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CLARK COUNTY
WASHINGTON

AUDITOR
GREG KIMSEY

MEMORANDUM

Date: November 16, 2016
To: John Morrison, CEO, Fairgrounds Site Management Group
From: Tom Nosack, Performance Auditor, Clark County Auditor's Office
Subject: Follow-up to 2014 Fairgrounds Site Management Group (FSMG) Audit

Background:

Clark County Auditor's Office conducted an [audit](#) of the Fairgrounds Site Management Group's cash handling procedures for non-county fair related activities on September 16, 2014. The audit resulted in 14 findings with 23 accompanying recommendations.

On March 17, 2015 we conducted an initial follow-up to determine the progress being made with the most critical issues; we found thirteen of the 24 recommendations were substantially adopted or the issue had been addressed by other means.

On November 9, 2016 we conducted a second follow-up of progress. The purpose of this follow-up was to identify overall progress on issues and recommendations two years after the audit.

Issues:

a. Management reporting

Condition: Financial performance data as provided was incomplete as it did not include allocated overhead costs, only direct costs. Revenue after expenses is not complete if it does not include allocated expenses. Admin and overhead indirect costs are allocated quarterly by the county but are only integrated into financial data by FSMG annually.

Cause: Overhead costs that the county allocates quarterly are only applied by FSMG on an annual basis.

2016 Status: Closed. Financial reports show FSMG now integrates the county quarterly allocation information in its monthly financial updates.

b. Management financial oversight

Condition: FSMG does not provide oversight of financial actions. Although there are two levels of management within FSMG above Financial Management, there is no managerial oversight for financial activities evident.

2016 Status: Closed. Documentation of management oversight was provided, and discussions support improvements.

c. Annual revenue & expense testing requirement

Condition: 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.

“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.”

Cause: The required testing was never initiated, and the contract is not being monitored.

2016 Status: Closed. In 2014 immediately following the audit, discussions with the Auditor’s Office were initiated to garner temporary assistance meeting this requirement. After initial contact, it appears to have been forgotten by both parties. In October 2016, the Auditor’s Office identified resources to provide a one-time review to meet the contractual requirement. This will both help identify a baseline status and provide a “boilerplate” to assist FSMG in contracting for a CPA to do the work in the future.

d. Employment of relatives

Condition: Existing FSMG policy allows family members to work within the same organization if one does not supervise the other. However, in a small organization internal controls can be difficult and require extra work. We noted two examples of temporary working relationships that increase risk and should be addressed by management.

Cause: Past practice has not complied with FSMG Policy 2.4 “Employment of Relatives”.

2016 Status: Closed. As of November 1, 2016 there are no more situations where spouses or family members are in high risk situations within FSMG.

e. Segregation of duties

Condition: Some financial staff members have access to multiple financial functions that are normally considered incompatible duties. Counting cash, making deposits, approving refunds and reconciling the deposits should be completed by separate people to the extent possible.

Cause: Segregation of incompatible duties is an essential internal control. Some duties and responsibilities are inherently high risk and should not be done by the same person, if possible. When limited staffing requires incompatible duties must be done by a single person, then compensating controls should be used.

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

2016 Status: Closed. Procedures now provide internal controls that cash handling personnel are generally aware of; some minor discrepancies on how to handle refunds with charge cards were resolved while we were on site.

f. Financial Reporting

Condition: Financial and activity reporting is inconsistent between Fair and non-Fair activities. Reports from the two main lines of business can't currently be combined to present comprehensive, accurate, and timely reporting of revenue and expenses for the combined operation.

Cause: The FSMG does not have financial policies in place to ensure consistency in reporting revenue generating activities. The FSMG has a separate financial services provider that handles reporting for fair activities. Financial activities for the event center are handled by permanent fairgrounds staff. Also, current Event Management software does not integrate financial data fully, and financial software does not restrict access effectively.

2016 Status: Closed. Financial reports for fair and non-fair activities are now consistent in appearance and are fully integrated into a single document, providing a better representation of FSMG's financial status. Further, the Peachtree Financial System has been reviewed and it has been purged of former employees.

g. Receipting

Condition: We noted internal control weaknesses over the fairgrounds' receipting functions:

- Receipt book is kept in an unsecured location.
- Cash, checks and credit card payments made to the JLA (Junior Livestock Auction) and presented at the register are collected and placed in with the deposit but not recorded in any way. They are intentionally kept separate to keep them from being deposited in the general account, requiring a new check be cut. Instead, they are an invisible pass through that is handled with the cash but not deposited and not noted on deposit tickets or any other form.
- Original receipts from voided transactions and refunds are not always retained.

Cause: The FSMG does not have clear, comprehensive policies and procedures in place to ensure that internal controls are implemented for cash handling duties.

2016 Status: Closed. Policies are in place and generally followed. Improved controls for the JLA as well as the Premiums and Awards fund are in place and expected to be effective.

h. Deposits

Condition: We noted internal control weaknesses regarding the cash deposit function:

Cause: The FSMG does not have clear, comprehensive policies and procedures in place to ensure that internal controls are implemented for cash handling duties.

2016 Status: Closed. Employees package nightly deposits separately in sealed bank bags.

i. Revenue generation

Condition: Rental revenue does not appear to be maximized and rental rates are not charged consistent with existing procedures and policy.

Cause: Based on the sample weekend, contract prices can vary significantly from posted fee structure. Variances from published rates currently do not require additional review or approval.

We recommend the policy reflect when (and what) variances are allowed in rental rates to include parking based on the type of event and the facility rented.

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.

2016 Status: Closed. Second level of review is noted on documents tested, and employees describe the process consistently.

j. Parking revenue controls

Condition: 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 to check vehicle count, passes in use, or revenue being generated vs. projected. This is a very high risk activity for loss. Some of these risk areas include:

- a. Controls to ensure all required customers pay for parking are weak
- b. "Buy-out" parking charges are based on customer estimates
- c. The number of attendees is based on customer estimates at time of contracting.
- d. 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.
- e. No total traffic count is made to compare to revenue collected
- f. Use of parking passes is not monitored or audited after issuing them
- g. Parking buy-out charges are not "corrected" after the event

Cause: 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, passes in use, or revenue being generated vs. projected.

2016 Status: Closed. Evidence of efforts to quantify the different parking capacities and standardize them appropriately is available. Gun show vehicle estimates were provided to show how passenger count in cars were adjusted from a standard of 2.8 occupants per car to 1.8 occupants per car based on best practices, and verified after the event. Both the process and increase in revenue are documented.

k. Parking fees

Condition: We noted the following internal control weaknesses with regard to collection for parking and miscellaneous rental revenue:

- Parking control is contracted out to Coast to Coast, Inc. There are no management controls to check the vehicle count, passes in use, or revenue being generated.
- Information about how often rental rates (facilities and long term) are evaluated and how appropriate rates are best determined is not available.

Cause: Management does not verify contractor performance using tools such as vehicle counts, passes in use, etc. Management also does not have policies and procedures in place to ensure the timely collection of rental revenues.

2016 Status: Closed. See previous issue; management is checking count where appropriate for large venue events. Revenue collection has been timely in 2016.

l. Tickets

Condition: We identified an elevated risk of fraud or abuse of carnival ticket controls with the annual fair. Management has no control system to test, sample or verify the number of tickets actually purchased vs. what is claimed by the vendor.

- Generic carnival tickets are purchased from the vendor, and the quantity used is identified by the vendor based on their internal records. Additional tickets could be introduced without FSMG's knowledge. The vendor currently must be relied upon to provide the information and their own oversight. The vendor is open to using customer supplied tickets as it currently does for a number of other municipalities and customers.

Cause: No follow-up on prior finding.

We recommend that color-coded and marked (serial numbered, with Clark County logo) carnival tickets should be purchased and provided to the vendor at the start of the fair. FSMG should not use tickets provided by the carnival due to the lack of internal control they provide.

2016 Status: Closed. Management will discuss this further with other jurisdictions during fair management convention, and will bring it up with the vendor during their next contract update. Additional preventative controls of some type are desirable for carnival tickets.

m. Food & beverage sales

Condition: Revenue and commission information reported to FSMG by the food and beverage vendor (Ovations, Inc.) is inaccurate.

Cause: Ovation is incorrectly calculating the net revenue on which our commissions are paid. Ovation reports that they are calculating net revenue by subtracting 8.4% sales tax from the gross; however, verifying their documents shows that they are actually using 7.7% sales tax. Management relies on the vendor for accurate information and does not verify or test their work.

We recommend management verify all calculations from Ovation and determine if there is a reasonable way to spot check the sales figures provided in monthly reports. Finance should also determine how far back the reports from Ovation have been inaccurate and work with them to correct the errors.

2016 Status: Closed. Management is checking tax charged and periodically reviewing invoices.

n. Conclusion

We have reviewed the progress made by FSMG since the 2014 audit and find they have effectively addressed the major issues identified in the audit. Most of the procedures that were put into place as controls appear to still be in place and effective. FSMG has continued to improve its financial operations and internal controls for non-fair operations.

It is important that the annual financial review required in the FSMG management contract be completed every year beginning in 2016 as an internal control.

cc:

Greg Kimsey, Auditor

Mark McCauley, County Executive

Mark Gassaway, FMS Director

Bob Stevens, General Services Director

Larry Stafford, Audit Services Manager