

FINAL



Kootenai County **Internal Audit**

Final Report

**This Report Includes Management's Responses
and Corrective Actions Taken or Planned**

North Idaho Fair Financial Processes

June & July, 2016

INTRODUCTION

In February, 2016, the Clerk received information indicating cash flow issues at the Fair. Between February and May, the Board of County Commissioners held meetings with Fair Board members and the Fair Manager to discuss financial processes and capital projects. By late May, two County Commissioners directed the Clerk's internal audit team to review the Fair's financial practices as soon as possible.

OBJECTIVES

The primary goal for this audit was to *review Fair financial records and processes to identify areas for improvement, and recommend any additional controls which may be needed so that the County and the Fair Board attained reasonable assurance that the Fair's financial reports are accurate.* An important consideration for all parties was to minimize Fair staff time during this project.

CONCLUSIONS

The internal audit team identified several practices of concern, which fall into two major categories:

- inadequate financial oversight
- improper financial recordkeeping

We believe the Fair's financial files need to be reorganized by a professional accountant before the internal audit team can offer *reasonable assurance that the Fair's financial reports are accurate.* We recommend re-running all the Fair's financial reports after this cleanup to gain correct historical trends.

RECOMMENDATIONS

21 recommendations were made in eight categories:

- Annual External Audit Report responsibilities
- Employee Draw responsibilities
- Non-Fair Revenue, Expense & Liability responsibilities
- QuickBooks system integrity
- Staff financial practices
- Unreliable Fixed Asset & Capital Improvement records
- Inaccurate financial recordings
- Overuse of Informal communication & no post-project reviews

MANAGEMENT'S RESPONSE

Fair Board's responses are contained in each applicable section and repeated in their entirety in the final pages of this report.

Board of County Commissioners' responses are contained in each applicable section and repeated in their entirety in the final pages of this report.

EXECUTIVE SUMMARY

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Section 1: Inadequate Financial Oversight

BACKGROUND

Few financial controls seem to have been installed since the Fair embarked on revenue-producing activities other than the annual August Fair. The Fair Board has vested the Manager with such complete authority that there are almost no financial checks and balances. In all interviews we heard a great deal about trust, but little about verification. There is inadequate financial oversight.

AUDIT RESULTS 1 – ANNUAL EXTERNAL AUDIT REPORT RESPONSIBILITIES

Condition

Fair Board policy 22-204 says members are charged with “safekeeping of all moneys coming into its care”. Yet:

- Fair Board members repeatedly refer to Magnuson McHugh’s “clean audits”, but in the five most recent annual reports we reviewed, only one was “clean”. 2010’s & 2011’s audit noted two *significant deficiencies*, in payables supporting documentation, and in check signatures. 2012’s audit cited a *material weakness* in cash receipts. 2014’s audit cited a *significant deficiency* over untimely accounts payable postings.
- No Management Discussion and Analysis (MD&A) from the Fair Board was included in annual reports from 2012 – 2014. Magnuson McHugh pointed out the MD&A requirement at component units of government per the Governmental Accounting Standards Board (GASB) all three years; Fair Board members don’t recall this.
- MD&A was included in the 2010 & 2011 report; a single audit covered both years for reasons unknown to us.

Recommendation 1 We recommend the County Commissioners appoint additional Fair Board members with deeper financial expertise.

Management Comments

The Board of County Commissioners met this morning and made the decision to follow one of the recommendations made by the Internal Audit Team to add two (2) additional Fair Board Members that possess “deeper financial expertise” and directed staff to advertise these new positions with a closing date of August 15, 2016.

Evaluation of Management Comments

Commissioners’ comments are responsive to the issues and recommendation.

Section 1: Inadequate Financial Oversight

Recommendation 2 We encourage Magnuson McHugh to present their audit findings to the entire Fair Board, to invite the County Clerk/Auditor, and to send copies of their audit findings to the Commissioners.

Management Comments

- Magnuson, McHugh, & Company has presented their audit each year to the entire Fair board. The Kootenai County Commissioners have been invited to attend all meetings and some Commissioners have chosen in the past to attend the audit presentation. Magnuson, McHugh and Company are prohibited by professional ethics to distribute copies of any client's financial statements. The financial statements of the Fair are and have always been available upon request from the Fair. Copies of the audited financial statements have been forwarded to the County in past and the Fair has always sent this information.
- Including the Management Discussion and Analysis on the 2016 audit and forward has been the recommendation of our outside CPA consultant. This portion of the financial statements had been discontinued in past due to time and budget constraints of the audit. It is also the plan of management to have the entire Fair Board present for a workshop on reading governmental financial statements and financial controls.
- If the investigation team had inquired, the Fair could have responded that the 2010 and 2011 audit was conducted at the same time due to delays from a previous fair manager whom is no longer with the fair.

Evaluation of Management Comments

In the future, Kootenai County will request audited financial statements directly from the Fair.

Section 1: Inadequate Financial Oversight

AUDIT RESULTS 2 – EMPLOYEE DRAW RESPONSIBILITIES

Condition

Some employees have taken draws against their future pay since 2005. The Manager took his first draw against future wages within a month of beginning Fair employment, and has taken a total of 16 draws since 2012. He took two draws totaling \$4,200 within a single four-day period last October. 76% of his paychecks include some draw repayment. We believe taxes have been properly withheld; but documentation of these draws is casual. Fair Board members have little knowledge of this activity. This practice may violate Idaho Code 45-609, since employee draws are legally *loans*.

Recommendation 3

We recommend the Fair Board immediately consult their attorney about this exceedingly rare business practice. Once all legal ramifications are understood, we encourage the Fair Board to reconsider this activity. If the Fair Board decides to maintain employee draws, the Board should develop a policy, procedures, and a Board Officer approval process, which is also reviewed by their attorney. We recommend employees sign repayment agreements. We have provided guidance information to the Fair Board and staff.

Management Comments

The Fair has a draft in place of policy regarding employee draws and the attorney will be reviewing this policy before it's adoption to ensure it meets all legal requirements.

Evaluation of Management Comments

The Board of County Commissioners has made it very clear in a public meeting that they do not support the practice of employee draws.

Section 1: Inadequate Financial Oversight

AUDIT RESULTS 3 – NON-FAIR REVENUES, EXPENSES & LIABILITIES

Condition

While a rental price list exists, it is regularly discounted without discernible consistency. Extra charges for chairs, etc are often waived. There are no sponsorship guidelines. The Fair Manager rented a \$575 space to an employee for \$5, and rented four acres of grounds space for 1300 dumpsters for \$100 a week. Applying the Fair's rental policy for extra grounds space at \$0.03 per square foot per day would have yielded \$5,227 per day or \$36,589 per week.

Among Board members and staff there's a prevailing attitude of *"well it's \$X more than we had before"*. Such ad hoc practices undermine investments made in marketing and infrastructure improvements so that rental income can be gained. Other fairs' fee schedules explicitly state *"the purpose of the fees is to generate revenue to offset the operational costs of the facilities"*. We believe that is also the expectation of Commissioners.

During our audit, the County Commissioners learned from the newspaper that the Fair Board is doubling the number of counties eligible for entries and exhibits by making the County Fair a State Fair this August. It's likely that liabilities also increase with more counties and expected patrons, yet we heard nothing about risk evaluation during our interviews. This surprise affects Kootenai County Commissioner relations with their colleagues at nine other Counties.

Recommendation 4 We recommend the Fair Board develop discount guidelines; that the Manager abide by the published price list more often; and the Fair Board Chair sign off on any exceptions before the Manager grants them. If all pricing exceptions were reported monthly to the Fair Board, adjustments would likely become more consistent.

Management Comments

- As the investigation team did not review the actual rental contracts in the Fair's offices, there is confusion as to how a blanket statement regarding contracts was made. It is common practice in the event rental industry to include minor immaterial items at no charge. The Fair is bound by the pricing structure published list to not charge more for an item, but is not prohibited from charging less. In fact, in her interview with Dane Dugan, Dena Darrow complimented the Fair's practice of including extras in at no charge as "good business".
- As previously communicated to the investigation team, the rental of land for dumpster storage included several components including cash rental, services in exchange for rental, and sponsorship of the fair. The extra

Section 1: Inadequate Financial Oversight

ground space rental fee that was quoted is used for renting additional outdoor space when a building is rented; not for bare land rent. It would be unrealistic to expect any entity to rent such a space in our area for \$36,589/week.

- Our outside CPA consultant has recommended the Fair work with a local real estate expert to determine bare land rents in the future based on fair market rents for the area. She has also recommended the Fair review the event rental rates on an annual basis comparing to our local market and provide guidelines for discounts.
- The Fair is not sure how the determination of prevailing attitude of "well it's \$X more than we had before" was reached as no definitive example was listed. The Fair runs the event rental portion as a business to offset operational costs for the Fair. The interviewed members did mention the overall increase in revenue as seen in the attached chart to provide evidence to the investigating team the serious and business minded way the fair is approaching this revenue source.
- The rebranding of the fair has been discussed in depth in various board meetings. Risk evaluation has been done by the Fair Board and Fair staff. This has been communicated to the County liaison. None of those interviewed were asked questions regarding risk increase, and did not know they needed to volunteer such information. If they had been asked they would be able to provide testimony to the consideration of risk management throughout the growth plan. Dane would be happy to discuss any such concerns the County Commissioners have in regards to risk management or the rebranding of the fair. This rebranding also falls in line with the directives of past County Commissioners to increase revenues to offset the tax burden.

Evaluation of Management Comments

We did not include the attachments referenced in the Fair Board's response.

Dena Darrow's remarks were taken out of context or misunderstood.

Fair Board meeting minutes contain very few details on rebranding plans.

Management's responses do not address the underlying issues of *charging the published fees and controlling exceptions or minimizing discounts.*

Section 1: Inadequate Financial Oversight

AUDIT RESULTS 4 – QUICKBOOKS SYSTEMS INTEGRITY

Condition The QuickBooks Systems Administrator, who has authority to change all financial records and to adjust the underlying systems architecture (metadata), is presently listed as a former employee who has not been with the Fair for 15 years. For more than a decade the present Fair bookkeeper has been logging onto QuickBooks as this former employee, rather than under her own name, to perform administrative functions. The present bookkeeper also is primary at inputting financial data into the system. No one can be completely confident in the integrity of the Fair's financial reporting.

Recommendation 5 We recommend the Fair Board immediately name a dedicated systems administrator who is not the person entering Fair financial information. We recommend no one ever log on to the computer system under another name.

Management Comments

The Fair bookkeeper has used two logins in order to prevent accidental changes and protect the integrity of the system. As the bookkeeper is the only person with access and the passwords to both logins and the passwords have been changed throughout the years, there is no risk to the integrity of the data. The bookkeeper logs in daily under her own name to perform the day to day operations. In order to provide an extra level of protection, she had certain administrative functions only available under a second login with a password. She had used an old employees name, this users name has been changed.

Evaluation of Management Comments

Management's responses do not address the separation of duties control deficiency of one person having access to both financial transaction recording and the system's administrative functions.

Section 1: Inadequate Financial Oversight

AUDIT RESULTS 5 – STAFF FINANCIAL PRACTICES

Condition The Manager was unable to answer basic questions about Fair procedures, and admits to not using the Fair's QuickBooks financial system. In addition, the Manager:

- Has been paying himself a higher salary than his employment contract specifies without supporting documentation of Fair Board approval
- Co-signs checks made payable to himself for wages, draws against wages, and expense reimbursements
- Has delayed Fair-related payments: more than \$18,000 for radio, television and print advertising, water & trash pickup for the 2015 August Fair was paid in November, 2015
- Allows the bookkeeper to take bank deposits by herself
- Conducts no due diligence of financial or criminal background before hiring new employees

Recommendation 6 We recommend the Fair Board Chair take responsibility to co-sign all checks payable to the Manager and the Assistant Manager, and that the Board set a dollar threshold which would require the Chair's signature.

Recommendation 7 We recommend the CPA develop proper accounting procedures for various revenue streams and payable activities. We encourage the Fair Board officers to be more formal in their payables oversight.

Recommendation 8 We believe the Fair Board and Manager need to hire a more experienced bookkeeper soon, and that two people should always accompany cash.

Recommendation 9 The Manager should at a minimum check the Idaho Repository before making an offer of employment.

Management Comments

- The Manager designed and wrote the vast majority of the Fair's policies and procedures, so the Fair is unsure as to how he would be unable to answer questions. Without actual concrete examples as to which procedures the manager was unable to answer questions about, the Fair cannot comment further.
- The manager is a signature authority at the bank and should not have access to QuickBooks. Most small governmental agencies to ensure a segregation of duties with small staff, do not have the manager (who is generally a signature authority) have access to QuickBooks. The manager is well versed in QuickBooks and reviews multiple reports, including the bank reconciliation, profit/loss, profit/loss to budget, balance sheet, and several other reports multiple times throughout the month. The board of

Section 1: Inadequate Financial Oversight

directors also reviews several of these reports monthly at their meeting. Please see the attached board packet as an example of the reports reviewed monthly by the board.

- As provided to the Auditor's office during their original inquiry into the Manager's salary, the amount above the contracted value was for services paid by the Fair Foundation. It is not only normal, but highly beneficial to have the manager of the Fair and the Fair Foundation be the same person. In the past the amount of the Manager's salary above his contract with the Fair was the amount being paid by the Foundation through the Fair. For greater transparency and easier tracing, the Manager pay is currently set up where two separate checks are being issued now one from each entity.
- In order to remove concerns regarding co-signing of paychecks and reimbursements, the fair is moving to a direct deposit system. Another board member is being added as a signature authority on the accounts.
- Fair income is cyclical and thus presents a challenge in cash management. Some bills were delayed due to cash flow. A problem the Fair has asked the County's guidance on for a solution to this issue of which this memo did not address.
- As discussed during the interview with the bookkeeper, a one-time situation occurred where the bookkeeper took a deposit after an event. This is outside of the normal procedures of the Fair. The Office Manager takes the deposits to the bank outside of the Fair. The bookkeeper has already discussed with the outside CPA consultant and the Manager contingency plans for any future similar situations. Please also note during the fair security is used to accompany the deposit to the bank.
- The Fair has grown tremendously and the workload is greater than the current financial staff can handle comfortably. It is in the Fair's financial plan to hire an experienced bookkeeper to increase financial capacity.

Evaluation of Management Comments

We did not include the attachments referenced in the Fair Board's response.

Several of management's comments go beyond the scope of this audit.

Section 2: Improper Financial Recordkeeping

THE FOLLOWING RESULTS ADDRESS IMPROPER FINANCIAL RECORD-KEEPING

AUDIT RESULTS 6 – UNRELIABLE FIXED ASSET AND CAPITAL IMPROVEMENT RECORDS

Condition

We found no predictable schedule for fixed asset inventories or updates, and during this audit, an additional building not previously reflected on fixed asset or insurance records came to light. It is unclear whether adjusting journal entries have been made to record new capital purchases or to account for depreciation. We found incomplete or no recording of capital improvements. Capital funds are being expended for operational expenses and we see no evidence of those funds being replenished. The Fair Manager's October 28, 2015 Memorandum requests the County to pay \$150,000 Capital Funds, but most of those funds were used in November to pay operational expenses from the August Fair.

Recommendation 10 We encourage the Fair Board to revise or adopt the County's Fixed Asset policy and procedures we supplied.

Recommendation 11 We recommend the Fair Board ask their CPA to set up all appropriate separate accounts, and the Fair Board defines a capital improvement policy as soon as possible.

Recommendation 12 The Fair Board needs to review staff actions on these policies at least annually to comply with Fair Board policy 22-204. Once appropriate documentation is set up with templates and schedules, we recommend periodic reviews to confirm Fair staff timeliness and accuracy.

Management Comments

- The Fair was not asked to provide the Fixed Asset Schedule during the investigation. The building in question was properly capitalized in the 2015 annual close and audit. Please see the attached fixed asset schedule which is updated annually as part of the yearend close. As is normal industry standards for governmental accounting, especially for small organizations, the financial records throughout the year are kept on a cash basis. Thus allowing the entity to compare budget to actual easily for expenses. The journal entries to capitalize the fixed assets are done at the annual close. These accounts are clearly labeled and identified in the Fair's QuickBooks.
- The bookkeeper was not aware the county needed us to provide the insurance form on this asset as she had previously been instructed by the county to only provide equipment information. Please note the bookkeeper turns in all equipment expenditures to the county on a

Section 2: Improper Financial Recordkeeping

quarterly basis. The bookkeeper will make sure going forward all new structures are sent to the County.

- \$88,385 of capital assets were added in 2015 not including \$13,546 of capital lease payments and over \$77,000 of maintenance which were also made in 2015. Most of these expenses were made prior to receiving the annual allotment from the County.

Evaluation of Management Comments

We did not include the attachments referenced in the Fair Board's response.

The QuickBooks files we were provided contained fixed asset data.

Management's responses don't address the underlying issue that the fixed asset data in QuickBooks did not match the prior year's audited financial reports.

Section 2: Improper Financial Recordkeeping

AUDIT RESULTS 7 – INACCURATE FINANCIAL RECORDINGS

- Condition** The Office Manager uses a Fair credit card to fill up her car's gas tank once a month, rather than submitting actual mileage. We found several other inconsistencies:
- *Miscellaneous expenses* contained a health insurance deposit, vision & dental premiums, moving expenses for the Manager and Assistant Manager (this is taxable income; were the amounts on their W2s?), travel expenses, renewal of a liquor license, and a Wi-Fi refund
 - The *Junior Rodeo* category contained Brewfest expenses
 - Magnuson McHugh's annual audit fee was recorded under *Bank Fees*
 - The *Servers/wait staff* category contained building permit expenses

We also believe there may be revenue recognition timing issues associated with pre-sales and Mega-pass promotions.

Recommendation 13 We are providing the Fair Board, Manager and their CPA with the County's General Ledger Account Definitions, and recommend the Fair's CPA collaborate with the Manager to customize those definitions for Fair purposes.

Recommendation 14 We recommend the Manager assign account codes to all invoices, and the CPA review all check runs before checks are printed to make sure expenses are coded correctly.

Recommendation 15 The CPA should also ensure pre-sale revenues are recorded appropriately.

Recommendation 16 We recommend the Fair Board adopt formal rules and procedures for inter-fund transfers between operational and capital funds, and between Fair and Foundation uses, and have those reviewed by an attorney.

Recommendation 17 The Manager should undertake regular reviews of the bookkeeper's actions.

Recommendation 18 The Office Manager should submit actual mileage records and be reimbursed at the IRS rate.

Management Comments

- The Fair has changed the policy to reimburse the Office Manager using IRS mileage guidelines.
- The Fair acknowledges in the past there were problems with consistent application of categorizing transactions. The Fair has started working with an outside CPA to provide additional guidance and training to our staff.

Section 2: Improper Financial Recordkeeping

The Fair and outside CPA are reviewing industry standards by the International Association of Fairs & Expositions to see if they are applicable.

- The monthly financials for internal use are kept on the cash basis for budgetary comparison purposes. Revenue recognition issues only become relevant at year-end when the fair issues its audited financial statements.

Evaluation of Management Comments

The internal audit team on this project included two CPAs, and despite our best efforts, we were unable to achieve the goal of *reasonable assurance that the Fair's financial reports are accurate.*

What the Fair Board calls "problems of the past" have become problems of the present because daily decisions and future projections are being made from *inaccurate financial data.* Timely and accurate transaction recording is essential to accurate financial reporting.

Section 2: Improper Financial Recordkeeping

AUDIT RESULTS 8 – OVERUSE OF INFORMAL COMMUNICATION & NO POST-PROJECT REVIEWS

Condition

The Fair Board has been lax about writing and circulating minutes of their meetings. Fair Board members “regularly drop by” the Fair office and individually give direction to staff. As a result, the Manager doesn’t feel the need to bring items to the full Board’s attention. This raises questions about the propriety of financial decision-making, and puts the Manager and the County Commissioners at some risk due to the lack of written documentation. Individual Board member actions undermine the collective wisdom of the full Board deliberating in public.

The Manager provides the Fair Board with cost and revenue projections, but we heard of no assessments of actual results against projections. This precludes assessing returns on investment, and impedes timely course corrections as the Fair Board and Manager experiment with revenue generation activities at the Fairgrounds.

Recommendation 19 We recommend the Fair Board keep minutes of all their meetings; we have provided some Board role and format guidance from other fairs.

Management Comments

- The Fair has been following the chain of information in which it was instructed to use by the County. The Fair has been under the impression when it provides the board minutes, agenda, and invitations to all meetings to their contact at the County, Nancy Jones, that she was distributing it to the appropriate County offices. Agendas and minutes are also directly sent to Stephanie Clark and Commissioner David Stewart. If the County Commissioners would like to provide in writing the additional email addresses for contact, the Fair will add them to the distribution list. Any changes to distribution of the information once the Fair has sent it to the contact should be handled and addressed internally by the County.
- The Fair board is a very involved board which is generally encouraged and desired in good governance. No major decisions are made without full board review and approval. Minutes are recorded and distributed which state this approval.

Evaluation of Management Comments

The internal audit team examined all Fair Board meeting minutes in the County’s files; we have only 3 - 4 each year, and little detail in these or the annual meetings documents.

In two instances when we asked to be put on the Fair Board’s meeting agendas, we were asked to present first, then “encouraged” to leave right after. In neither case did the agendas reflect our presence.

Section 2: Improper Financial Recordkeeping

Recommendation 20 We recommend the County Commissioners appoint an additional Fair Liaison, and task that person with quarterly progress reports to the Commissioners and the Auditor's office.

Management Comments

Furthermore, the BOCC is requesting that the Fair Manager and Fair Board schedule advisory board update monthly meetings with the BOCC. Typically, these regularly scheduled monthly meetings are attended by the Department Head/Manager, Chairman and Co-Chair but are open to all who wish to attend.

Evaluation of Management Comments

Commissioners' comments are responsive to the issues and recommendation.

Recommendation 21 We recommend the Fair Board and Manager jointly write annual revenue plans, and jointly debrief the actual results against projections by project or event annually. The Commissioners and the Clerk should be invited to these annual reviews, and the written reports of against projections should be shared with the Commissioners.

Management Comments

- Just because you have not heard, does not mean something does not happen. The Fair is disappointed that instead of outright inquiry into the evaluation process it does on financial projections, a blanket statement of inaccuracy was included in this memo. If the investigation had inquired, the Fair would have provided the evidence and testimony of the evaluation process of all projects and projections that occur throughout the year and at an annual retreat. The County Commissioners are always welcome and have in the past attended various meetings and retreats. The Fair will continue to extend the invitation to the Commissioners to these events.

Evaluation of Management Comments

The Clerk, Chief Deputy Clerk, and Finance Director would like to be copied on all written evaluations of Fair projects.

Audit Scope and Prior Audit Coverage

AUDIT SCOPE

Audit Methodology

The internal audit team reviewed

- the Fair's QuickBooks files, bank statements and other financial records from Calendar 2011 to the present
- the Fair's external audit reports from Calendar 2010 through 2014
- available Fair Board meeting minutes and reports to the County Commissioners
- job descriptions for all Fair staff

The internal audit team interviewed

- four Fair staff members and two Fair Board members

The internal audit team checked Idaho Repository information

- on all Fair staff members

The internal audit team appreciates the cooperation of Fair Board members, staff and their CPA consultant in conducting this review.

Data Reliability

We used computer-processed data from the QuickBooks file provided by the North Idaho Fair Board to perform this audit. We did not assess the general or application controls of any database or system.

PRIOR AUDIT COVERAGE

A review of prior audits conducted in Kootenai County revealed no prior audit coverage in the past 5 years.

Internal Audit Team & Final Report Distribution

Kootenai County

Internal Audit

451 Government Way
Coeur d' Alene, ID 83816

The team on the North Idaho Fair Financial Process Audit included:

Dena Darrow, CPA, Finance Director

Nancy Curotto, CPA, CFE, Internal Auditor

Melissa Merrifield, Internal Auditor

Pat Raffee, Chief Deputy Clerk

Jim Brannon, Clerk

Final Report Distribution

North Idaho Fair Board Members

Dane Dugan, Manager, North Idaho Fair

Mary Richter, North Idaho Fair CPA consultant

Magnuson McHugh, North Idaho Fair External Auditor

Eide Bailly, Kootenai County External Auditor

Dan Green, Kootenai County Commission Chair

Marc Eberlein, Kootenai County Commissioner

David Stewart, Kootenai County Commissioner



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July 18, 2016

To: Kootenai County Board of Commissioners
Kootenai County Internal Audit Team

DRAFT COPY

Fr: Zach Bane, Vice Chair
On behalf of the North Idaho Fair Board

Re: Response to the Memo "North Idaho Fair Internal Audit Results" dated June 14, 2016

The North Idaho Fair Board (the Fair) has made it a priority in recent years to improve the accuracy of the reporting, the internal controls, and policies and procedures of the Fair. The Fair appreciates the concern the County has regarding the Fair and was pleased to note the internal investigation by the County found the financial controls related to the annual August Fair are in order.

The Fair would like to respond to the concerns listed in the memo dated June 14, 2016. Before providing the Fair's response to specific concerns listed in the memo, the Fair would like to address concerns regarding the memo's format including the addresses and the inaccuracies in information found in the memo. The Fair is concerned the addressees included our outside CPA consultant. While Ms. Richter's assistance is appreciated, she has no decision authority. It is appropriate to include her in the carbon copy line, but the memo should not have been addressed to her. The Fair is also concerned by the inclusion of the external auditors, especially since inaccurate information was provided and subjective instead of objective language was used in the report. The Fair respectfully requests the names and direct contact information for anyone who has received a copy of this memo to ensure a full copy of the response has been received by those individuals.

In the past, several issues with the record keeping and financial controls have occurred as noted in the Fair's Audited Financial Statements. When Dane Dugan came on board, it was and continues to be a priority of his to improve the financial controls and record keeping. As noted by the county inquiry the internal controls over the fair are adequate and in order. It is not necessary nor does the fair gain any real benefit for trying to go back to former years and reorganize records. Trying to recreate records from previous years or reorganize the data doesn't provide the fair with any real benefit that would offset the incredible financial and personnel costs. The fair is not complicated when it comes to trend analysis. The audited financial statements are well suited to provide overall financial trend analysis.

The investigation team received only the bank statements and QuickBooks file. The Fair is aware of the need to follow the County's retention policy, but was dismayed by the general statement made in memo stating "the Fair's financial files are in such disarray", when no one came to observe the financial files in the office. The Fair believes concerns might have been reduced if this had occurred.

1. Responsibilities regarding Annual External Audit Reports

- Magnuson, McHugh, & Company has presented their audit each year to the entire Fair board. The Kootenai County Commissioners have been invited to attend all meetings and some Commissioners have chosen in the past to attend the audit presentation. Magnuson, McHugh and Company are prohibited by professional ethics to distribute copies of any client's financial statements. The financial statements of the Fair are and have always been available upon request from the Fair. Copies of the audited financial statements have been forwarded to the County in past and the Fair has always sent this information.
- Including the Management Discussion and Analysis on the 2016 audit and forward has been the recommendation of our outside CPA consultant. This portion of the financial statements had been discontinued in past due to time and budget constraints of the audit. It is also the plan of management to have the entire Fair Board present for a workshop on reading governmental financial statements and financial controls.
- If the investigation team had inquired, the Fair could have responded that the 2010 and 2011 audit was conducted at the same time due to delays from a previous fair manager whom is no longer with the fair.

2. Responsibilities regarding Employee Draws

- The Fair has a draft in place of policy regarding employee draws and the attorney will be reviewing this policy before it's adoption to ensure it meets all legal requirements.

3. Responsibilities regarding Non-Fair Revenues, Expenses, and Liabilities

- As the investigation team did not review the actual rental contracts in the Fair's offices, there is confusion as to how a blanket statement regarding contracts was made. It is common practice in the event rental industry to include minor immaterial items at no charge. The Fair is bound by the pricing structure published list to not charge more for an item, but is not prohibited from charging less. In fact, in her interview with Dane Dugan, Dena Darrow complimented the Fair's practice of including extras in at no charge as "good business".
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attached chart to provide evidence to the investigating team the serious and business minded way the fair is approaching this revenue source.

- The rebranding of the fair has been discussed in depth in various board meetings. Risk evaluation has been done by the Fair Board and Fair staff. This has been communicated to the County liaison. None of those interviewed were asked questions regarding risk increase, and did not know they needed to volunteer such information. If they had been asked they would be able to provide testimony to the consideration of risk management throughout the growth plan. Dane would be happy to discuss any such concerns the County Commissioners have in regards to risk management or the rebranding of the fair. This rebranding also falls in line with the directives of past County Commissioners to increase revenues to offset the tax burden.

4. QuickBooks System Integrity

- The Fair bookkeeper has used two logins in order to prevent accidental changes and protect the integrity of the system. As the bookkeeper is the only person with access and the passwords to both logins and the passwords have been changed throughout the years, there is no risk to the integrity of the data. The bookkeeper logs in daily under her own name to perform the day to day operations. In order to provide an extra level of protection, she had certain administrative functions only available under a second login with a password. She had used an old employees name, this users name has been changed.

5. Responsibilities regarding Staff Financial Practice

- The Manager designed and wrote the vast majority of the Fair's policies and procedures, so the Fair is unsure as to how he would be unable to answer questions. Without actual concrete examples as to which procedures the manager was unable to answer questions about, the Fair cannot comment further.
- The manager is a signature authority at the bank and should not have access to QuickBooks. Most small governmental agencies to ensure a segregation of duties with small staff, do not have the manager (who is generally a signature authority) have access to QuickBooks. The manager is well versed in QuickBooks and reviews multiple reports, including the bank reconciliation, profit/loss, profit/loss to budget, balance sheet, and several other reports multiple times throughout the month. The board of directors also reviews several of these reports monthly at their meeting. Please see the attached board packet as an example of the reports reviewed monthly by the board.
- As provided to the Auditor's office during their original inquiry into the Manager's salary, the amount above the contracted value was for services paid by the Fair Foundation. It is not only normal, but highly beneficial to have the manager of the Fair and the Fair Foundation be the same person. In the past the amount of the Manager's salary above his contract with the Fair was the amount being paid by the Foundation through the Fair. For greater transparency and easier tracing, the Manager pay is currently set up where two separate checks are being issued now one from each entity.
- In order to remove concerns regarding co-signing of paychecks and reimbursements, the fair is moving to a direct deposit system. Another board member is being added as a signature authority on the accounts.

- Fair income is cyclical and thus presents a challenge in cash management. Some bills were delayed due to cash flow. A problem the Fair has asked the County's guidance on for a solution to this issue of which this memo did not address.
- As discussed during the interview with the bookkeeper, a one-time situation occurred where the bookkeeper took a deposit after an event. This is outside of the normal procedures of the Fair. The Office Manager takes the deposits to the bank outside of the Fair. The bookkeeper has already discussed with the outside CPA consultant and the Manager contingency plans for any future similar situations. Please also note during the fair security is used to accompany the deposit to the bank.
- The Fair has grown tremendously and the workload is greater than the current financial staff can handle comfortably. It is in the Fair's financial plan to hire an experienced bookkeeper to increase financial capacity.

6. Unreliable Fixed Asset and Capital Improvement Records

- The Fair was not asked to provide the Fixed Asset Schedule during the investigation. The building in question was properly capitalized in the 2015 annual close and audit. Please see the attached fixed asset schedule which is updated annually as part of the yearend close. As is normal industry standards for governmental accounting, especially for small organizations, the financial records throughout the year are kept on a cash basis. Thus allowing the entity to compare budget to actual easily for expenses. The journal entries to capitalize the fixed assets are done at the annual close. These accounts are clearly labeled and identified in the Fair's QuickBooks.
- The bookkeeper was not aware the county needed us to provide the insurance form on this asset as she had previously been instructed by the county to only provide equipment information. Please note the bookkeeper turns in all equipment expenditures to the county on a quarterly basis. The bookkeeper will make sure going forward all new structures are sent to the County.
- \$88,385 of capital assets were added in 2015 not including \$13,546 of capital lease payments and over \$77,000 of maintenance which were also made in 2015. Most of these expenses were made prior to receiving the annual allotment from the County.

7. Inaccurate Financial Recordings

- The Fair has changed the policy to reimburse the Office Manager using IRS mileage guidelines.
- The Fair acknowledges in the past there were problems with consistent application of categorizing transactions. The Fair has started working with an outside CPA to provide additional guidance and training to our staff. The Fair and outside CPA are reviewing industry standards by the International Association of Fairs & Expositions to see if they are applicable.
- The monthly financials are for internal use are kept on the cash basis for budgetary comparison purposes. Revenue recognition issues only become relevant at year-end when the fair issues its audited financial statements.

8. Overuse of Informal Communication and No Post-Project Reviews

- The Fair has been following the chain of information in which it was instructed to use by the County. The Fair has been under the impression when it provides the board minutes, agenda, and invitations to all meetings to their contact at the County, Nancy Jones, that she was distributing it to the appropriate County offices. Agendas and minutes are also directly sent to Stephanie Clark and Commissioner David Stewart. If the County Commissioners would like to provide in writing the additional email addresses for contact, the Fair will add them to the distribution list. Any changes to distribution of the information once the Fair has sent it to the contact should be handled and addressed internally by the County.
- The Fair board is a very involved board which is generally encouraged and desired in good governance. No major decisions are made without full board review and approval. Minutes are recorded and distributed which state this approval.
- Just because you have not heard, does not mean something does not happen. The Fair is disappointed that instead of outright inquiry into the evaluation process it does on financial projections, a blanket statement of inaccuracy was included in this memo. If the investigation had inquired, the Fair would have provided the evidence and testimony of the evaluation process of all projects and projections that occur throughout the year and at an annual retreat. The County Commissioners are always welcome and have in the past attended various meetings and retreats. The Fair will continue to extend the invitation to the Commissioners to these events.

Pat Raffee

From: David Stewart
Sent: Monday, July 25, 2016 3:48 PM
To: 'Dane Dugan'; 'Jerry Johnson'
Cc: Daniel Green; Marc Eberlein; Jim Brannon; Pat Raffee; Dena Darrow; Nancy Jones
Subject: BOCC Decisions 7-25-2016

Dane,

The Board of County Commissioners met this morning and made the decision to follow one of the recommendations made by the Internal Audit Team to add two (2) additional Fair Board Members that possess "deeper financial expertise" and directed staff to advertise these new positions with a closing date of August 15, 2016. Furthermore, the BOCC is requesting that the Fair Manager and Fair Board schedule advisory board update monthly meetings with the BOCC. Typically, these regularly scheduled monthly meetings are attended by the Department Head/Manager, Chairman and Co-Chair but are open to all who wish to attend. Nancy Jones will be contacting you in the near future to schedule.

Please also reply to my email dated July 21, 2016 regarding the BOCC's request to receive a presentation regarding your proposed RV Park on county property.

Please reply if you have any questions.

Regards,

David Stewart

KOOTENAI COUNTY COMMISSIONER
DISTRICT 2



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