



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

David A. Vaudt, CPA
Auditor of State

NEWS RELEASE

Contact: David A. Vaudt
515/281-5835
or Tami Kusian
515/281-5834

FOR RELEASE _____ December 22, 2006 _____

Auditor of State David A. Vaudt today released a special investigation report on the Central Iowa Fair for the period July 1, 2004 through September 30, 2006. The special investigation was performed at the request of the Marshall County Attorney.

Vaudt reported several findings regarding collections made by the Fair. The findings included:

- \$5,052.10 of collections recorded in the Fair's receipt books, in contractual agreements or in Board minutes that we could not directly trace to deposit.
- \$430.50 of deposits to the Fair's checking account for which supporting documentation was not available.
- We were unable to determine whether any additional collections were undeposited because the Fair does not maintain complete and adequate records to document the collection of all receipts.

Vaudt recommended the Fair segregate financial duties, implement specific procedures to improve controls over cash collections, improve procedures for the preparation of disbursements and independent review of related supporting documentation and maintain complete and accurate Board minutes.

Copies of the report are available for review in the Central Iowa Fair's office. The report is also available in the Marshall County Attorney's Office, Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/specials.htm>.

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**SPECIAL INVESTIGATION OF THE
CENTRAL IOWA FAIR**

**FOR THE PERIOD
JULY 1, 2004 THROUGH SEPTEMBER 30, 2006**

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Auditor of State's Report

To the Board of the Central Iowa Fair:

At the request of the Marshall County Attorney, we conducted a special investigation of the Central Iowa Fair located in Marshalltown, Iowa. We have applied certain tests and procedures to selected accounting records and related information of the Central Iowa Fair (Fair) for the period July 1, 2004 through September 30, 2006. The procedures we performed are summarized as follows:

1. Evaluated internal controls at the Fair to determine whether adequate policies and procedures were in place.
2. Examined Board minutes and related financial reports presented during Board meetings.
3. Examined activity recorded in the Fair's accounting records.
4. Examined quarterly payroll reports to determine whether reports were filed and related payroll taxes were paid in a timely manner.
5. Examined annual payroll tax returns to determine whether the returns were filed in a timely manner.
6. Examined activity in bank accounts held by the Fair to identify any unusual activity.
7. Obtained rental agreements between the Fair and outside parties to determine the amount of rental fees to be collected.
8. Examined deposits to the Fair's bank accounts to determine the source, purpose and propriety of each deposit.
9. Obtained the Fair's miscellaneous receipt book to determine whether collections recorded were deposited.
10. Compared collections recorded on monthly income sheets to subsequent bank deposits.
11. Examined redeemed checks from the Fair's bank accounts to determine if the disbursements appeared appropriate and reasonable.
12. Obtained invoices or other supporting documentation from the Fair's business office to determine whether selected disbursements were properly supported and were for appropriate purposes.

These procedures identified several findings regarding collections made by the Fair. Our detailed findings and recommendations are presented in Findings **A** through **J** of this report. Our findings include:

- \$5,052.10 of collections recorded in the Fair's receipt books, in contractual agreements or in Board minutes that we could not directly trace to deposit.
- \$430.50 of deposits to the Fair's checking account for which supporting documentation was not available.
- We were unable to determine whether any additional collections were undeposited because the Fair does not maintain complete and adequate records to document the collection of all receipts.

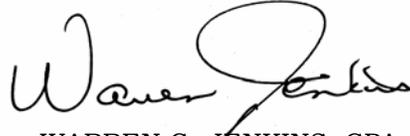
The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of the Central Iowa Fair, other matters might have come to our attention that would have been reported to you.

A copy of this report has been filed with the Marshall County Attorney's Office.

We would like to acknowledge the assistance extended to us by personnel of the Central Iowa Fair during the course of our investigation.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 4, 2006

Central Iowa Fair

Investigative Summary

Background Information

The Central Iowa Fair, hereby referred to as the Fair, was established as an Iowa non profit corporation on July 1, 1926 in accordance with Chapter 504A of the *Code of Iowa*. The Fair operates on 25 acres of land owned by Marshall County and is located in Marshalltown, Iowa. Although the Fair operates on County land, it is not governed by Marshall County. According to its Articles of Incorporation, the purposes of the Fair are:

- To promote the development of crop raising and livestock breeding skills through educational participation and observation activities.
- To provide educational exhibits of agriculture, mechanical and horticultural products as well as provide educational materials and literature in these areas.
- To promote agricultural development and appreciation for the role of agriculture in our society.
- To develop interest and educational skills among young persons in farming and those interested in the science of agriculture through showing of livestock and farm products.

The management of the Fair is overseen by a 9 member Executive Committee elected by the Board of Directors. Members of the Executive Committee are elected to serve a 3 year term. The Executive Committee holds monthly board meetings to discuss the Fair's current activities, approve bills and review financial reports.

The Board of Directors consists of no less than 24 and no more than 36 directors. Directors are elected by stockholders annually at the stockholders annual meeting. All Directors are volunteers and do not receive monetary compensation for their services. Individuals may become stockholders by purchasing a share for \$25.00.

Permanent Fair employees consist of an Office Manager and a Groundskeeper. In addition, the Fair contracts annually for the position of Fair Manager. Individuals are also periodically hired on an hourly basis for short term projects.

In March 2006, the Fair's office manager of approximately 5 years resigned. An interim office manager was hired for approximately 5 weeks until the position was filled on a permanent basis in May 2006.

The Fair's primary revenue sources include financial support from Marshall County, rental income from fairground facilities, rental income generated from leasing the Fair's racetrack facilities, annual funding received from the Association of Iowa Fairs and private donations. In addition, the Fair receives income generated by the annual Fair which is usually held during July. Income received during the Fair includes collections for items such as 4H premiums, vendor fees and advertisements in the Fair Ad Book.

At the request of the Marshall County Attorney, we performed procedures detailed in the Auditor of State's Report for the period July 1, 2004 through September 30, 2006.

Detailed Findings

These procedures identified several findings regarding collections made by the Fair. Each of our findings is separately addressed in **Findings A** through **J**. Our findings include:

- \$5,052.10 of collections recorded in the Fair’s receipt books, in contractual agreements or in Board minutes that we could not directly trace to deposit.
- \$430.50 of deposits to the Fair’s checking account for which supporting documentation was not available.
- We were unable to determine whether any additional collections were undeposited because the Fair does not maintain complete and adequate records to document the collection of all receipts.

(A) Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The Fair’s Office Manager has control over each of the following areas for the Fair:

- (1) Receipts - collecting, depositing and posting.
- (2) Disbursements - check preparation, distribution and posting. In addition, the Office Manager also has access to presigned checks.
- (3) Financial Reporting - receipt of the bank statement and reconciling bank balances to Fair records.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the duties within each function listed above should be segregated between the Office Manager and Executive Board members.

(B) Receipts and Undeposited Collections – The Fair maintains a miscellaneous receipt book for cash and check collections. According to the Office Manager, receipts are typically issued at the request of the payer. The Fair also maintains monthly income sheets to document collections received during the month.

Based on our review of the miscellaneous receipt books, contractual agreements and Board minutes, we identified collections totaling \$5,052.10 that could not be traced to deposit or otherwise accounted for. Specific details related to our finding are summarized below.

Description	Amount
<ul style="list-style-type: none"> • 2 pages were missing from the Fair’s receipt books. The 2 pages contained 8 receipts for which we were unable to determine what amount, if any, had been collected. 	Unknown
<ul style="list-style-type: none"> • Miscellaneous receipts totaling \$4,562.10, consisting of \$2,327.00 of cash, \$165.00 of checks and \$2,070.10 of an unknown origin, could not be traced to deposit with the bank. Of this amount, \$4,547.10 was collected between July 1, 2004 and January 20, 2006. The remaining \$15.00 was a cash collection for a poetry entry on June 29, 2006. 	\$4,562.10
<ul style="list-style-type: none"> • Miscellaneous receipts totaling \$9,980.00 collected from fairground facility renters for security could not be traced to deposit with the bank. According to the Office Manager, collections for security are turned over to local law enforcement for security services provided. We discussed these transactions with a representative of the County Sheriff’s Office. While the amount identified could not be confirmed, he stated it appeared reasonable. 	Unknown

- Contractual agreements were identified for which miscellaneous receipts totaling \$490.00 should have been issued. We were unable to locate receipts for the collections and we were unable to trace the collections to deposit with the bank. 490.00

Total \$ 5,052.10

When we discussed these findings with the Office Manager, she identified receipts she stated should have been voided. She stated because the top copy of the receipt was still attached in the book and not issued to the payer, it was not a valid receipt and should not be considered when comparing the receipts to subsequent deposit. The receipts identified were not marked “void” or cancelled in any other manner. In addition, we did not locate any corresponding corrected receipts to replace the ones identified by the Office Manager. As a result, we believe they should have been considered when comparing the receipts to subsequent deposits.

The Office Manager also identified collections for rental fees and concession supplies which she believed may have been included with the deposit of concession collections. The Office Manager was not able to provide us with an itemized list to identify the composition of the deposit. Typically, collections for rental fees and concession supplies are separately identified in the Fair’s ledger. As a result, we have included these collections for rental fees and concession supplies in our total.

In addition, the Office Manager identified certain receipts she believes were included in subsequent bank deposits. However, the receipts identified were dated a significant number of days prior to the date of the subsequent bank deposit identified by the Office Manager. As a result, we included the receipts in the undeposited collections identified in our findings.

We also identified 3 deposits to the Fair’s checking account totaling \$430.50 for which we were unable to determine the source. We were unable to tie any of the unidentified deposits to an individual undeposited amount or a combination of undeposited amounts.

In addition, all items recorded on the income sheets were traced to deposit in the Fair’s bank accounts. However, we identified several deposits in the Fair’s bank accounts that were not recorded on the income sheets, indicating the income sheets do not account for all collections received by the Fair.

Because the Fair does not maintain complete and adequate records to document the collection of all receipts, we are not able to determine whether any additional collections are undeposited.

Recommendation – The Fair should implement procedures to adequately document all collections and reconcile collections to amounts deposited with the bank. In addition, procedures should be implemented to ensure all collections are deposited intact in a timely manner.

- (C) Cash Collections - The Fair collects a significant amount of cash for concessions sold during events held on the grounds, such as weddings and other private parties. According to discussions with the Office Manager, the cash is counted after the event and placed in a locked drawer in the Fair office with a note indicating the amount collected.

Cash count sheets signed by more than one individual are not used. In addition, Board members have access to the drawer and the cash prior to its deposit.

The Fair was not able to provide us with an itemized reconciliation of concession collections to deposit. On occasion, the Fair hires help to assist with the concessions. It appears the Fair may have paid these individuals with cash proceeds from event collections.

Recommendation - The Fair should implement procedures to ensure at least 2 individuals count the cash, record the amount on a count sheet and sign the count sheet. In addition, the count sheets should be retained after the collections are deposited to adequately document the amount of cash collections and event collections were deposited intact. Payment for services provided during events should be made by check and the Fair should monitor the amount paid to individuals to ensure compliance with applicable IRS regulations, such as the issuance of a 1099.

- (D) Disbursements - According to discussions with the Office Manager, the Fair requires dual signatures for checks \$1,000.00 or greater. We did not find evidence of a written policy to identify when checks should be signed nor was a dual signature restriction applied to the bank signature card. We reviewed all redeemed checks and identified 80 checks \$1,000.00 or greater issued during the period of our review. Of the 80 checks, 76 were signed by only one Board member.

We also found evidence that checks are presigned.

Recommendation - The Board should implement and consistently apply a written policy that clearly identifies procedures for check signing. Checks should not be signed until a specific payee and amount have been designated and the signer has reviewed the related supporting documentation to ensure the payment is appropriate. All checks should be prepared and signed by the Office Manager and reviewed and countersigned by a designated Board member.

- (E) Board Minutes - We reviewed copies of Board minutes available in the Fair's office. However, they were not signed. An official signed copy of the minutes was not available. We also identified the following regarding the minutes we reviewed.

- The minutes maintained did not always include a listing of the bills approved for payment and/or financial reports presented to the Board.
- We identified a payment to B&B Electric for fairground lighting in the amount of \$3,703.64. According to a discussion documented in the August 24, 2004 Board minutes, payment had been issued to B&B Electric prior to Board approval.
- In addition, we identified a financial report presented to the Board at the March 21, 2006 meeting which overstated the bank balance by \$660.53.
- The October 19, 2004 Board minutes document the meeting agenda was modified during a Board meeting.
- The minutes did not appear to consistently reflect all action taken by the Board or items discussed.

Recommendation - The Board should keep an official written record of all meetings held. The minutes of each meeting should be signed by the Board Secretary to attest to the actions taken. The minutes should also summarize all actions taken at the meeting, a detailed listing of all individual bills approved and copies of financial reports presented to the Board.

In addition, procedures should be implemented to ensure the completeness and accuracy of financial reports presented to the Board. Financial reports should include amounts collected at events held at the fairgrounds since the last Board meeting.

When it is necessary to modify the Board meeting agenda, modifications should occur prior to the meeting and allow for adequate notice to any interested parties.

- (F) Financial Accounting Records - Limited supporting documentation for financial records was readily available for the period of our review, due largely to poor records management practices in place prior to the current Office Manager.

The Fair maintains financial reporting software for which one user account is established. The user account and password are shared by the Office Manager and the Board Treasurer and the password is not routinely changed. The software has the capability to create multiple user accounts, each with a separate identity and password.

The general ledger is not closed at the end of the fiscal year. As a result, modifications can be made to entries posted in prior fiscal years. We found evidence to indicate modifications had occurred. General ledger reports are provided to the Fair's attorney for use in preparation of the annual non-profit tax return and quarterly 941 payroll reports.

Recommendation – The Office Manager has made significant progress in developing adequate records management practices. This effort should be continued so supporting documentation for entries posted to the general ledger is readily available.

In addition, the Fair should create a separate user account for each individual granted access to the general ledger. Passwords should be routinely changed to protect the integrity of each user account. Also, the general ledger should be closed-out at the end of the fiscal year to prevent changes to prior periods. Adjustments should be entered as a correcting journal entry rather than a modification to the original journal entry.

The Fair should consult its Attorney to determine whether modifications to the ledger accounts will impact previously filed tax returns.

- (G) Accounting Practices - We identified items coded to accounts payable and accounts receivable during the fiscal year ended June 30, 2006. Receivables and payables were not recorded in the fiscal year ended June 30, 2005. Several of the items coded to accounts receivable and payable were dated early in the fiscal year. It does not seem reasonable receivables or payables recorded early in the fiscal year would still exist at the end of the fiscal year.

Recommendation – The Fair should review items coded to accounts payable and accounts receivable to determine whether the financial records accurately reflect the activities of the Fair.

- (H) Untimely Submission of Quarterly Payroll Reports – Quarterly payroll reports are prepared by the Fair's attorney. Quarterly payroll reports and the related payroll taxes due were not submitted timely from July 2003 through September 2004. As a result, penalties and interest totaling \$2,991.22 have been assessed to the Fair by the IRS. The Fair has requested an abatement of penalties totaling \$1,956.42 from the IRS. The outcome of the Fair's abatement request is still pending.

The delinquent payroll taxes were initially identified in late 2004. In January 2005, the Fair's attorney prepared the appropriate reports and provided them to the Treasurer. In March 2006 the then Office Manager located a delinquency notice from the IRS. The unsubmitted payroll reports were subsequently found in a drawer at the Fair's office on March 22, 2006. The payroll reports were in stamped envelopes. According to the former Board Secretary, the drawer where the tax returns were found had previously been searched and the payroll reports were not there. We observed delinquency notices dated as early as July 4, 2005. We are unable to determine why the payroll reports were not filed and taxes were not paid by the deadline or why previous delinquency notices had gone unresolved. We observed completed quarterly payroll reports and the related redeemed checks for all subsequent quarters.

Recommendation – Federal law requires employers to withhold federal income, social security and medicare taxes from employees’ paychecks and submit quarterly payroll reports documenting the taxes due. The reports are required to be submitted to the Internal Revenue Service by the last day of the first month following the end of the quarter. Quarterly payroll reports and the related taxes due should be submitted timely in compliance with federal regulations to avoid incurring interest and penalties.

- (I) Ribbon Auction – The Fair holds an annual Ribbon Auction where 4-H Members who received ribbons during fairtime can auction their winning animals. A percentage of the winning bid is paid to the 4-H Member and the remainder is retained by the Fair to provide scholarships and grants to local 4-H organizations. Ribbon Auction proceeds for the fiscal years ended June 30, 2006 and 2005 totaled \$12,025.00 and \$8,600.00, respectively. In fiscal year 2006, 60% of auction proceeds were paid to the 4H member and 40% of auction proceeds were retained by the Fair. As of December 4, 2006, the Fair is owed \$450.00 for winning bids from the 2006 Auction and \$150.00 from the 2005 Auction.

A separate savings account was established several years ago to separately account for Ribbon Auction proceeds. However, proceeds from the 2005 Ribbon Auction were deposited into the Fair’s checking account. The Fair has borrowed money from Ribbon Auction proceeds to pay general expenses of the Fair. According to documentation provided by the Fair’s Office Manager, the Fair has borrowed \$6,151.74. We observed a letter from the Fair’s finance committee indicating the funds will be repaid with 5% interest as revenues come available.

Recommendation – The Fair should establish a written policy for use of Ribbon Auction proceeds, including circumstances for when funds can be borrowed and where proceeds should be accounted for. Any Ribbon Auction proceeds borrowed by the Fair for general expenses should be approved by the Executive Committee and the amount borrowed should be clearly documented in the Board minutes. In addition, the Fair should follow up on any winning bids still owed.

- (J) Bank Accounts and Balances - We reviewed the signature cards for the Fair’s bank accounts. The signature card for the Fair’s Ribbon Savings account indicates a previous bookkeeper and two previous Board members still have access to the bank account.

In addition, the bank statements are received and reconciled by the Office Manager. The Office Manager is also responsible for collecting, posting and depositing receipts and preparing and posting disbursements.

We examined transactions posted to the Fair’s bank accounts to identify any unusual activity. We identified a cash withdrawal from the Fair’s checking account in the amount of \$350.00 on March 15, 2006. In addition, for the period of our review, the Fair incurred overdraft charges totaling \$90.00 and other service charges totaling \$230.10.

The balance of the Fair’s checking account according to the July 2004 bank statement was \$38,400.21. The balance on September 30, 2006 was \$2,991.22. According to discussions with the Fair Board President, the Office Manager and the Fair’s attorney, the Fair’s revenues have decreased significantly over the past several years. In addition, a new private facility was recently built within close proximity to the fairgrounds and has caused a reduction in facility rental and concession income earned by the Fair. As previously noted, we identified collections totaling \$5,052.10 that could not be traced to deposit. We are unable to determine whether a relationship exists between the undeposited receipts and the decline in the bank balance. We reviewed all redeemed checks issued from the Fair’s checking account for propriety and did not identify any unusual payments.

Recommendation – The Fair should remove any individuals no longer associated with the Fair from its bank accounts. In addition, bank statements should be delivered to and reviewed by a Board member who does not collect or disburse the Fair’s funds.

Central Iowa Fair

Staff

This special investigation was performed by:

Annette K. Campbell, CPA, Director
Corinne M. Johnson, CPA, Senior Auditor
Billie Jo Heth, Senior Auditor



Tamera S. Kusian, CPA
Deputy Auditor of State