: Nosack, Tom
Cc: Grady, Matthew
Subject: Management Comments

Good morning Tom,

Thanks again for the help during the audit period. Your willingness to work with us on timing and competing Fair activities was much appreciated. Below are my Management Comments for Appendix B.

The FSMG staff worked with the Internal Audit staff continuously throughout this audit. We agree with the areas of concern noted in the report, and are satisfied that it integrates both our progress and management actions taken accurately. The new staff and reorganization within FSMG should significantly improve operations and emphasis on internal controls. We have already made significant progress since the audit began and will continue our work to address all of the issues on a priority basis over the next twelve months.

John R. Morrison, Jr.
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