



Province of Nova Scotia

Nova Scotia Provincial  
Exhibition Commission

Project #765

Operational Review

FINAL REPORT

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# Contents

- 1 Executive Summary ..... 1**
  - A. Introduction ..... 1
  - B. Objectives of the Report..... 2
  - C. Mandate and Governance..... 2
  - D. Comparative Survey..... 3
  - E. Internal Controls over Operational Business Practice..... 3
  - F. Historical Expenditures Review ..... 4
  - G. Governance Models..... 5
  - H. Overall Conclusions and Recommendations ..... 5
  - I. Management’s Response..... 6
- 2 Introduction ..... 7**
  - A. Objectives of the Report..... 7
  - B. Scope of Review ..... 7
  - C. Limiting Conditions ..... 8
  - D. Corporate Overview..... 9
  - E. Facilities Overview ..... 10
  - F. Key Commission Partners..... 11
  - G. Organizational Structure..... 12
  - H. Timeline of Events 2013 – 2014 ..... 13
- 3 Commission Mandate and Governance / Management ..... 15**
  - A. Mandate..... 15
  - B. Comparison of Mandates & Governance Structure for Similar Facilities..... 15
  - C. Board Governance & Management..... 17
- 4 Comparative Survey ..... 19**
  - A. Introduction ..... 19
  - B. Approach..... 19
  - C. Fredericton Exhibition..... 20

D. <i>Charlottetown Old Home Week</i> .....	25
E. <i>Summerside Lobster Festival</i> .....	29
F. <i>Hants County Exhibition</i> .....	32
G. <i>Comparator Analysis</i> .....	35
<b>5 Operational Controls and Historical Expenditures .....</b>	<b>37</b>
A. <i>Overview</i> .....	37
B. <i>Operational Controls</i> .....	37
C. <i>Historical Expenditures</i> .....	38
D. <i>Conclusions</i> .....	41
<b>6 Governance Models and Leading Practices .....</b>	<b>42</b>
A. <i>What is Governance?</i> .....	42
B. <i>Ownership and Organizational Mandate</i> .....	43
C. <i>Board Models for the Commission</i> .....	46
D. <i>Matrix of Board Models Showing Key Operational Characteristics</i> .....	47
<b>7 Overall Conclusions.....</b>	<b>53</b>
<b>8 Recommendations and Implementation Plan.....</b>	<b>58</b>
A. <i>Conclusions</i> .....	58
B. <i>Business Model Recommendations</i> .....	59
C. <i>Operating Controls Recommendations</i> .....	63
<b>Appendix A: Process Narratives .....</b>	<b>65</b>
<b>Appendix B: Controls Matrix .....</b>	<b>88</b>
<b>Appendix C: Findings and Recommendations .....</b>	<b>101</b>
<b>Appendix D: Leading Practices in the Governance of Not-for-Profits .....</b>	<b>127</b>

# 1 Executive Summary

## A. Introduction

The Nova Scotia Provincial Exhibition Commission (the “Commission”) was created in 1946 under provincial charter. The Commission is governed by the Nova Scotia Provincial Exhibition Commission Act, 1992 as amended (the “Act”), the Agricultural Exhibitions and Fairs Regulations made under Section 160 of the Agriculture and Marketing Act, and the Maritime Provinces Harness Racing Commission Act. The objectives of the Commission described in the Act as amended in 2006 are:

1. To hold agricultural and industrial exhibitions in the province;
2. To operate a racetrack at which horse racing is conducted and pari-mutuel betting, including off-track betting is permitted;
3. To operate and conduct such other forms of gaming and gambling business activities as are permitted by law and which are compatible with racetrack operations; and,
4. To promote and foster public awareness of the development of and impact of agriculture in Nova Scotia.

The Commission is a not-for-profit association that owns and operates a 65-acre multi-purpose exhibition facility in Bible Hill, Nova Scotia. Other than the infrequent maintenance of the Act, the Province of Nova Scotia has no involvement or communication with the Commission. Historically the Province’s financial support is limited to loans (provided by the Nova Scotia Farm Loan Board) and requests for a grants for the annual Nova Scotia Provincial Exhibition and raceway operations.

The Commission’s facility is the home of Truro raceway, a half-mile harness racing track. There is also an Agridome which has an indoor sports turf and can be adapted to host a variety of concerts, agricultural and community events. Each year, in August, the Commission runs the Nova Scotia Provincial Exhibition (the “Exhibition”), a five-day event attended by more than 40,000 people and includes a major 4-H show, beef and dairy shows, heavy horse pull, light horse show, rodeo, demolition derby, antique farm machinery displays and a wide range of agricultural and craft competitions. Numerous commercial and non-commercial exhibits and demonstrations are set up for public access. The Commission’s facilities are also used by various commercial and non-commercial groups at other times of the year.

In recent years the Commission has experienced turnover at the general manager position. This is partly due to the governance structure in that the Board of Directors have been actively involved in the Commission’s operations which has undermined the general manager’s authority. Financial difficulty has resulted in the Commission extending their repayment period to vendors resulting in significant payment delays. As a result vendors of the Commission have not extended credit to the organization and they have been forced to pay cash on delivery for all goods or services. Pari-mutuel contracts with other race tracks are in jeopardy of being cancelled as the Commission had failed to remit to these race tracks amounts collected for betting on the other parties’ races (net of payouts). This has resulted in strained relationships with key racing partners.

Financial results for the Commission have not been in line with expectations. The Commission’s raceway results have been reduced with declining attendance. Similarly, other areas of the Commission have been unable to generate sufficient cash flow to fund the ongoing capital maintenance of facilities and in certain circumstances cover the operating costs. A review of financial and business affairs of the Commission conducted by Grant Thornton in August 2013, declared it insolvent, where current and long term liabilities (\$638,000 and \$373,000 respectively)

and cash flow constraints prevented it to make payment on its obligations.. As a result, the Nova Scotia Farm Loan Board (NSFLB) provided the Commission with notice that they would be exercising their rights under their loan agreement to seize secured assets. The Minister of Agriculture announced the appointment of a new interim Board of Directors to oversee operations while the Province evaluate their options for the future of the organization.

## **B. Objectives of the Report**

In March 2014, the Internal Audit Centre (IAC) of the Province of Nova Scotia at the request of the Department of Agriculture (the “Department”) retained KPMG to conduct a financial statement audit for the years ended December 31, 2012 and December 31, 2013 and operational review of the Commission based on defined areas of focus.

The primary objective of the project is to perform a review of the Commission’s operations with a view of obtaining an independent and objective assessment of the current governance and operating model and to provide the Department with assistance in reviewing and revising the business and financial processes that support the Commission’s operation. The project was divided into two parts; Part One: Operational Review and Part Two: Financial Statement Audit. This report deals only with Part One: Operational Review.

The objectives outlined for the Operational Review were comprehensive in nature. KPMG performed the following work in completing this report:

1. To evaluate the existing governance structures and relationships at the Commission and between the Commission and the Department. This includes a review of the board structure, board meeting minutes, the level of effectiveness of past decisions, and also current state of board oversight, accountability and effectiveness to identify any gaps and make recommendations based on best practices.
2. To evaluate the adequacy of internal controls over operational business practices including monitoring, reporting and compliance with policies and procedures as they apply to the Commission and determine if they are designed effectively and operating efficiently e.g. revenue collection, payment processes, payroll deductions, and HST collection and remittances.
3. To provide an opinion as to whether all funds were expended for the purposes intended, by examining the payment process, nature and extent of supporting documentation, evidence of proper responsibility and accountability and other such due diligence reviews as deemed appropriate by the review team.
4. To develop, if possible, an effective business model that will help the Commission create, deliver, and capture value. This will consider the Commission’s purpose, target customers, strategies, infrastructure, organizational structures, and operational processes and policies.

## **C. Mandate and Governance**

It has become apparent from our review of the Commission’s governance and management of operations that there are numerous gaps. From our findings we noted: no common understanding of the mandate of the Commission among board members; limited business planning and no monitoring of results based on short and long term goals; inability to attract and retain a General Manager; no clear board or management roles resulting in board involvement in day to day operations that are traditionally the responsibility of a general manager; poor board practices including limited minutes of meetings, information not being sent in advance of board meeting to allow for analysis and preparation, and limited financial reporting to the board to effectively monitor performance by source of contribution (for example, raceway operations versus Exhibition).

Based on these criteria we concluded that there is dysfunction in the governance of the Commission as a result of there being no clear mandate. As a result, board members appear to disagree on what should be done based on their self-interests. Ideally a board of directors focuses on performing their fiduciary responsibilities to the organization as articulated through a clear mandate. Given the Province of Nova Scotia originally enacted the creation of the organization and laid out objectives in this legislation we have recommended that the Province of Nova Scotia set the mandate for the Commission as the basis on which to build a governance model.

## **D. Comparative Survey**

KPMG conducted interviews with representatives from four different provincial exhibitions and fairs in Atlantic Canada, including: New Brunswick Provincial Exhibition (formerly the Fredericton Exhibition), Charlottetown Old Home Week, Summerside Lobster Festival and Hants County Exhibition. From these interviews we performed a comparator analysis to understand the current and future industry trends as well as identify a list of best practices that could be modeled by the Commission. Best practices identified include generating strong community support, maximizing off-season operations to generate additional cash, focus on real drivers of profitability and foster a creative environment where 'out-of-the-box' thinking generates more contributions to the bottom line.

## **E. Internal Controls over Operational Business Practice**

As part of the objectives of this report, we documented the following processes and related controls and have provided recommendations for improvement where control weaknesses were identified in the following areas:

- Cash management;
- Accounts receivable and general revenue (including Pari-mutuel and Exhibition revenue);
- Procurement processes;
- Payroll processing; and
- HST collection and remittance.

Our report provides 35 recommendations for improvement in internal controls across all areas reviewed above. The number of recommendations are broken down as follows:

- General - 9
- Treasury - 7
- Accounts receivable and general revenue (including Pari-mutuel and Exhibition revenue) - 8
- Procurement processes - 3
- Payroll processing - 6
- HST collection and remittance - 2

Generally, we observed that given the limited size of the Commission, there were challenges in implementing controls effectively due to the lack of proper segregation of duties between staff. In cases such as this, effective compensating controls are important to ensure information is accurately captured. An effective system of internal controls is a foundation on which to build meaningful financial and operational reporting so that management and those charged with governance can effectively fulfill their roles and manage the business.

The current control environment relies on trusted employees to work effectively. These employees are not necessarily trained in all areas nor are there formal operational procedures to provide guidance when performing their day to day operations. This could result in increased risk

that priorities are not aligned with the Commission's needs, errors in performing their job functions, lack of clear direction as to responsibility and potentially poor decisions being made. In addition this could increase the stress on these key individuals and thus risk of turnover or employee dissatisfaction that could further lead to issues such as absenteeism or fraud.

We also noted that since the departure of the Bookkeeper and appointment of an Acting Controller, key functions were not being performed on a timely basis. This has resulted in meaningful financial data not being received by the General Manager or the Board of Directors on a timely basis.

We have concluded that due to the current state of the Commission a comprehensive re-design of operational process be undertaken. This would first include determining the objectives of the operational processes based on the needs of the organization followed by determining the risks that are required to be mitigated. Once these risks are known, controls should be implemented to mitigate the risk based on the impact to the Commission. We recognize given the size of the organization, comprehensive and complete operational controls are not realistic as they would be cost prohibitive. Establishing what risks are priorities to mitigate and implementing monitoring controls for managing lower risk areas will allow the Commission to effectively mitigate their risks, provide direction to their employees and maintain integrity in their operational practices.

## **F. Historical Expenditures Review**

Consistent with the scope of this project we undertook the review of financial transactions for the period from January 1, 2009 to December 31, 2013 to determine whether funds were expended for purpose intended. Data from January 1, 2009 to December 31, 2011 was not available for our review. The Commission changed accounting software and information stored in the system could not be accessed due to the turnover of staff and inability to recover passwords to access the computer system. Some hardcopy records and data from this time period were available for our review but incomplete and stored in a disorganized manner that prohibited KPMG from reviewing these transactions in a meaningful way. Due to these factors, we were only able to perform the review of financial transactions for the period from January 1, 2012 to December 31, 2013. We did note that the period from January 1, 2011 to December 31, 2011 was audited by PricewaterhouseCoopers (PWC); however the purpose of a financial statement audit is not consistent with a review of expenditures outlined in the mandate of this project. Based on our review of the audited financial statements for the year ended December 31, 2011 and the nature of the expenses reviewed, we believe that our conclusions would not change if we had access to all the financial data.

To complete our review of expenditures we used data analytic specialists. We obtained the financial records for the years ending December 31, 2013 and December 31, 2012. Automated routines were run to identify relationships in the financial data that could suggest transactions were inappropriate.

For transactions identified we discussed the items with the Commission and obtained the supporting documentation where available to support the transaction. Based on this process, we believe funds were expended for the intended purposes. Our detailed findings included in Section 6c – Historical Expenditures, support our view that transactions identified in our routines were a result of lack of knowledge of the accounting system and related processes and work-around processes resulting in inefficiencies and generally poor financial records. This could be expected due to the vacancy of a full time bookkeeper and lack of process documentation.

The current operational practices do not support effective financial reporting that should be in place to assist in the management of the Commission. The root cause of this can be linked back to the

lack of mandate on which to evaluate the Commission, and thus operational practices including financial reporting to support this mandate are lacking.

## **G. Governance Models**

We examined three governance models: Advisory Board Model, Commission (Dependent Board) Model and Society (Independent Board) Model. We have concluded that the Commission Model is best suited for the Commission at this point. This would result in initial involvement by the Province of Nova Scotia to establish a mandate for the Commission, determine how best to financially support the organization as it rebuilds its operations and participation on the board with a non-elected provincial employee. This model would result in the Province retaining an element of control over the organization while allowing it to transform to a self-sustaining entity. Once self-sustainment is achieved, the governance model could evolve to a Society Model with the Province of Nova Scotia having no involvement.

The Commission's current interim board follows an Advisory Board Model with operational involvement of the board members on a day to day basis ("Operating Board"). As described above we believe the Commission should implement a Dependent Board (Commission Model) with day to day operations managed by the general manager and strategic planning, oversight and performance monitoring provided by the board (an "Engaged" Board).

## **H. Overall Conclusions and Recommendations**

Through this operational review we focused on the scope of work to understand the current state of the Commission and provide recommendations related to its governance and operation. As the Commission is effectively insolvent and unable to meet its obligations, it is at a crossroads and the next steps for the Commission will be important ones. Ultimately the Province of Nova Scotia will play a key role in the Commission's course of action as they control the Commission's assets through the security they have on loans owing to the NSFLB. Careful consideration is required based on expectations of the various stakeholders including the Province, municipalities in the area, harness racing industry, agricultural industry and citizens of Nova Scotia.

We have determined that operationally, the Commission does not have a focused mandate and have not been able to manage the agricultural and raceway interests effectively. These findings combined with representation on the Board of Directors by elected municipal officials with conflicting interests has resulted in internal disputes creating the inability to achieve a balance of the objectives outlined in the Act. We recommend a number of steps to correct this which include the Province working with the Commission to establish a clear mandate for the Board of Directors, implement a governance structure based on a Commission model that would have a relatively small and engaged Board of Directors made up of one representative from each of the raceway and agricultural interest, one non-elected representative from the Province (ex-officio) and three members from the business community. This will provide the much needed direction the Commission requires to focus its mandate. It is recommended that the change in the structure of the Board of Directors also include a change in board practices to ensure that they are properly informed of the Commissions progress in meeting its objectives and that discussions are properly recorded for future action and direction when needed.

We have concluded that based on the weaknesses in internal controls a comprehensive re-design of operational process be undertaken. This would first include determining the objectives of the operational processes based on the needs of the organization followed by determining the risks that are required to be mitigated. Once these risks are known, controls should be implemented to mitigate the risk based on the impact to the Commission. We recognize given the size of the organization, comprehensive and complete operational controls are not realistic as they would be cost prohibitive. Establishing what risks are priorities to mitigate and implementing monitoring

controls for managing lower risk areas will allow the Commission to effectively mitigate their risks, provide direction to their employees and maintain integrity in their operational practices. Given the current state of the Commission we recommend that recommendations for improvements in internal controls presented in this report focus on cash handling and management controls.

We have recommended that the Commission adopt annual operating and capital budgets that are approved by the new Board of Directors and are based on the level of expenditures required to meet their mandate. To enable the Commission to better understand their operations we also recommend that a detailed cost and revenue assessment of each of the Commission's various operations be completed. This will provide valuable insight into the contribution of their operations and provide the Board of Directors and management with the financial information required to make informed decisions about where resources can be allocated to achieve the Commission's mandate. Given the Commission is effectively insolvent, financial support will likely be required. A proper budget and a clear understanding of the revenues and costs of the Commission will allow the Commission to understand what temporary support will be required. We recommend that any financial commitment be based on the Commission's needs while they improve operations with the objective of becoming self-sufficient.

Through our competitive analysis, the challenges facing the Commission are not unique. The Fredericton Exhibition has recently undergone a transformation in an attempt to attract a younger customer and to hold events throughout the year to showcase the facilities and generate much needed revenue during off peak times. This has occurred through a change in key positions focusing on marketing and event management resulting in the introduction of non-traditional events during their exhibition to attract a younger demographic. Ultimately we believe the strategy of the Commission will need to make similar changes and this could be viewed as an appropriate model. This will depend on the mandate set and what the Commission can do with their existing facilities. However, it is obvious that focus is required to enhance the community's awareness of the facilities through attracting more people to the grounds for events outside exhibition time and trying new formats during the exhibition that will lead to higher attendance and achieve their mandate. Ultimately, higher traffic for events will benefit the raceway through more potential customers on the grounds.

## **I. Management's Response**

Management agrees with the findings identified in the report. A steering committee made up of representation from the Department and the Commission will be created. The steering committee will oversee the development of action plans, assignments of responsibilities and creation of timelines to ensure each area of concern will be addressed.

## 2 Introduction

### A. Objectives of the Report

The objectives of the report have been outlined in the Executive Summary.

### B. Scope of Review

In conducting its review, KPMG undertook the following procedures:

- Toured the Exhibition facilities and grounds;
- Reviewed background information with respect to Commission operations (Board minutes, management reports, financial statements, budgets, business plans and correspondence with the Department);
- Interviewed members of the former and current board, and former employees of the Commission;
- Interviewed four comparator organizations engaged in the agricultural exhibition and harness racing sectors;
- Reviewed publicly-available information in respect of agricultural exhibition and harness racing facilities comparable to the Commission's Truro facilities;
- Developed detailed test scripts related to process and control testing and expenditures;
- Identified internal controls that mitigate operational process risks and selected those internal controls for testing to determine design and operational effectiveness;
- Executed test scripts to conclude on the operating effectiveness of internal controls over operational business practices and determine whether funds were expended for the purposes intended;
- Obtained financial transactions for the period from January 1, 2009 to December 31, 2013 and performed data analytics to identify higher risk areas to investigate for the purpose of providing an opinion if funds were expended for their intended purpose;

*Note: Due to lack of information being available from January 1, 2009 to December 31, 2011, KPMG encountered a scope limitation and was only able to perform data analytics for the period from January 1, 2012 to December 31, 2013.*

- Identified gaps in the current organizational structure and related governance practices, and internal controls over operational business practices and developed recommendations for improvement;
- Evaluated the current business model and considered potential alternatives for the Commission to create, deliver and capture full value in its operations;
- Held discussions with the Department and IAC project team on our mandate and key findings;
- Prepared detailed findings and recommendations based on the completed tests, research and analysis; and
- Finalized and issued report.

After a careful analysis of the project's objectives and scope, it is apparent that the operational review focuses on the following five key questions:

1. Does the current strategy and operation of the Commission achieve a balance between serving the agricultural community and the harness racing industry?
2. Are the Commission's current internal controls sufficient and were Commission funds expended for the intended purposes as determined by the Board?
3. How do the Commission's operations compare, financially and operationally, to similar agricultural Commissions of similar size and scope of operations?
4. In terms of the governance and business model, which model provides the most value to the Commission?
5. Is the resourcing model effective and efficient? Are the right people and skills in place at the Board and Staff level to operate the Commission?

Accordingly, this report contains the findings from our financial and operational review of the Commission's operations, a comparative analysis of the Commission's performance against other similar organizations, and an overview of alternative operating / business models. Our report is intended to assist the Department in better understanding the Commission and its operations, and to provide a contextual overview to assist the Department in assessing whether the Commission would like to consider other operating / ownership models.

## **C. Limiting Conditions**

KPMG LLP is a large global provider of professional and advisory services. KPMG International's member firms have more than 152,000 employees working in 156 countries / territories around the world. KPMG LLP (KPMG) is the Canadian member firm and we operate in 33 locations across the country. The firm's more than 700 partners and more than 5,600 employees provide crucial services to many of the top business, not-for-profit and government organizations in Canada.

This report and its exhibits and appendices are subject to the terms and conditions in our engagement letter dated April 14, 2014.

This report is intended solely for the Commission and IAC. It is not intended for general use outside of this specific purpose.

The findings and recommendations in our report are not intended, nor should they be interpreted to be legal advice or legal opinion.

We have relied on the Department and the Commission to provide us with complete and accurate information in respect of the Commission's operations. The comments and conclusions contained in our report are based upon our review of this information and our discussions with the interim Board and staff of the Commission, amongst other parties, and our review of other publicly-available information as contained in our files. We have not subjected the information provided to us to any audit or other third party verification procedures, other than to review it for reasonableness. Accordingly, our report and comments inherently rely on the accuracy and completeness of the information provided to us.

This report (including exhibits and appendices) is given as of July 22, 2014 4pm Atlantic standard time and we disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting our report which would have been known or expected to have been known as at the report date, but might come or be brought to our attention after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting our report and its conclusions after the date hereof, we reserve the right (but will be under no obligation) to change or modify the report. Moreover, we reserve the right, but will be under no obligation, to complete any additional analyses that might subsequently be required following the receipt of additional information.

Our report (including exhibits and appendices) and conclusions must be considered as a whole and that selecting portions of the report and its analyses or the factors considered by us, without considering all factors and analyses together, could create a misleading view of the issues and support underlying our comments and conclusions.

Our review of the operations and governance affairs of the Commission does not represent, and should not be construed as, a formal financial audit of the financial statements of the Commission. The audited financial statements of the Commission are not included in this report.

## **D. Corporate Overview**

The Commission was created in 1946 under provincial charter and receives its authority from provincial Statute (the Nova Scotia Provincial Exhibition Act (the “Act”), 1992 as amended). The objective of the Commission as described in the Act is generally to hold agriculture and industrial exhibitions in the Province which will create awareness for developing and making the public aware of agriculture in Nova Scotia. The Act also outlines a general purpose with respect to their role in operating the racetrack, pari-mutuel and other forms of gaming and gambling that are permitted for a racetrack operation.

Under the Act, the Commission is responsible for the management of the Provincial Exhibition grounds and the hosting of an annual agricultural exhibition. An annual general meeting is held once a year at which time elections are held for those positions at the end of their 3 year term. Audited financial statements are prepared for the annual general meeting and are approved at the meeting. Prior to the Board disbanding in December 2013, the Board of Directors was composed of ten (10) members including a Chair and Vice-Chair. The three municipalities (Village of Bible Hill, Town of Truro, and County of Colchester) each had a permanent seat. All other board members sat for a three (3) year term.

According to the Commission’s Bylaw #4, the Board had five standing committees: Raceway, Exhibition, Standardized Select Sale, Farm Equipment Museum and Nominating Committees.

In May 2014, the Minister appointed a three member interim board to oversee the Commission following the foreclosure of the Commission for nonpayment of loans to the Nova Scotia Farm Loan Board.

Over the past 67 years, the Commission’s grounds and facilities have hosted many memorable agricultural and harness racing events, as well as numerous entertainment happenings that have been the source of civic pride to the Province and its citizens.

The Commission has a number of diverse operations to manage. They include:

- The planning and hosting of the annual 5-day Nova Scotia Provincial Exhibition, including various agricultural showcases, a carnival and a demolition derby;
- The operation and maintenance of the Truro raceway including weekly harness races, related betting, concessions and stable rentals, an offsite betting installation in Bedford, NS and pari-mutuel betting on races held at various race tracks throughout North America; and
- Facility rentals of the Agridome and other facilities for sporting events and festivals, most notable of which is the Dutch Mason Blues Festival.

## E. Facilities Overview

The Commission is located in the Village of Bible Hill adjacent to the Town of Truro. There is approximately 65 acres of land on which is located a variety of buildings, harness racing track, grandstand and open space. Key facilities for the Commission include:

### 1. Agridome

The Agridome is a 120' x 266' coverall building with an additional 30' x 70' service building containing washrooms, change rooms and showers. Constructed in 2003, the building features an athletic turf for sports activities, and can be adapted to host a variety of concerts, agricultural and community events. Designed to operate in the winter, the building is heated by 6.3 miles of in-floor radiant heating and overhead radiant heaters. However, the Commission has found it to be an expensive facility to heat during the winter months and determined it cost prohibitive for winter use.

### 2. Grandstand & Track

This 1,800-seat facility is the home of harness racing for the surrounding region. Constructed in 1982 following the destruction by fire of the original grandstand, the grandstand sits adjacent to a half track. Located within the grandstand is a clubhouse with a restaurant and lounge. The clubhouse also has five video lottery terminals (VLTs) located in the lounge. The facility hosts live harness racing each Sunday from April to October and daily simulcast / Pari- mutuel betting.

### 3. Farm Equipment Museum

Located on the grounds of the Commission is the Nova Scotia Provincial Exhibition Farm Equipment Museum (the "farm museum"). Constructed in 2005 and expanded in 2009, the 15,000 square foot facility houses over 2,000 pieces of farm equipment. The farm museum is open each day of the annual Exhibition and during other special events hosted by the Exhibition. The farm museum is operated by a separate entity (see Section 3C - Key Commission Partners).

### 4. Industrial Building

An older building used for vehicle storage in the off season and some exhibition exhibits and vendors during the Exhibition Week, it has been identified as a candidate for demolition.

### 5. Office

The office for the Commission is located in an older building near the front gates of the grounds. In need of significant repair and maintenance, the building also hosts the local gymnastics club at the rear of the office.

### 6. MacMillan Centre & Horse Pavilion

Built by the Department, the facility has been wholly owned by the Commission since 2013. The 17,100 square foot arena includes bleachers for spectators, multipurpose rooms, washrooms and a kitchen/canteen. The horse pavilion, located next to the show centre, has approximately 50 box stalls and two outdoor warm up rings.

### 7. Race Horse Barns

There are approximately five (5) barns available for race and pleasure horses. The state of repair of the barns is described as poor.

## F. Key Commission Partners

### ***Farm Museum***

The mandate of the farm museum is to preserve a historical record of the farming way of life and work through the collection, restoration and display of farm equipment. The land and museum building are the property of the Commission. The museum does have an independent board and maintains its own bank account separate from the Commission. The museum has traditionally had a strong presence on the board of directors of the Commission.

### ***Truro Harness Horse Owners Association***

The Truro Harness Horse Owners Association (the “Association” or “THHOA”) represents the harness racing industry at the Commission. The Truro raceway (grandstand, track and barns) is owned by the Commission. The Association has its own board of directors and maintains its own bank account. The Association placed four of its members on the Commission board in August 2013. Pari-mutuel and simulcast betting on harness racing at the Truro raceway and other tracks in North America is administered by the Commission under the terms of an agreement between the Commission and the THHOA.

### ***Local Municipalities***

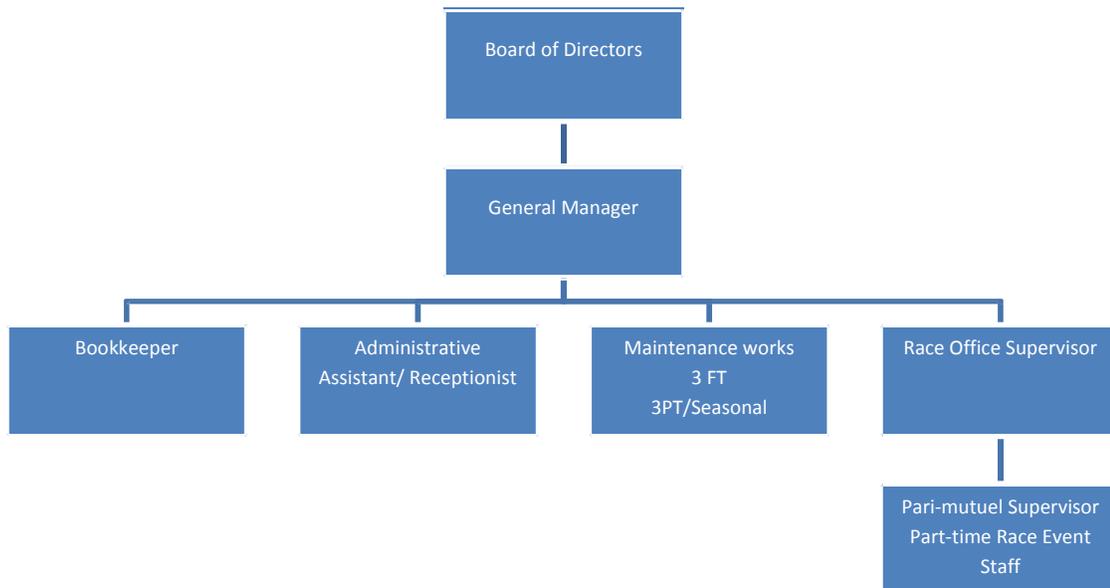
There are three municipalities that have an interest in the success of the Commission:

- The Village of Bible Hill – the municipality where the Commission grounds are located;
- The Town of Truro – the surrounding urban area adjacent to the Village of Bible Hill; and,
- The County of Colchester (the “County”) – the county level of government for the area.

Each of these municipalities has traditionally maintained a seat on the board of directors for the Commission. The success of the Commission is a key economic development issue for all three municipalities. The County retained Grant Thornton in June 2013 to conduct a review on the financial and business affairs of the Commission. In January 2014, the County attempted to purchase the assets of the Commission but the proposed purchase agreement was rejected by the Department.

## G. Organizational Structure

Prior to the resignation of the board and the departure of the General Manager and Bookkeeper in December 2013 the Commission had the following organizational structure. The General Manager is responsible for the day to day operations of the Commission, the planning and delivery of the annual exhibition and the attraction and booking of entertainment. The bookkeeper completes the necessary reconciliations for the Commission's accounts and raceway's wagering and administers the Commission's accounts payable and accounts receivable. The Board of Directors and General Manager are supported by an Administrative Assistant / Receptionist. Outside, the Commission employs three full time maintenance workers to maintain the track, barns and other buildings on the site. Three additional maintenance workers are employed on a seasonal part-time basis. Managing the raceway office is a Race Office Supervisor. The position is supported by a Pari-mutuel Supervisor and various part-time race event staff.



## H. Timeline of Events 2013 – 2014

It is apparent from our interviews and consultation with current and former board members and staff that the events surrounding the operation of the Commission for the past 18 months have been contentious and difficult. It is important, therefore, to prepare a statement of fact in the form of a timeline to ensure a common understanding of the current state.

<i>Week of March 18, 2013</i>	Board of Directors met with representatives from the Nova Scotia Government and Nova Scotia Farm Loan Board to discuss debt and financial viability of the Commission.
<i>June 10, 2013</i>	Grant Thornton retained to conduct a review of the financial and business affairs of the Commission by the County of Colchester.
<i>July 8, 2013</i>	Special meeting of the Board of Directors to discuss the potential insolvency of the Commission; the Board discontinued Truro raceway operations and laid off all track related staff effective July 15, 2013.
<i>July 15, 2013</i>	Meeting of the Board of Directors; Board agrees to an extension of the proposed closure date of Truro raceway to September 2, 2013 subject to racing costs being assured funding by the Nova Scotia Harness Racing Industry Association; working notice provided to track employees on September 2, 2013.
<i>July 18, 2013</i>	Meeting of the Board of Directors; Board is advised that the Grant Thornton report will not be complete until mid-August 2013; Board postpones the Annual General Meeting of the Commission until August 28, 2013 so that the findings can be presented.
<i>July 25, 2013</i>	County of Colchester Council meets to discuss the future of the Commission and a possible role in reviving the Commission including potential sale.
<i>August 2, 2013</i>	Grant Thornton publicly reports on the financial and business affairs of the Commission and declares the Commission insolvent. Commission has current liabilities of \$638,000 and long term liabilities of \$373,000 and is unable to make payment on its obligations.
<i>August 28, 2013</i>	Annual General Meeting attended by 100 people. Four vacant positions on the Board filled. County of Colchester is given a seat on the Board.
<i>September 4, 2013</i>	Commission determines that harness racing will complete the season and continue until year end.
<i>December 11, 2013</i>	Meeting of the Board of Directors; General Manager and Bookkeeper are laid off.
<i>January 28, 2014</i>	Minister of Agriculture orders an audit of the Commission.
<i>January 30, 2014</i>	Colchester Council agrees to purchase the Commission and sets aside \$500,000 in the budget for the purchase.

*February 5, 2014*

The Nova Scotia Farm Loan Board calls this loan making known its intent to foreclosing on the land and property of the Commission held as security.

*February 26, 2014*

Colchester Council declares the draft management agreement, the purchase and the sale agreement, and the lease agreement between the County of Colchester and the Commission null and void.

*April 14, 2014*

The Minister retains KPMG through the IAC to conduct an audit of financial statements and an operational review.

*April 23, 2014*

The Minister of Agriculture announces final member of a three member interim Board. This Board replaced the existing twelve person Board.

*May 1, 2014*

Nova Scotia Exhibition Commission Act is amended to accommodate interim Board.

# 3 Commission Mandate and Governance / Management

## A. Mandate

The purpose of a board mandate is to ensure that no expectation gaps exist between the board, management and other stakeholders with regard to the Board's role and function. The mandate should clearly define the authority of the board and its responsibilities and accountabilities. It should also serve as a key component for various board activities. In simple terms, the mandate is the board's work plan. It also provides a foundation for the board's self-evaluation of its operations to determine its relative effectiveness as a governing board.

As mentioned earlier in this report, the mandate of the Commission is found in the Act. Summarized, these documents describe the Commission as having three primary purposes:

- 1 To promote and foster public awareness of agriculture in Nova Scotia
- 2 Hold agricultural and industrial exhibitions in the province
- 3 To operate a racetrack at which horse racing is conducted and pari-mutuel betting and other gaming is permitted.

Despite an attempt to clarify the Commission's mandate through the review of documentation and interviews, no clear interpretation or prioritization of the mandate exists, either among current or former Board members or management and staff. Interviews suggest two, almost completely differing, positions exist with respect to the Commission's mandate. Broadly, the two positions see the Commission as either:

- An agricultural organization and economic development creator where the focus is not on harness racing but the promotion and education of an agrarian lifestyle and the economic and community building benefits created by an active agricultural exhibition; or,
- A harness racing business designed to operate the Truro raceway venue on a profit-making (or at least break-even) basis. This position recognizes the importance of the agricultural exhibition to the promotion of farming and agrarian lifestyle, but believes its limited annual staging does not achieve the discussed benefits.

The balancing act between the agricultural and harness racing objectives and the required subsidization for agriculture and harness racing, in particular, is an ongoing challenge for a wide range of municipal and provincial / state governments across North America. This balancing act is best addressed when the funding entity (e.g. the provincial entity) provides clear and unambiguous direction to the governing body / board that manages the venue. Such definitive direction is lacking with respect to the Commission and its mandate.

## B. Comparison of Mandates & Governance Structure for Similar Facilities

The lack of clarity with respect to the Commission's mandate (and the associated debate amongst and between the board and management) was discussed in the previous section. While the lack of a clear mandate is problematic, the situation is not unique to the Commission as mandate and purpose are often the subject of debate in similar entities (especially during times of financial instability).

The following page illustrates a summary of the mandates and governance structures of selected Agricultural Exhibitions in Atlantic Canada.

**Figure 4.1: Comparison of Atlantic Canada Exhibitions Operating & Governance Models**

	Fredericton Exhibition	Charlottetown Old Home Week	Summerside Lobster Festival	Hants County Exhibition	NSPEC (December 2013)
Revenues	\$1,200,000	\$600,000	\$50,000	\$460,000	\$2,670,000
Net Income	To be Determined	\$55,000	N/A	\$4,000	\$141,900
Funding	To be Determined	Provincial: Department of Agriculture \$34,000 and Department of Rural Development \$8,000 Municipal: \$10,000 as well as in-kind (i.e. fencing for events) Federal: None	Provincial: \$25,000 - \$30,000 Municipal: \$10,000 as well as in-kind (City staff to clean up grounds) Federal: \$10,000	Municipal funding: \$400; Provincial funding: \$17,000; Federal funding: Nil	Provincial: Exhibition - \$11,357; Raceway Purse - \$246,033
Mandate	To have an annual exhibition, connecting the urban population to those responsible for their food (farmers) and vice-versa.	Bring the country to the city, and promote and educate the general population on agriculture.	Educate the community on the rich lobster fishing and food culture history in Summerside, Prince Edward Island.	To serve the purpose of educating the community on agriculture, while simultaneously providing a fun environment for families to enjoy.	To hold agricultural and industrial exhibitions fostering public awareness of agriculture in Nova Scotia and, operate a racetrack and related gambling operations.
Property Size	34 Acres; 40,000 ft <sup>2</sup> buildings; 60,000 ft <sup>2</sup> barns	Rents land for annual exhibition	Rents land for annual exhibition	41 Acres; 174,000 ft <sup>2</sup> buildings	65 Acres
Harness Racing	Yes	Yes	Yes	No	Yes
Managed or Not	No	No	No	n/a	Yes
Operating Structure	Non Profit Corporation	Non Profit Corporation	Municipal Department	Owned by Windsor Agricultural Society	Non Profit Corporation
Board	Yes	Yes	No	Yes	Yes
Number of Directors	15	14	N.A.	18	Up to 10; amended to 3 for interim board
Composition	12 Volunteer Directors; 1 City Appointment; 2 Non-Voting Directors	5 member Executive Board	N.A.	18 Volunteer Directors	Defined in the Act
Number of Staff	3 Full time staff: Executive Director, Marketing Director, Events Promotion Director	1 Full time General Manager plus volunteers	1 Full time Executive Coordinator	1 Part time Manager 1 Full Time Groundskeeper 5-6 Admin / Marketing Assistants	1 Full time General Manager, bookkeeper, admin assistant, 3 Full time and 3 Part time maintenance workers, 1 race office supervisor

## C. Board Governance & Management

For at least the past five (5) years, the Board of Directors for the Commission has experienced dissension, acrimony and distrust amongst its members. There were three key factions represented on the Board: Horsemen, farm museum representatives and elected officials from the Village of Bible Hill, Town of Truro and County of Colchester. Each one of these factions sat on the Board to protect their own interests. This brought into question their effectiveness and potentially resulting in each party ignoring their fiduciary responsibility as Board members to the Commission. As a result, the Board has been split and we have observed a lack of governance by the Commission, for example, the maintenance of accurate minutes. Not surprisingly, management of the Commission has been turbulent and unstable. Through our interview process with current and former staff, we noted the Commission had employed six General Managers in the past seven (7) years. Financial performance of the Commission has been inconsistent. Up until the direction of the Department, financial statements for the years 2012 and 2013 have not been prepared and there had been no audit of those statements.

The lack of consistent leadership and management of the Commission has contributed to the Commission being declared insolvent by the Grant Thornton in August 2013.

### Gaps in the Governance & Management of the Commission

- **Operating Mandate:** Based on our discussion with current and past board members and employees, it is evident that there is no common understanding of the mandate for the agricultural exhibition and harness racing. The two competing viewpoints distract from the efficient operation of the Commission. It is critical that an operating mandate for the Commission be confirmed so that all stakeholders have an understanding of the framework under which they are to operate.
- **Business Planning:** While the Commission with its harness racing and annual exhibition can be a dynamic and exciting world to experience, it is a business and requires strict financial monitoring and forecasting to ensure that the operations are sustainable in the long term. The Commission requires both an annual budget and a mid to long term operating plan so that it understands and can report on its financial targets and benchmarks for long term sustainability. The Commission should build upon an earlier (2012/2013) business plan prepared for it.
- **Executive Leadership:** It is apparent that the continued turnover in the General Manager position is one of the reasons for the insolvency of the Commission. There has been a lack of leadership and vision at the executive level of the organization. While the General Manager reports to the Board, the position is the driver that delivers on the Board's strategic plan. Similarly, the absence of a financial controller has led to the Commission's financial difficulties. The most rudimentary financial processes, such as bank reconciliations and month end procedures have not been formally established and consistently followed. This has not allowed for effective monitoring and forecasting of the Commission's financial position.
- **Board and Management Roles:** Through our review, it is apparent that the Board and management had no clear understanding of their roles. Members of the Board were involved in the day to day operations of the Commission and would provide direction that sometimes conflicted with the instructions of management, most notably on the purchase of goods and services. We also understand that Board members nominated themselves for the position of General Manager. In an effective organization, the Board sets the strategic direction, establishes Board policies and management performance expectations, identifies and manages risk, and monitors and evaluates organizational achievements in order to exercise its accountability to the agency and its stakeholders. Management is responsible for the day to day operational activities working within the Board's strategic direction and within the parameters delegated by the Board.

- **Board Meeting Logistics:** It appears that the most basic of board processes, such as the preparation of agendas with background reports or information, maintenance of accurate minutes or a standard meeting schedule were not followed. We were unable to find evidence that the Board received the appropriate information or was supported by governance processes to consider it effective. The Board must ensure that it has the information it needs to assess the activities of the Commission and its management. The quality and relevance of discussion at the Board's meetings depends on the quality of the information provided to the Board.
- **Financial Reporting:** It is evident that systems or process of financial reporting to either the Board or key partners such as the THHOA or farm museum are not effectively working. Regular financial reporting was adhoc and there does not appear to be established regular financial processes such as monthly reconciliations of key accounts and audited annual financial statements are outstanding for the years ending December 31, 2012 and 2013. As a result, the Commission's lack of quality and accuracy in its financial position has led to mistrust among its key partners.
- **Operational Controls:** It appears that the Commission had limited operational controls in place to manage the day to day operations of the grounds and the actual Commission. The former General Manager was often bypassed by individual Board members or key partners in the purchase of goods and services. We understand that controls for admission into the Exhibition were implemented in 2013. The importance of financial control to the long term sustainability of the Commission is discussed in Section 6 – Operational Controls and Historical Expenditures.
- **Recovery of Operational Costs:** Through our review, we did not find any evidence to suggest that the Commission has an understanding of its operational costs and the necessary revenue model to recover those costs, for example, facilities such as the Agridome, MacMillan Centre or the horse barns. As a result, rental fees for these facilities do not recover their operational costs and there is no allowance made for required capital improvements.
- **Target Customers (Marketing):** From our interviews and review of Commission documents, it appears that the Commission has no understanding of its customers and potential market. The raceway is dependent upon its longtime customers who are now seniors. Consistent with raceways across Canada, younger generations have little interest in harness racing and betting at the tracks. Similarly, the annual Exhibition relies on the tradition of attendance at the Exhibition during the third week of August.
- **Venue Performance Analysis:** It is apparent from our consultation and analysis that there is no conclusive financial analysis to conclude on the contribution of any one aspect of the operations. The common assumption is that the raceway is the profit generating venue that supports the other operations of the Commission.

# 4 Comparative Survey

## A. Introduction

The objective of the comparator analysis is to develop an understanding of comparable exhibition events and facility operations, to benchmark against the Commission's operations. The outcome of this analysis is a comprehensive report of how four other jurisdictional exhibition facilities operate, including their strengths, weaknesses, expected challenges and opportunities. Using this information, subsequent recommendations will leverage 'best practices' and proven market-based examples to advise the Commission on their go-forward strategy.

At a high-level, the comparator analysis identified relevant information across the major functions of a given comparator, namely Operational and Financial fields. Further, the analysis accounted for internal and external variables that may align or differentiate the Commission from given comparators, to ensure recommendations were valid.

## B. Approach

The approach taken to conduct the jurisdictional analysis is broken down by five main steps: 1. Outline Criteria for Comparison, 2. Refine List of Comparators, 3. Conduct High-Level Market Research, 4. Engage with Comparator Contacts, and 5. Aggregate and Present Findings. Each step is described in detail below:

### 1. Outline Criteria for Comparison.

This objective of this initial step is to define what metrics and components the potential comparators will be evaluated on. This will ultimately define the selection of comparators for subsequent review, and will also highlight which areas will be the focus of further review.

### 2. Refine List of Comparators.

Through the identification of relevant criteria, four comparators will be selected based upon their fit with the Commission's requirements.

### 3. Conduct High-Level Market Research.

The high level market research will facilitate two critical functions: a base level of comparator understanding, and development of questions and content to review in step four (4). The base level of comparator understanding will provide a sufficient amount of information to understand what the core functions of each comparator are and where to focus further analysis of the comparators. From this, a robust set of interview questions can be prepared to conduct the interviews in Step four (4) - Engage with Comparator Contacts.

### 4. Engage with Comparator Contacts.

Comparator contacts will be engaged through telephone interviews, leveraging questions and insights developed from the previous step. The purpose of this step will be to acquire all data necessary to develop a robust understanding of each comparator based on the criteria outlined in Step 1 – Outline Criteria for Comparison. It is important to note however, that some contacts will be limited in their capacity to divulge content due to information confidentiality and accessibility.

### 5. Aggregate Findings.

Information gathered throughout the approach will be analyzed and positioned into a digestible format to compare and contrast with the Commission's operations.

## C. Fredericton Exhibition

Reference:  
Mike Vokey, Executive Director  
mvokey@frex.ca  
506-458-8819

### Key Statistics

Operational Since: 1827  
Revenues: \$1,200,000  
Mandate: *To have an annual exhibition, connecting the urban population to those responsible for their food (farmers) and vice-versa.*

### (i) Background and Context

The Fredericton Exhibition (FREX) is an exhibition and agricultural fair that was established in 1827 and has been operating for more than 180 years, originally for the purposes of promoting agricultural growth. The FREX's mission is to have an annual exhibition, connecting the urban population to the farmers and vice-versa.

FREX is hosted at the Capital Exhibit Center (CEC), which is also responsible for hosting other year-round events including Fredericton Rib Fest, Capital Roller Derby, and various concerts. The parent company Agriculture Society Number 34, a non-profit entity, is responsible for the ownership and operation of both the FREX and the CEC. Thus, the FREX is a part of a yearly operation, where funds generated through various sources all contribute to Agriculture Society Number 34's total operations.

The CEC is located in the downtown core, and includes 34 acres of land. Included in this is 40,000 square feet of building property and 60,000 square feet of barn property.

In the past 3 years, the FREX has undergone a strategic review, where the former General Manager position was replaced with an Executive Director position, filled by Mike Vokey. Additionally, in 2014, FREX will be re-branded as the New Brunswick Provincial Exhibition (NBPE). This organizational and branding shift is part of a bigger strategic overhaul to deviate from the traditional provincial exhibition perception towards a new exhibition designed to target younger audiences.

### (ii) Operating Details

This section will provide a summary of NBPE's operational profile, separated by exhibition-specific events, and non-exhibition events.

#### **An analysis of exhibition-specific events**

As part of its strategic shift, the NBPE is looking to reposition itself to appeal to a younger demographic and target customer base. In doing so, specific days of operation for the exhibition have been positioned to attract a younger audience through the activities and features available that day. These new activities include:

- Zuma Zuma—a high-energy, cultural, African circus act;

- Lasertainment—a *modern, aggressive laser-light and sound display*;
- Canadian Lumberjack Competition—a *lumberjack competition which attracted talent from across the country, and televised by TSN*; and
- Chainsaw Sculpturing Competition—a *unique event specific to the region that attracted audiences from across Canada*.

In addition to these activities targeted at a younger audience, the NBPE remains true to its former roots through traditional agricultural exhibit offerings that appeal to older generations, including:

- 4H Competitions—*various competitions endorsed by the 4H organization including horse shows, poultry shows, and canine shows*;
- Harness Racing—a *form of horse racing where horses race at a specific gait*; and
- Holstein Show—a *dairy show including a cattle show and parade*.

Though the Harness Racing event is an Atlantic agricultural fair staple, and recognized as being a critical component to the FREX, it is no longer the visitor draw it once was. Due to the influx of younger exhibition patrons, the harness racing support base continues to diminish year-over-year. Management speculates that these younger families and individuals are not interested in harness racing due to a lack of knowledge on the sport, and a differing set of entertainment interests from traditional racing enthusiasts.

#### **An overview of non-exhibition events**

The New Brunswick Provincial Exhibition (“the NBPE”) is a week-long event; however the CEC facilities are used throughout the year to support numerous self-branded and third-party generated events. The self-branded events are those that the NBPE is solely responsible for executing. Conversely, third-party, or rental events are those where a separate entity pays a fee to utilize the facility for a specific function.

Examples of self-branded events that the CEC has hosted include:

- The NBPE—the *New Brunswick Provincial Exhibition*;
- Ribfest—the *first rib fest in Atlantic Canada*;
- Capital Roller Derby—*Fredericton’s only women’s flat track roller derby*; and
- Concerts—*various performances from artists such as the Dropkick Murphys*.

Examples of third-party events that the CEC incurs rental revenues from include:

- Fredericton Home Show—*home building and renovation industry showcase*;
- RV Show—*Fredericton recreational vehicle show*; and
- International Cat Show—*household pet cat show*.

Currently, part of the CEC’s mandate is to increase traffic through the facility in any manner possible, and as such, does not specify a preference for self-branded over third-party events. However, the CEC’s long-term interest is to attract more third-party events, generating revenues off of facility rentals and not incurring the burden of event-related risk.

### **(iii) Organizational Structure**

#### **Employee and management structure overview**

Prior to its strategic repositioning three (3) years ago, the NBPE operated with a General Manager, an administrative employee, and a maintenance employee. This structure was deemed ineffective, as the defined roles and responsibilities did not facilitate strong management of resources and hindered growth opportunities.

Under its new structure, the NBPE operates with three full-time employees: an Executive Director, a Marketing Director, and an Events Promotion Director. This re-organization provides the NBPE

with the designated resources necessary to both manage exhibition-specific operations more efficiently as well as bring more events in outside of exhibition operations.

During exhibition operations, the NBPE increases its resource base to include roughly 100 part-time employees at a minimum wage rate. These people are held responsible for general operations assistance, providing support where necessary.

#### **Board of Directors overview**

The NBPE is governed by a 15-member board of directors, with varying levels of contribution and voting power. Within the board of directors, 12 members are volunteer members, an additional director is appointed from the City of Fredericton, and two (2) other members are advisors but do not hold voting power.

From a background perspective, there exists a strong representation of individuals with harness racing backgrounds; individuals with backgrounds in other agricultural and cultural areas such as farming have a smaller representation. Those interviewed commented this to be a challenge for the NBPE, where decisions require majority approval and can be slow to take action given the misalignment of interests.

### **(iv) Financial Analysis**

#### **Revenue**

The NBPE generates revenues through two major channels as detailed in the subsection ii 'Operating Details': exhibition-specific and non-exhibition events. Though the \$1,200,000 in total revenue is split evenly between both avenues, non-exhibition events are a strategic focus for the NBPE in order to support facility operations and support the yearly exhibition operations.

##### *Exhibition-specific Revenues*

Traditionally, the NBPE's exhibition pricing model is structured on an all-inclusive basis, where a single daily or weekly ticket provides access to all events. Going forward, this trend will largely continue, with the exception of major concerts or attractions that require an additional influx of cash to support (e.g. FY2014 will include a country concert by recognized artist, Jeff Cook the founding member of Alabama, which will require a premium ticket sale). In FY2013, the NBPE generated roughly \$400,000 in revenues from ticket sales, from around 34,000 total attendees.

In addition to ticket sales, the NBPE exhibition also generates \$200,000 in sales through onsite and offsite vendor sponsorships and fundraising activities. Therefore, FY2013 saw total exhibition-related revenues of roughly \$600,000.

It should be noted as well that due to poor attendance numbers and diminishing bets year-over-year, the harness racing does not generate any additional profit for the NBPE.

As part of the NBPE's strategic shift, its objective is to increase exhibition traffic through a differentiated attraction offering; current traffic estimates of 34,000 exhibition patrons are still much less than historic levels of 60,000+ attendees. Management's expectation is that exhibition revenues will grow steadily going forward with an influx of attendees year-over-year.

##### *Non-exhibition Revenues*

Self-branded and third-party events currently contribute a total of \$600,000 to the NBPE's top line, representing 50% of total revenues. The percentage split between both types of events is 75/25 for self-branded and third-party events, respective. This translates to \$450,000 for self-branded events and \$150,000 for third-party contracted events.

#### **Costs**

NBPE's cost structure has been identified through four major channels: salaries, utilities, selling, general and administrative, and miscellaneous expenses. Total costs for FY2013 of \$1,060,000 are segmented below.

Year-round, the NBPE is responsible for paying three (3) full-time employees in addition to the 100 staff during exhibition operations at a total expense of \$235,000. From a utilities perspective, power generation and other utilities total roughly \$200,000 yearly. Selling related expenses, which includes entertainment procurement, totaled \$140,000 in FY2013. The rest of the \$1,060,000 in yearly expenses is comprised of miscellaneous fragmented expenses ranging from general grounds maintenance to general office expenses.

### **Profitability**

The NBPE is one of the more profitable organizations in this comparator analysis, generating roughly \$240,000 in profit for FY2013.

Management expects that this figure will grow going forward. Through leaning out operations via divestiture and remodeling of unprofitable attractions such as harness racing, in addition to expanding its exhibition and non-exhibition entertainment offering, the bottom line has room to grow in the future.

### **(v) Marketing Capabilities**

The NBPE relies mostly on social media, including Facebook and website posts to promote new content and updates. Formerly, the NBPE would leverage traditional mediums such as newspapers, but have since switched to largely digital-based promotions. Among these, are sponsorship agreements with various Fredericton media outlets including local radio stations.

The appointment of a Marketing Director in recent years has allowed the NBPE to heavily promote year-round attractions and activities to generate increased interest in exhibition-specific and non-exhibition events.

Traditionally the marketing budget for the NBPE was \$30,000; sponsorship partnerships and increased awareness have increased the budget allocation for marketing \$120,000.

## (vi) Analysis of External Market Factors

Management's view of the external market suggests that NBPE will continue to adapt to an increasingly competitive and changing customer landscape.

The table below identifies the major internal and external strengths, weaknesses, opportunities, and threats or challenges that the NBPE faces.

Figure 5.1. – NBPE Internal / External Summary

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"><li>▪ Strong financial base to offer quality entertainment and diversify risk.</li><li>▪ Central location, facilitating higher level of activity and attraction awareness.</li></ul>	<ul style="list-style-type: none"><li>▪ Outdated customer perception of FREX as an 'agricultural exhibition'; organization needs to communicate that the former idea of what an 'agriculture fair' represents is not what is being offered.</li></ul>
<b>Opportunities</b>	<b>Threats/Challenges</b>
<ul style="list-style-type: none"><li>▪ To improve the entertainment offer, tailoring towards a younger, less-traditional customer base.</li><li>▪ Extensive land and facility asset base to be leveraged for year-round events and activities.</li></ul>	<ul style="list-style-type: none"><li>▪ Many regional competitors offering a similar value proposition; an entertainment-driven approach to exhibitions.</li><li>▪ Difficult to procure a strong volunteer base due to resource constraints in Fredericton.</li></ul>

## D. Charlottetown Old Home Week

Reference:

Rayanne Frizzell, General Manager

info@oldhomeweekpei.com

902-629-6623

### Key Statistics

Operational Since: 1888

Revenues: \$600,000

Mandate: *'Bring the country to the city',  
and promote and educate the general  
population on agriculture.*

### (i) Background and Context

Charlottetown Old Home Week (OHW) is a non-profit organization that was established in 1888. The OHW's primary mission is to 'bring the country to the city', or, promote and educate the general population on agriculture.

Though other exhibitions traditionally operate other events outside of the festival week, OHW is unique in that its only core focus is the two-week period in which the exhibition runs. As a result, the OHW does not own or operate any major facilities, and instead rents out an acre of land to use as exhibition grounds during the period of operations.

Historically the OHW has depended on the traditional and nostalgic allure of agricultural exhibitions—a cultural norm which has flowed through generations. Currently though, OHW faces a challenging external environment similar to other comparator organizations, where this generational attachment with provincial exhibitions is being lost. In OHW, there is the added difficulty that they are committed to sustaining their primary mandate of agricultural education, which is secondary to entertainment. This creates an added layer of complexity for increasing customer traffic during the exhibition's two-week operation.

### (ii) Operating Details

This section will provide a summary of OHW's operational profile, including an analysis of successful OHW attractions.

OHW leverages a traditional exhibition program offering, with an emphasis on agricultural education to deliver on its mandate. Some of these exhibition offerings include:

- Music performances—*various family-oriented music performances, including children's shows, as well as evening concerts and performances;*
- Science and Agriculture Shows—*creative educational displays that incorporate elements such as magicians or other entertainers to generate interest;*
- Horse Pull—*a heavy horse event involving moving large weighted loads; winners are determined by ability to move the most weight; and*
- Animal Shows—*various events to allow patrons to interact with animals, including Cattle Shows and Sheep Shows.*

As well, harness racing is a major branded attraction for OHW. Though, the harness racing is owned and operated year-round by a separate entity, Atlantic Red Shores (ARS), OHW maintains that harness racing is a part of the exhibitions operational schedule. As such, funds generated through ARS are not passed through OHW.

Traditionally, harness racing was undoubtedly a major spectacle and driver of traffic at OHW. However, steadily declining race bets would suggest that within the past several years, the attraction has lost much of its allure. Similar to the NBPE, management at OHW have indicated that the biggest factor contributing to this is the change in their traditional customer base; younger generations coming in do not share the same attachment with harness racing as older generations. As the customer base continues to change, the knowledge of harness racing and incentive to bet diminishes as well.

Because harness racing no longer generates enough cash to be self-sustaining, ARS has also added traditional gambling attractions to its portfolio including, slot machines and a gaming floor. Funds through these activities allow ARS to sustain the harness racing attraction.

Regardless, ARS and OHW have collectively decided to keep harness racing in the event schedule at OHW as it represents an opportunity to showcase the event to educate people coming from a diverse set of backgrounds. The intent of this is to excite patrons enough on harness racing, enticing them to return in addition to OHW.

### **(iii) Organizational Structure**

#### **Employee and management structure overview**

Given the smaller scope of OHW's operations, OHW requires one single full-time employee to act as a general manager throughout the year. During the exhibition period, volunteers are recruited to support OHW operations and events as necessary.

The general manager's responsibilities include planning and coordinating events, organizing marketing and promotional activities, maintaining vendor relationships, reviewing financial statements and creating budgets. Further, the general manager's responsibilities extend to maintaining a relationship with the board of directors, meeting on a monthly basis to review, plan, and strategize.

#### **Board of Directors overview**

The OHW is governed by a fourteen member board of directors, of which five are executive-level. OHW governance stipulates that every major breed present during the exhibition is entitled to have a volunteer representative sit on the board. As such, the board is comprised primarily of individuals with an agricultural background.

Though the Board is entitled to override decisions made at the general manager level, it is usually the case that board members do not object to proposed decisions by the general manager.

### **(iv) Financial Analysis**

#### **Revenue**

OHW employs an 'everybody pays' policy, where tickets are purchased regardless of the events an individual is planning on attending. Like other comparators, the ticket offering allows for a customer to buy-in to either daily passes, or a 10-day pass. Relative to other comparators however, OHW sells a significantly larger portion of 10-day (or weekly) passes as a portion of total ticket sales. This is likely attributed to the steep discounting that OHW offers on 10-day passes for purchase a month ahead of the exhibition. Of the 82,000 total visitors over the 10-day period, it is estimated that 10% of these people pay for a 10-day ticket. Through ticket sales, OHW generates on average from \$460,000 to \$500,000 over the 10-day operational period.

In addition to ticket sales, 15 – 20% of total revenues that OHW incurs are derived from carnival and amusement commissions, sponsorships, vendor spaces, and parking fares. This represents anywhere between \$100,000 and \$140,000 additional yearly revenue.

### **Costs**

Given that OHW has a relatively small operational window, the only major costs relative to the exhibition operation are utilities and rent (facility rentals), selling, general and administrative (marketing and entertainment accommodations), and salaries. Total facility rental costs amount to approximately \$150,000 annually, while selling, general and administrative expenses average \$200,000. With the addition of approximately \$80,000 in salaries and the remainder in miscellaneous expenses, the total costs to plan and execute OHW are \$600,000 yearly.

### **Profitability**

From a profitability perspective, OHW is generating enough cash to maintain operations. Including yearly capital injections from the Department of Agriculture in the amount of \$33,000 per year, OHW is able to break even and generate sufficient cash to roll out the yearly exhibition.

The issue for the organization however, lies in the ability to generate returns above and beyond current levels in order to introduce additional educational entertainment and attractions.

### **(v) Marketing Capabilities**

Like the NBPE, OHW relies mostly on social media, including Facebook, Twitter and website posts to promote new content and updates.

The OHW allocates roughly \$50,000 per year towards marketing and promotional activities, in addition to \$10,000 specifically allocated towards agricultural activities.

### **(vi) Analysis of External Market Factors**

The OHW's interpretation of the external market differs from the NBPE as their core competency is found in agricultural education and less so in new-age exhibition-based entertainment. From an agriculture education perspective, OHW is touted as the strongest and largest agriculture-focused fair in Atlantic Canada, and as such, continues to have a recognizable brand that can attract agricultural enthusiasts.

Additionally, many of OHW's customers are PEI born-and-raised, and treat the OHW as an opportunity to connect with individuals and social circles familiar to them. Given this, OHW currently does not feel significant competitive pressure from an agricultural-entertainment perspective, though a changing consumer landscape suggests that this is not sustainable. Further, a consistent client base suggests that the OHW's challenges lie in its abilities to increase revenues year-over-year.

The table below summarizes the major external strengths, weaknesses, opportunities, and threats that the OHW faces.

Figure 5.2. – OHW Internal / External Summary

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>▪ Recognizable brand; consistent client base.</li> <li>▪ Staple of PEI culture; supported by governments and communities alike.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Changing customer landscape; new-generation exhibition enthusiasts are losing a connection to the traditional agricultural elements of the OHW. Estimated that currently, only 30-35% of guests are invested in agricultural elements—this number is shrinking year-over-year.</li> <li>▪ Potential for Board to undermine management.</li> </ul>
Opportunities	Threats/Challenges
<ul style="list-style-type: none"> <li>▪ Re-invigorate the allure of agriculture in younger generations by associating it with aggressive and exciting attractions.</li> <li>▪ The under 19 age category represents 35% of OHW's customer base; this is a large target population that can be a source of revenue through shifting their product offering and value proposition.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Overcoming customer willingness to pay barriers—people don't have an understanding of what it costs to host an exhibition, and OHW consistently has to deal with price backlash. This suggests that it may be difficult to increase prices.</li> </ul>

## E. Summerside Lobster Festival

Reference:

Don Quarles, Executive Director  
lobsterfestival@city.summerside.pe.ca  
902-432-1279

### Key Statistics

Operational Since: 1955

Revenues: \$75,000

Mandate: *Educate the community on the rich lobster fishing and food culture history in Summerside, Prince Edward Island*

### (i) Background and Context

Summerside Lobster Festival (SLF) is located in Summerside, Prince Edward Island, and was established in 1955 by four major service groups including the rotary club and the Royal Canadian Legion PEI command. These groups originally established the SLF to celebrate lobster fishing and the surrounding Summerside community.

Since 1955, the festival has experienced fluctuating levels of success and hardship, of which, the last four (4) years were particularly challenging. Given this, the City of Summerside decided that in order for SLF to continue, intervention was necessary. In the fall of 2013, the City of Summerside took control of the festival's operations, in an attempt to regain momentum.

The SLF, formerly known as the Summerside Lobster Carnival, was rebranded with the intent of directing emphasis away from a midway-carnival exhibition, towards the traditional fishing, food, and community-based education. The exhibition's main purpose going forward is to continue to educate the community on the rich lobster fishing and food culture history in Summerside, PEI.

Similar to the OHW, the SLF is only operational during the week in which the festival is held. As such, the SLF does not own any major assets (land included), and instead rents out roughly three (3) acres of land and facilities as well as entertainment equipment during its operational period.

In light of the last four (4) years of operational challenges and financial distress, the SLF is looking towards sustaining its existing customer base, as well as attracting a larger new-age set of customers to achieve sustainable, profitable operations by 2017.

### (ii) Operating Details

This section will provide a summary of SLF's operational profile, including an analysis of successful SLF attractions.

Though in years prior, the SLF has largely stayed away from concerts and artist entertainment, the ownership and governance change this year has resulted in a much more significant music offering. This local and non-local blend of music entertainment compliments the SLF's traditional suite of fishing and food-related activities, to offer a fulsome food culture and lobster fishing experience. SLF events are offered in six (6) main categories, as described below:

- Culinary—including local lobster-themed restaurant tastings, celebrity dinners, lobster dish food competitions, and afternoon specialty tea parties;
- Family Fun—including kids play zones (for example, bouncy castles, kids activities, beach activities), street parades, family movie nights, cardboard boat races, box derby races, and volleyball competitions;
- Multicultural—including DiversCity, an outdoor street festival featuring a wide range of entertainment and cultural elements including music, dance, displays, activities, games, and food;
- Music—musical concerts showcasing island artists;
- Specialty—various events including a celebrity golf tournament, a GeoCaching event, and a seniors picnic; and
- Youth—youth-centric events designed to engage and retain new-generation SLF customers, including lobster trap challenges, youth talent showcases, and beach volleyball.

Additionally, SLF offers a harness racing event with races occurring throughout the week, like OHW, ARS is responsible for ownership and operations. Given the nature of SLF’s relationship with ARS, specific information about attendance rates was unavailable, though SLF Management perceives harness racing events as being ‘well attended.’

Though the SLF formerly hosted a midway / carnival attraction during the festival week, this year is the first year in which this attraction will not be offered. To remain consistent with the organization’s new strategic focus, it was decided that the carnival element was not a strategic priority, and lacked the food education and cultural focus that the SLF is trying to achieve.

While the SLF does not operate any events outside of the festival period, it often partners with other organizations to cross promote events. As an example, during the “Grand-Slam of Curling” event that was hosted in Summerside, the SLF sponsored the event’s lobster dinner. The intent of these activities is to raise awareness about the SLF outside of traditional marketing mediums.

### **(iii) Organizational Structure**

#### **Employee and management structure overview**

This year is the first year of operations in which SLF is employing a person full-time on a yearly basis to organize and coordinate the SLF (Executive Coordinator). Aside from the executive coordinator, SLF hires volunteers and part-time staff during the period in which the festival is operational to support as necessary. Since the SLF is owned by the City of Summerside, the Executive Coordinator is responsible for reporting to Summerside’s Department of Community Services.

Additionally, the SLF is not governed by a board of directors. Instead, a host committee exists as an advisory board to the Executive Coordinator, with a marginal amount of actionable involvement. Generally though, the decision making power resides with the Executive Coordinator.

### **(iv) Financial Analysis**

#### **Revenue**

Given the SLF’s small operational window, revenues for the festival are much smaller when compared to other entities in this analysis. Additionally, most of the events that the SLF hosts are free-of-charge, only requiring payment for premium attractions (for example; lobster dinners, major artists entertainment etc.).

Further, the SLF is able to access facilitates and a large volunteer employee and support base through its public sector ties. As such, the SLF does not require a large revenue base to support operations.

Traditionally, almost all events at the SLF have had free admittance, with payments required for standard items such as food and drinks. As part of its strategic change however, the SLF will be implementing a wristband pricing model for evening events, where customers will be required to pay a \$10 admittance fee to support concerts and artists. Though the SLF anticipates a total attendance of 15,000 – 20,000 unique visitors over the duration of a week, it does not anticipate generating over \$50,000 from wristband revenues.

In addition to admittance revenues, the SLF also generates sponsorship revenues on the order of up to \$25,000 through local organizations that are interested in community-based contributions. Traditionally, participating organizations have included law firm sponsors, packaging companies, grocery retailers, and radio stations.

At an aggregate level, the SLF is forecasting that it will be generating revenues of roughly \$50,000 over the course of the week.

### **Costs**

Like OHW, SLF has a relatively small operation window, and as such, the only major costs relative to the exhibition operation are facility rentals and entertainment. Including salaries paid for the Executive Coordinator position, these costs total roughly \$15,000 - \$30,000 yearly.

### **Profitability**

From a profitability perspective, SLF is not currently generating enough cash to maintain operations; governmental support allows the organization to remain operational. However, through the strategic restructuring, the SLF's goal is to reach sustainable operations in 2 – 3 years through increased entrance sales and alternative entertainment offerings.

## **(v) Marketing Capabilities**

The SLF employs traditional mediums for its promotional and marketing activities, including, radio advertisements, newspaper prints, and social media accounts. Important to note however, is that the SLF has recently changed their approach to the content released through these mediums, looking to be more engaging and aggressive towards prospective customers. As an example, the former newspaper print layout was redesigned to be more concise and simple, emphasizing new activities and attractions at the SLF.

Currently, the SLF's marketing budget is limited to roughly \$10,000, though the intent is to increase the budget to \$50,000 through sponsorship and admittance revenue. With an increased budget, the SLF would dedicate additional funds to hiring a part-time employee to maintain its social media presence. Management has indicated that social media is an extremely effective means of promotion, facilitating direct customer interaction and targeted advertisements.

## **(vi) Analysis of External Market Factors**

As with other comparators in this analysis, SLF management shares a similar sentiment towards the external exhibition and festival market: the major challenge is that there are a lot of attractions competing for customer engagement. SLF's recent organizational change is part of a broader strategy to address this challenge, by positioning itself as a unique attraction which is irreplaceable by other exhibitions and festivals in the Atlantic.

This strategic repositioning was guided by the identification of young families as being SLF's target market; securing younger generations early is seen as the key to sustained long-term operations. Though, it is noted that the aging population in Summerside still represents a large portion of total attendance, and therefore the needs of this customer base cannot be forgotten.

The following chart below identifies the external and internal strengths, weaknesses, opportunities and threats or challenges that the SLF currently faces.

Figure 5.3. – SLF Internal / External Summary

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Strong governmental and community-based support; does not require significant capital to maintain operations.</li> </ul>	<ul style="list-style-type: none"> <li>Lack of available financial resources suggests it may be difficult to procure ‘blockbuster’ artists and entertainment.</li> </ul>
Opportunities	Threats/Challenges
<ul style="list-style-type: none"> <li>The SLF has a blue-sky opportunity to rebrand itself; removal of the midway / carnival and rebranding gives the organization an undefined path as to what new brand they want to establish for themselves.</li> </ul>	<ul style="list-style-type: none"> <li>Competition to engage and captivate customer audience; too many diverse options all competing for potential customers’ interest.</li> </ul>

## F. Hants County Exhibition

Reference:  
 David Coombes, Manager  
 hantscountyex@eastlink.ca  
 902-798-0000

**Key Statistics**

Operational Since: 1765  
 Revenues: \$460,000  
 Mandate: *To serve the purpose of educating the community on agriculture, while simultaneously providing a fun environment for families to enjoy.*

### (i) Background and Context

Hants County Exhibition (HCE) is located in Windsor, Nova Scotia, roughly 60 kilometers outside of Halifax. HCE operates over the course of two separate weekends, as to hedge itself against the historically poor weather conditions in early September.

Celebrating its 250<sup>th</sup> anniversary next year, the HCE is the oldest agricultural fair in North America. While agricultural displays have traditionally been the backbone of HCE in the past, the organization has recognized the need to address a younger audience through a variety of displays and acts.

The parent company to HCE, The Windsor Agricultural Society (WAS), owns the 41 acres of land in which the HCE is run on. This property hosts four (4) acres of building property which includes a range of various facilities, such as an ice arena which is operated by a separate municipal entity. Outside of the exhibition the other 37 acres of open land is used to hold outdoor non-exhibition events and attractions, including a campground facility during the summer months.

Like many other exhibitions with deep agricultural roots, the HCE faces a declining customer base and competing interests between maintaining its rich agricultural base and opening itself up to new, diversified attractions and entertainment models.

## (ii) Operating Details

This section will provide a summary of HCE's operational profile, including an analysis of successful attractions.

Similar to other provincial exhibitions with ties to agricultural heritage, HCE offers standard exhibition events and attractions as seen with other comparators including:

- Agriculture and Animal shows—including *Ox Pulls, Steer Pulls, Mini Horse Shows, and Draft Pony Shows*; and
- Rodeo Tours—a unique rodeo event including main barrel racing showcases hosted by the *Maritime Barrel Racing Association (MBRA)*.

The HCE also has indicated that it is going to expand its entertainment offering to include a variety of attractions that no other provincial exhibition in the Atlantic has yet to offer. For confidentiality purposes, this information has not been disclosed.

In addition to the exhibition-specific events and attractions that the HCE hosts, it also makes use of its facilities in the off-season, primarily by renting out the grounds for various events and showcases. There are three main channels in which off-season operations fall into:

- **Storage:** HCE dedicates a portion of its four (4) acre building coverage to clientele from the area looking to store valuables and equipment over the winter months;
- **Rentals**—The organization is able to generate revenue through renting out facilities for third-party entertainment including travelling tours, festivals, road shows, and concerts; and
- **Ice Facility Operations**—Through non-revenue generating, the WAS owns an ice facility in Windsor, in which the municipal government overlooks operations for.

## (iii) Organizational Structure

### Employee and management structure overview

The HCE maintains a hybrid full-time employee structure, where employee count fluctuates throughout the year depending on planning, execution, and close-out demand from the exhibition's operations. The HCE uses a part-time Manager to oversee the entire exhibition operations both during, and outside of exhibition operations. In addition to this, the HCE employs various administrative and operational assistants as well as a groundskeeper at select periods throughout the year.

During exhibition operations specifically, the HCE employs roughly 20 individuals to support various elements during the 6-day period; each employee earns a minimum wage rate.

### Board of Directors overview

The board of directors at the HCE is larger compared to other entities researched in this analysis. Currently, there sits eighteen members on the board of directors, of which every member can serve up to a maximum of 6 years before being rotated out. Though historically the HCE board was comprised largely of farmers and agriculture-based backgrounds, there are currently very few farmers left on the board. As with any large board, this presents challenges in organizing quorums and aligning schedules.

The HCE board is typically removed from most decision making processes, and as such, the Manager yields the authoritative power to make strategic decisions.

## **(iv) Financial Analysis**

### **Revenue**

The HCE is able to generate revenues both directly through the exhibition operations, as well as through renting out its land and facility assets throughout the year.

From an exhibition-specific perspective, the HCE's peak operational years were from 1982 until 1985, reaching revenues of \$500,000 per exhibition<sup>1</sup>. Since then, a changing market landscape and relatively fixed population growth resulted in a continual decline until 2010.

Since 2010, the HCE has been able to recoup some top-line growth due to increased entertainment quality and diversified attractions. Exhibition revenues for FY2013 reached \$300,000.

This exhibition revenue is driven by ticket sales, accounting for almost 50%. Subsequent revenue streams include exhibit space rentals, horse and cattle show entry fees and governmental grants, which drive roughly 10 – 15% of total sales each. The rest of the top line is comprised of trailer / camping sales and parking fees.

Outside of exhibition operations, HCE is able to generate additional sales through ground rentals, where third-party entertainment vendors will rent out facilities to showcase events. As well, the HCE hosts equipment storage for residents throughout the winter. Each of these activities generates roughly \$80,000 in revenue for HCE, totaling \$160,000 in off-season revenues.

In addition to this, HCE receives a total of \$40,000 in provincial and municipal government funding yearly to maintain operations.

Therefore, aggregating exhibition and non-exhibition revenues, the HCE is able to generate roughly \$460,000 yearly.

### **Costs**

From a cost perspective, the HCE has three major cost drivers during, and outside of exhibition operations: wages, utilities, and entertainment. These three drivers constitute a majority of the \$430,000 yearly incurred costs, with the remainder allocated towards miscellaneous items.

### **Profitability**

HCE's FY2013 operations resulted in a net profit of roughly \$30,000, including government grants and funding; excluding these suggests the exhibitions operations are around a break-even basis.

Looking forward, HCE management acknowledge that revenue levels are not likely to hit record levels as set in the early to mid-1980's. Despite this, if the exhibition is capable of increasing traffic incrementally year-over-year through a varied entertainment portfolio, it is possible to achieve consistent, profitable operations yearly.

## **(v) Marketing Capabilities**

HCE employs similar marketing and promotional tactics as other comparators, including radio advertisements, catalogues, and newspaper prints.

Additionally, HCE operates a Facebook social media account, though traffic through this medium is not consistent; the last update was September 2013, and the page only has 422 total likes.

## **(vi) Analysis of External Market Factors**

Management views the external market as a challenging, competitive environment that is contributing to a slow decline of all agricultural fairs and exhibitions across the Atlantic. Though HCE is operating on a near-profitable basis, it still faces similar pressures felt across many of the

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<sup>1</sup> Adjusted for inflation

previous comparators; aging demographics, strong entertainment competition, and a negative perception of agricultural festivals are among these shared themes.

In light of this challenging environment, the HCE is moving towards a more creative and aggressive exhibition strategy, intent on capturing younger families and audiences for generations to come. The table below identifies the major internal and external strengths, weaknesses, opportunities, and threats that the HCE faces.

Figure 5.4. – HCE Internal / External Summary

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>▪ Strong, diversified attraction offering; connections to various global exhibition communities and agriculture fairs.</li> <li>▪ Management team has 50+ years of experience in exhibition operations.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Current Board of Directors is comprised of older-generation individuals; hard to foster 'creative' and 'aggressive' environment.</li> <li>▪ Board depends on General Manager for oversight.</li> </ul>
Opportunities	Threats/Challenges
<ul style="list-style-type: none"> <li>▪ Major opportunity to reinvigorate the HCE with new personnel and advisors from non-traditional backgrounds; establish more creative outlook on exhibition operations.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Poor festival timing; September weather is rarely optimal and can result in poor exhibition attendance.</li> </ul>

## G. Comparator Analysis

### Summary

The intent of the comparator analysis is to understand current and future industry trends as well as identify and validate a robust list of best practices for provincial exhibitions and fairs in Atlantic Canada.

By performing thorough one-on-one interviews with representatives from the New Brunswick Provincial Exhibition (NBPE; formerly known as the Fredericton Exhibition), Charlottetown Old Home Week (OHW), Summerside Lobster Festival (SLF), and Hants County Exhibition (HCE), a comprehensive understanding of the internal and external factors at play for each of these organizations was developed. Specifically, the interviewees provided valuable insights and perspective on the factors driving the exhibition and agriculture fair industry in Atlantic Canada, and on each entity's internal operational structure and methodology. A summary of the best practices identified throughout the report is provided below:

#### 1. Generate strong community support.

Most agriculture and provincial exhibitions represent a cultural and historic pillar in their respective communities; patrons, both old and young, often have an emotional attachment to their exhibition / festival. Successful organizations have recognized the potential for these people to become involved beyond a customer level. By engaging families and individuals to volunteer during exhibition operations, organizations are able to significantly reduce operational costs, while simultaneously creating excitement and awareness about their exhibition offering.

#### 2. Maximize off-season operations.

Not all comparators have full access to exhibition facilities year-round, however those that do have identified the need to monetize their unused facilities during the off-season. This

facilitates substantial cash generation, of which a portion can be invested in exhibition-specific items. For one comparator, 50% of its total revenue base, or \$600,000 is generated through off-season revenues.

**3. Focus on real drivers of profitability.**

Due to the extensive heritage found in each of these organizations, many of the attractions offered are based on tradition—irrespective of profitability. While these organizations have recognized the importance of ‘remaining true to their roots’, making the difficult decision to divest certain attractions has allowed certain organizations to remain in operation today. Focusing on attractions that truly drive profitability and customer traffic is therefore important to generating enough contribution to the bottom line to remain operational while maintaining an agricultural focus.

**4. Foster a creative environment.**

Given the level of direct and indirect competition in the exhibition and agricultural fair industry, many organizations are seeking new and creative ways to entertain and incentivize patrons to attend their festivals. An integral part of this process involves creating an organizational environment where ‘out-of-the-box’ thinking is celebrated and encouraged. Organizations that have made an effort to entertain non-traditional ideas and sought to adapt to the rapidly changing landscape have found success in growing their customer base.

**5. Harness racing.**

None of the comparators own or manage harness racing facilities making the Commission unique. All with the exception of the Hants County Exhibition have harness racing associated with their main annual event. This is seen as a tradition that will allow for synergies in that those patrons who attend the harness racing may attend other events and vice versa. In all cases, the comparators have noted a significant decline in attendance to harness racing events which is attributed to an aging demographic as a younger generation does not have the same interest or knowledge of the sport. However, both the comparators and their harness racing partners do feel a continued relationship is mutually beneficial and one way to engage a larger audience as a means to attract new fans.

# 5 Operational Controls and Historical Expenditures

## A. Overview

As part of the scope of review, we documented the following processes and related controls and have provided recommendations for improvement in these areas:

- Cash management;
- Accounts receivable and general revenue (including Pari-mutuel and Exhibition revenue);
- Procurement processes;
- Payroll processing; and
- HST collection and remittance.

Given the differing sources of revenue, revenue collection was split between the Commission's revenue, the raceway revenue and the Exhibition revenue. Similarly, we observed that there were multiple sources of payment and this process included sub-processes for payroll expenses, general expense and raceway expenses. Payroll deductions were included in the payroll expenses.

The second part of the requested review included the financial transactions for the period from January 1, 2009 to December 31, 2013 to determine whether funds were expended for purpose intended. We noted that effective January 1, 2012 the Commission changed accounting software packages. Current management was not present when this transition occurred and was not able to locate complete electronic or paper records of all transactions that occurred during the period from January 1, 2009 to December 31, 2011. As a result, we were only able to perform this review for the period from January 1, 2012 to December 31, 2013, creating a limitation on the scope of our review. We did note that the period from January 1, 2009 to December 31, 2011 was audited by PricewaterhouseCoopers (PWC); however the purpose of a financial statement audit is not consistent with a review of expenditures outlined in the scope of review. Based on our review of the audited financial statements for the year ended December 31, 2011 and comparative information for December 31, 2010 we believe that our conclusions would not change if we had access to the financial data for all periods requested as expenditures in these years were relatively consistent with the periods covered by our report.

## B. Operational Controls

We have included detailed process descriptions for the above mentioned areas based on our discussions with employees and walkthrough of documentation (refer to Appendix A – Process Narratives). Based on these narratives, process controls were identified to address specific risks (refer to Appendix B – Control Matrix). The mapping of the existing controls to these risks provided a gap analysis. Controls were tested to determine if they were operating effectively. The findings from the gap analysis and effectiveness testing were used as the basis for findings and recommendations to improve the management of identified risks.

We noted that the Commission has undergone a number of changes. There has been turnover of employees in key positions within the organization. This has resulted in a number of “work arounds” to accommodate the reduced number of staff and delays in financial reporting as a result of relying on volunteers. We also noted that due to the reduced staff, the Commission relies on the trust of key employees as opposed to good operational practices to ensure timely recording of

transactions and safeguarding of assets. This was expected to some extent and is common for smaller organizations. Generally, we would expect the Commission to have mitigating controls in the form of management or board oversight however this is not always the case.

Our recommendations are based on historical staffing levels. Depending on how the Commission decides to structure itself in the future, will have an impact on the appropriate controls to implement. For example, if certain administrative functions are outsourced, the focus should be on ensuring that a service level agreement is in place to address the Commission's needs which includes the ability to review the service organizations' control environment. In general, we recommend that the Commission undertake a comprehensive review of their controls once a course of action related to its organizational structure and governance is established. This should focus on ensuring the risks identified in the control matrix in Appendix B – Controls matrix are acceptably mitigated.

A complete list of findings, recommendations and management comments are included in Appendix C – Findings, recommendations and management comments.

## **C. Historical Expenditures**

We performed a detailed analysis of expenditures for the period from January 1, 2012 to December 31, 2013. Our methodology involved the use of data analytic specialists to review 100% of the data and identify potential transactions of interest to investigate further. The findings from this review were used as the basis for our conclusion as to whether the expenditures are expended for the intended purpose. Determining the intended purpose can be subjective and judgmental. This is made more difficult given the inability of those interviewed to articulate a clear and consistent mandate for the Commission as noted in Section 4 – Commission Mandate and Governance / Management. As a result, what is appropriate to one individual may not be appropriate to another based on their view of the mandate of the Commission. For the purpose of our review we focused on determining the rationale for the expenditures and if there was sufficient oversight related to the approval of the transactions.

The data analysis identified the following areas of focus:

- Transactions using a temporary accounts payable account;
- Video Lottery Terminal (VLT) expense transactions;
- Debits made to the income statement accounts that are credited directly to cash (in excess of \$5,000);
- Debits to revenue accounts in excess of \$1,000;
- Payments from petty cash in excess of \$500;
- Potential duplicate transactions in excess of \$2,000;
- Vendors with payments during a year greater than \$20,000;
- Payments that are “positive” (for example, income to the organization not an expense) in excess of \$1,000;
- Potential duplicate invoices entered;
- Re-occurring payments that were identical in amount or date of entry;
- Employees that are vendors;
- Vendors with the same address as employees; and
- Duplicate vendors.

As a result of our review we noted the following:

**(i) Transactions using a temporary accounts payable account**

We identified \$439,084 in 2013 and \$446,396 in 2012 of payments made via a temporary accounts payable account. Temporary accounts should be used in rare circumstance and to the extent there are re-occurring transactions separate control accounts should be set up to facilitate accurate and efficient review of these transactions (for example, payroll clearing account). The use of this temporary account was for the purpose of payroll clearing and to track amounts owed to the former Grounds Supervisor who purchased goods and supplies for the Commission to be reimbursed. Payroll should be tracked in a separate payroll clearing account and amounts reimbursed should use the normal accounts payable process.

**(ii) VLT expense transactions**

We noted that there was \$702,113 in 2013 and \$734,540 in 2012 of VLT expenses recorded to revenue accounts. These transactions related to clearing the VLT revenue (an equal amount). This recorded the amount collected and then remitted to Atlantic Lottery Corporation (ALC) for VLT terminal activity. These transactions should be captured in an accounts payable or vendor account as they are not revenues or expenses of the Commission.

**(iii) Transactions that debit an income statement account and credit cash (non-petty cash)**

We noted that there were \$62,666 in 2013 and \$78,515 in 2012 related to cash transactions as a result of direct debit. Within that population, there were specific transactions to the former Grounds Supervisor relating to hours worked totaling \$21,734 in 2013 and \$12,731 in 2012. As these are outside the normal payroll process, there is a risk proper amounts were not withheld and remitted to Canada Revenue Agency (CRA).

**(iv) Debits to revenue accounts**

As previously noted in subsection (ii) above, debit transactions made to the revenue accounts were made to eliminate the cash recorded for VLT cash credited to the revenue account as this was not the revenue of the Commission. An additional \$156,002 in 2013 and \$117,532 in 2012 was debited to revenue accounts for discounts on early payment of fees or for other sources of revenue where the Commission is entitled to a percentage of the sales as a commission basis. The Commission initially recorded revenue on a gross basis instead of a net basis and a debit was used for appropriately reduce the revenue.

**(v) Payments from petty cash in excess of \$500**

The primary source of payments in excess of \$500, were transactions to fill the onsite ATM during large events such as the Dutch Mason Blues Festival and the Exhibition. These transactions totaled \$60,815 in 2013 and \$12,966 in 2012. As the timing of these events are known, cash should be sourced from the bank account and a reconciliation completed of the amounts provided for the ATM to the deposits received as a result of the transactions serviced by the ATM. With the financial difficulties of the Commission, credit is not being extended by vendors and many transactions are now paid from petty cash that were previously paid through the payables system.

**(vi) Potential duplicate transactions in excess of \$2,000**

We investigated transactions where the source number was identical and the amounts were identical but to different vendors. We noted there were two potential duplicate transactions in 2012 amounting to \$4,600 and two potential duplicate transactions 2013 amounting to \$6,000. No duplicate transactions were identified upon further follow-up of the transactions identified.

**(vii) Vendors with payments during the year totaling greater than \$20,000**

We reviewed the most frequently paid vendors in 2012 and 2013 to potentially identify unusual trends. Eighteen vendors in 2013 and 32 in 2012 accounted for \$1,211,762 and \$2,328,433 of expenditures, respectively. The drop was due to credit not being extended to the Commission in 2013 and many of the expense being paid through petty cash reducing the number of transactions recorded in accounts payable in 2013.

**(viii) Positive payments in excess of \$1,000**

A positive payment is the receipt of cash tracked as payment in the accounts payable sub-ledger. The Commission has set up racetracks which they do pari-mutuel or simulcast business with as vendors. These vendors are entitled to payments from the Commission related to bets received for their racetracks. The Commission is entitled to receive from these vendors payments for bets placed at their racetracks on the Commission's races. These transactions are often net settled. We noted that the Commission received \$319,748 in 2013 and \$488,247 in 2012 from Woodbine Raceway as they are typically entitled to a cash receipt on a net basis.

**(ix) Re-occurring payments on the same date or for the same amount**

The Commission tracks certain expenses by building (for example, fuel and electricity). Their vendors will provide details to allow the Commission to track accounting detail by building. Each delivery to each building are tracked as separate transactions. These instances are what typically resulted in higher than expected volumes of re-occurring payments on the same day or for the same account.

**(x) Employees that are vendors or have the same address as vendors**

Six employees were identified as being set up as potential vendors due to the same address or name. In all cases there was a rational for these vendors. Ideally employees would not be set up as vendors and all payments to employees would be tracked through payroll (for example, re-imbusement of expenses).

**(xi) Duplicate vendors**

We noted six duplicate vendors in the accounting system. These were in fact duplicate vendor records however the relative number of duplicate vendors was considered low for the Commission compared to entities of similar size. Duplicate vendors suggest weaknesses in controls related to setting up new vendors. At a minimum vendor data should be periodically reviewed to ensure duplicates are removed. No transactions related to the vendors entered in duplicate were identified in the previous analysis.

## D. Conclusions

Overall we have noted a number of control deficiencies from our testing. It should be noted that appropriate controls including proper segregation of duties are often hard if not impossible to implement in smaller organizations. The Commission has been relying on trusted employees and volunteers. The current control environment is not sustainable and could result in errors in financial reporting or misappropriation of assets in the future. We recommend that the Commission implement our recommendations provided in Section 9 – Findings and Recommendations. Once the Board determines a sustainable governance model (see Section 7 – Governance Models and Leading Practices) the Commission should perform a gap analysis to identify risks under the revised structure and relevant controls. Given the limited number of employees proper segregations of duties may not be possible. The Commission should ensure there are appropriate oversight controls implemented that would detect errors and deter potential misappropriation of assets.

Under our scope of review we were also asked to provide our opinion as to whether funds were expended for the purposes intended. Based on the data analytics performed and subsequent follow-up procedures, we concluded that expenditures were expended for their intended purpose, however we noted a number of transactions that identified areas for improvement in the Commission's operational practice.

# 6 Governance Models and Leading Practices

## A. What is Governance?

Governance is all about the set of responsibilities and practices exercised by an organization's executive to provide strategic direction, ensure objectives are achieved, manage risks and use resources responsibly and with accountability. Good governance involves both:

- **Performance:** How an organization uses governance arrangements to contribute to its overall performance and the delivery of goods, services or programs; and
- **Conformance:** How an organization uses governance arrangements to ensure it meets the requirements of the law, regulations, published standards and community expectations of probity, accountability and openness.

Good governance is important because it forms the framework for all aspects of an organization's activities. In contrast, poor governance can bring about the decline or even demise of an organization. Accordingly, organization's focused on good governance consider the following key elements:

### 1. Strategic Vision and Leadership:

All parties should have a clear understanding of the purpose of the organization and agree on the division of roles and responsibilities in support of organizational goals. The organization should have effective leadership to implement its purpose and stay true to its mandate while adapting to changing circumstances.

### 2. Accountability:

All parties should take responsibility for their actions and operate in a transparent manner. Each person should understand their role and be accountable for fulfilling their duties. Organizations should be given those powers needed to deliver their mandate and integrate a clear chain of responsibility into the organization's accountability structures.

### 3. Ethics:

All Directors of an organization should behave ethically and work to ensure that the organization as a whole behaves responsibly. As non-profit organizations, they should be committed to pursuing their mandate in the interest of the broader public good.

### 4. Effectiveness:

Organizations should participate in regular evaluative processes and consider innovations in order to improve performance. Organizations should have appropriate processes and sufficient authority to successfully achieve its objectives.

### 5. Communications and Transparency:

There should be clear communication with stakeholders, including opportunities for meaningful feedback. Sufficient information to understand and evaluate organizational processes, aims and actions should be readily available. Balance should be achieved between the broad mandate of the entity and the specific needs of its wider group of stakeholders including the public.

## **B. Ownership and Organizational Mandate**

Ownership is a key determinant of board governance in that it defines the number of principals, and often their relative strength in influencing decisions that affect the organization (Board and Management). For example, in privately-held businesses, single individuals will often 'call the shots', and the board's role is often limited to that 'allowed' by the owner. This can also be true of many public sector boards, where their function, even if designed to be autonomous, is often ultimately controlled by a single shareholder – namely the Provincial Government as represented by the Minister then in power. Alternatively, boards of public corporations must act very differently in response to the fact that many shareholders own the entity.

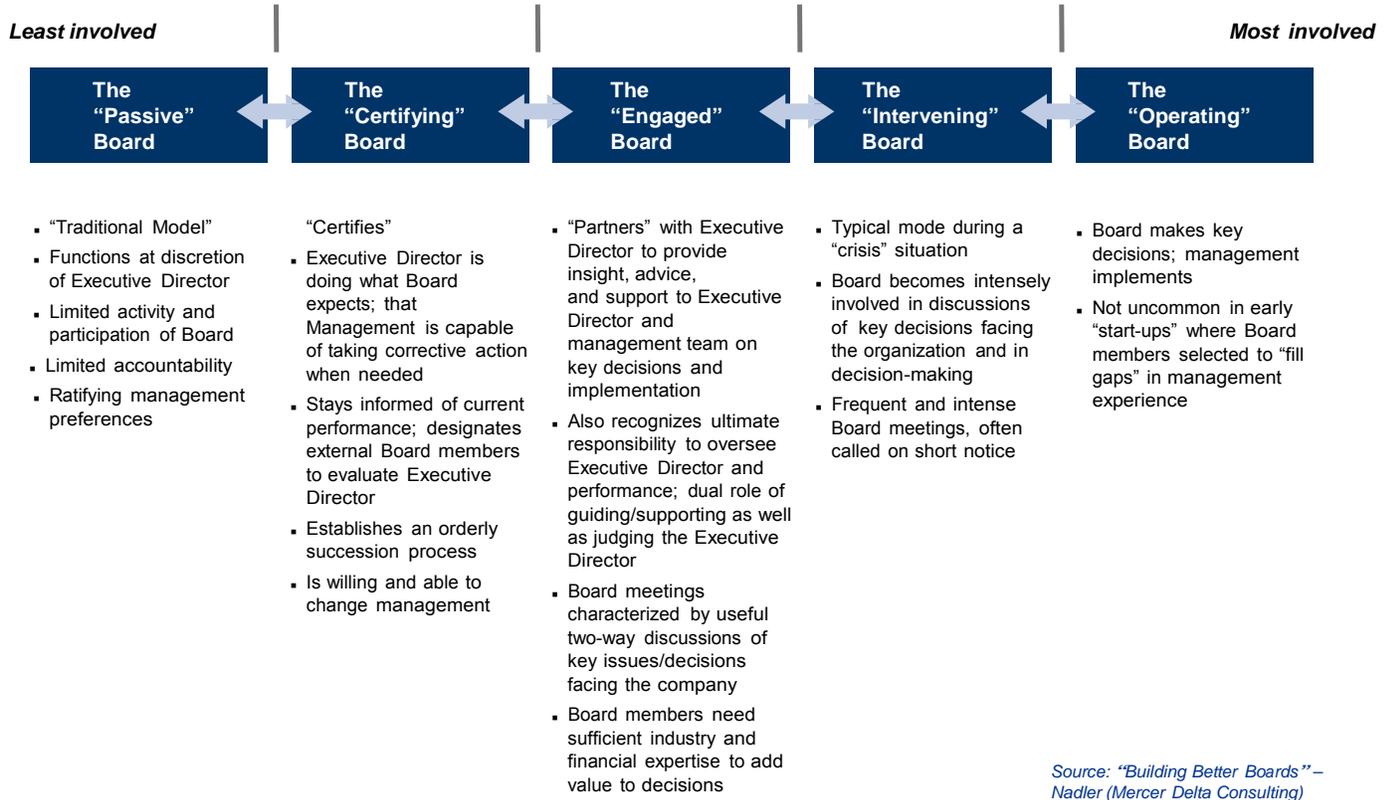
Ownership structure will also help to define how – and to whom – boards are accountable. For privately-held entities, accountability is usually a matter of choice, and can be quite informally structured. For public agencies or public companies with multiple shareholders, accountability mechanisms tend to be based directly in law and / or regulation, and have a much more formal set of requirements.

Particularly for boards active in the public sector, such as the Commission, Provincial legislation could imply that the formal mandate of the organization is not open for board discussion or debate. Instead, the mandate is “taken as a given”, and boards tend to focus fairly exclusively on satisfying the mandate through their influence over strategic issues that lie within their sphere of influence.

While variations will exist, there are three models of boards that differ with regard to Structure, Processes, Membership and Ownership. The current governance model for the Commission can be most easily understood by applying the following framework.

Advisory Board	Dependent Board (Commission)	Independent Board (Society)
<p><b>Structure</b></p> <ul style="list-style-type: none"> <li>• Typically no statutory authority over the organization</li> <li>• Powers can be delegated on an <i>ad hoc</i> basis by a specific third party</li> </ul>	<p><b>Structure</b></p> <ul style="list-style-type: none"> <li>• Limited statutory authority over dimensions of the organization</li> <li>• Powers dependent exclusively on being conferred by a specific third party, who ultimately maintains final decision-making power</li> </ul>	<p><b>Structure</b></p> <ul style="list-style-type: none"> <li>• Statutory authority over all dimensions of the organization</li> <li>• Power independent of any one specific third party</li> <li>• Final decision-making power may rest with the Board, or with collective owners (e.g., shareholder voting)</li> </ul>
<p><b>Processes</b></p> <ul style="list-style-type: none"> <li>• Defined by third party</li> </ul>	<p><b>Processes</b></p> <ul style="list-style-type: none"> <li>• Can be defined by the Board, but often need to be approved by a specific third party</li> </ul>	<p><b>Processes</b></p> <ul style="list-style-type: none"> <li>• Board defines most, if not all, processes</li> </ul>
<p><b>Membership</b></p> <ul style="list-style-type: none"> <li>• Defined by third party</li> </ul>	<p><b>Membership</b></p> <ul style="list-style-type: none"> <li>• Can be recommended by the Board, but often need to be approved by a specific third party, or directly appointed</li> </ul>	<p><b>Membership</b></p> <ul style="list-style-type: none"> <li>• Board nomination of membership, with or without outside approval</li> </ul>
<p><b>Ownership</b></p> <ul style="list-style-type: none"> <li>• Single Owner (ex: individual, single company, City Council)</li> <li>• Owner wants to maintain close control over Board operations and sets mandate directly</li> </ul>	<p><b>Ownership</b></p> <ul style="list-style-type: none"> <li>• Single Owner (ex: individual, single company, City Council)</li> <li>• Owner maintains close control over mandate, but Board has a special subject matter expertise</li> </ul>	<p><b>Ownership</b></p> <ul style="list-style-type: none"> <li>• Multiple Owners (ex: Independent shareholders, direct democracy)</li> <li>• Owners are at arm's length and mandate is set by the Board</li> </ul>

Additionally, Boards must set a vision of how engaged they want to be in influencing managements' decisions and organizational direction. Certain board types are more effective than others depending on the operating circumstance of the company or organization. In practice, boards move back and forth across the scale to suit the situation the organization is in.



## C. Board Models for the Commission

There are three broad governance models that can be evaluated for the future operation of the Commission. It is our understanding that the privatization of the Commission assets would require the provisions of the current Act to be amended. These three options are as follows:

### 1. *Advisory Board Model*

Under this model, the two competing mandates for the Commission are determined to be irreconcilable and permanently split. The Department becomes the outright owner of the Provincial Exhibition and the Commission splits to become two advisory Boards reporting to the Province. The raceway would have an advisory board to represent their interests to the Province on the operation of the raceway and wagering activities. Likewise, the Exhibition would have an advisory board to provide advice and represent agricultural exhibition interests.

### 2. *Commission (Dependent Board) Model*

Applying this option, the Commission would operate as a Commission established by Provincial statute with its own Board of Directors. The day-to-day management of the operations and facilities of the Commission would be performed by the management and employees of the Commission. However, as outlined in our report, a number of changes would need to be implemented in order to make the operations of the Commission solvent and sustainable over the long term. Depending on the final mandate selected for the Commission, these changes should include some or all of the following areas (which have been outlined throughout this report):

- Development of Board governance practices and policies;
- Determination of the target customers for the Commission's events and the development of a marketing plan;
- Development of a business plan for the Commission involving all activities belonging to the site;
- Improvements in financial control and reporting to the Board and the Province; and
- Ongoing operational changes to improve the Commission's profitability.

### 3. *Society (Independent Board) Model*

Under this option, the Commission would incorporate as a Society under the Societies Act with an independent Board of Directors. The Commission would have absolute authority over the mandate of the organization and would report only to its members. The Commission would be bound by the financial reporting requirements of the Societies Act and be required to maintain and follow its governance bylaws. Its membership and all records would be held by the Provincial Registrar. Again, however, as outlined in our report, a number of changes would need to be implemented in order to make the operations of the Commission solvent and sustainable over the long term and the incorporation as a Society feasible. Depending on the final mandate selected for the Commission, these changes should also include the same areas which have been outlined above for the Dependent Board (Commission) Model.

The following section presents an analysis of the three governing alternatives as described above, in the context of the Commission and its Exhibition and raceway operations.

## D. Matrix of Board Models Showing Key Operational Characteristics

Advisory Board Model	
<b>Applicable Mandate</b>	<ul style="list-style-type: none"> <li>• The two competing mandates for the Commission are determined to be irreconcilable and permanently split:               <ul style="list-style-type: none"> <li>○ An agricultural organization and economic development creator where the focus is not on harness racing but the promotion and education of an agrarian lifestyle and the economic and community building benefits created by an active agricultural exhibition; or,</li> <li>○ A harness racing business designed to operate the Truro raceway venue on a profit-making (or at least break-even) basis. This position recognizes the importance of the agricultural exhibition to the promotion of farming and agrarian lifestyle, but believes its limited annual staging outstrips its current benefits.</li> </ul> </li> </ul>
<b>Model Features</b>	<ul style="list-style-type: none"> <li>• Advisory board with no decision making authority; all authority rests with the owner (the Province or Municipality);</li> <li>• Commission split into two operations: raceway and Exhibition;</li> <li>• Establish two advisory boards each with eleven seats to maximize public input;</li> <li>• Advisory Board members would represent their specific stakeholders; and</li> <li>• Province or Municipality would appoint a government employee as General Manager to which the Advisory Boards would report.</li> </ul>
<b>Model Strengths</b>	<ul style="list-style-type: none"> <li>• Advisory Board model provides the fastest return to solvency with Provincial ownership;</li> <li>• Mid to long-term capital costs (upkeep, rebuilding, refurbishment, renovation) remain with the Commission;</li> <li>• Provides resolution to the question of mandate;</li> <li>• Department or Municipality has direct line of sight and control over the Commission; and</li> <li>• Clearer direction on mandate and specific objectives (e.g., raceway, wagering, facility management).</li> </ul>
<b>Model Weaknesses</b>	<ul style="list-style-type: none"> <li>• The potential marketing and operating synergy between the Exhibition and raceway is lost;</li> <li>• Province or Municipality assumes the liabilities of the Commission with no commitments from key local stakeholders;</li> <li>• No incentive for local stakeholders to seek performance improvements;</li> <li>• Exposes the Province / Municipality to potentially assuming the operations of other provincial exhibitions and agricultural fairs; and</li> <li>• Limited ability to partner and possibly share operational risk with another party.</li> </ul>

<b>Potential Risks</b>	<ul style="list-style-type: none"> <li>• Market for entertainment dollar remains competitive and will continue to produce operational challenges (more competing venues, tighter margins);</li> <li>• Harness racing as a spectator sport continues its downward trend in popularity;</li> <li>• Continued decline in the state of exhibition infrastructure limits the scale and scope of the annual exhibition; and</li> <li>• Operations remain in public eye and under greater public scrutiny.</li> </ul>
<b>Next Steps</b>	<ul style="list-style-type: none"> <li>• The Province takes ownership of the assets through the NSFLB loan agreement;</li> <li>• Establish two advisory boards; one to run the raceway and the other to run the remainder of the assets;</li> <li>• Appointment of a government employee to manage the assets including operating the raceway and day-to-day activities of the Commission;</li> <li>• Mandate established by the Province through statute;</li> <li>• Province to develop a five-year business plan tied to provincial statute with input from the Advisory Board;</li> <li>• Develop an annual budget for approval by the Province; and</li> <li>• Consider the transfer of assets to a municipality in the Truro area either as a package or on an asset by asset basis (i.e. retain certain operations such as the raceway).</li> </ul>
<b>Operating Considerations</b>	<p>If this option is selected, consideration should be given to:</p> <ul style="list-style-type: none"> <li>• Cleaner financial reporting with quarterly reporting to Province;</li> <li>• More efficient budgeting and linkage to key performance indicators;</li> <li>• The recruitment of a new General Manager to operate the facility on behalf of the Province / Municipality;</li> <li>• The transfer of employees from the Commission to the provincial government;</li> <li>• The recruitment of Advisory Board members for the raceway and the Exhibition; and</li> <li>• Development of a terms of reference for the Advisory Boards.</li> </ul>

## Commission (Dependent Board) Model

<b>Applicable Mandate</b>	<ul style="list-style-type: none"> <li>An agricultural organization operating a harness racing business on a profit making basis that recognizes the importance of the annual exhibition to the promotion of farming and agrarian lifestyle and harness racing as a key agricultural past-time and a necessary part of the exhibition.</li> </ul>
<b>Model Features</b>	<ul style="list-style-type: none"> <li>Governance model would include a non-profit corporation established under provincial statute with a Board of Directors (composed of one agricultural member, one raceway member, one Department member (ex-officio), and three blue ribbon business people from the community). This governance model is more appropriate for a mandate focused on the redevelopment of the raceway and Exhibition and limits the distraction from local politics.</li> </ul>
<b>Model Strengths</b>	<ul style="list-style-type: none"> <li>Commission maintains ownership of facilities and does not transfer facility ownership to the Province;</li> <li>Province mandates the Board of Directors, through Provincial Statute, to achieve specific objectives (e.g., raceway revitalization, financial sustainability, agricultural events);</li> <li>Brings blue ribbon community leaders and Provincial representatives into Commission as members of the Board and removes local elected officials;</li> <li>Separates the Commission from the municipal corporations and local politics and allows for greater latitude in operations;</li> <li>Greater clarity in fiduciary duties;</li> <li>Smaller more focused Board; and</li> <li>The potential marketing and operating synergy between the Exhibition and raceway is retained.</li> </ul>
<b>Model Weaknesses</b>	<ul style="list-style-type: none"> <li>Financial challenges remain on an operating basis; still requires financial support (operating and capital) from the Province;</li> <li>Mid- to long-term capital costs (upkeep, rebuilding, refurbishment, renovation) remain with the Commission;</li> <li>Question of mandate potentially continues between raceway &amp; Exhibition; and</li> <li>Limits the ability of local stakeholders to influence the operation of the Commission.</li> </ul>
<b>Potential Risks</b>	<ul style="list-style-type: none"> <li>Market for entertainment dollar remains competitive and will continue to produce operational challenges (more competing venues, tighter margins);</li> <li>Harness racing as a spectator sport continues its downward trend in popularity;</li> <li>Continued decline in the state of exhibition infrastructure limits the scale and scope of the annual exhibition;</li> <li>Operations remain in public eye and under greater public scrutiny; and</li> <li>Province loses direct control of the Commission and entrusts its operation to the Board of Directors.</li> </ul>

<p><b>Next Steps</b></p>	<ul style="list-style-type: none"> <li>• Establishment of a new Commission statute with a six member independent Board of Directors appointed by the Department;</li> <li>• Six board members would include a representative from the farming industry, the raceway, three blue ribbon business people from the local community and an ex-officio member from the Department; no local elected officials;</li> <li>• Recruitment of a new General Manager;</li> <li>• Mandate established by the Province through statute;</li> <li>• Board and management to develop a five-year business plan tied to provincial statute; and</li> <li>• Clearer financial controls, budgeting processes and key performance indicators tied to provincial statute.</li> </ul>
<p><b>Operational Considerations</b></p>	<p>If this option is selected, consideration should be given to:</p> <ul style="list-style-type: none"> <li>• Cleaner financial reporting with stand-alone financial statements and the ability to financially evaluate the separate components of the Commission;</li> <li>• More efficient budgeting and linkage to key performance indicators;</li> <li>• How the financial and board secretarial roles will be filled;</li> <li>• The development of a Board selection process (e.g., skill sets, Nominating Committee) and orientation process to ensure effective governance; and</li> <li>• The recruitment of a new General Manager and the filling of financial and board secretary roles.</li> </ul>

## Society (Independent Board) Model

<b>Applicable Mandate</b>	<ul style="list-style-type: none"> <li>An agricultural organization operating a harness racing business on a profit making basis that recognizes the importance of the annual exhibition to the promotion of farming and agrarian lifestyle and harness racing as a key agricultural past-time and a necessary part of the exhibition.</li> </ul>
<b>Model Features</b>	<ul style="list-style-type: none"> <li>Governance model would include a non-profit corporation established under the Societies Act with a Board of Directors (composed of two Agricultural members, two raceway members, three Department members, and two blue ribbon business people from the community). This governance model is more appropriate for a mature organization and sustainable organization focused on the redevelopment of the raceway and Exhibition and limits the distraction from local politics.</li> </ul>
<b>Model Strengths</b>	<ul style="list-style-type: none"> <li>Society maintains ownership of facilities and does not transfer facility ownership to the Province;</li> <li>Brings blue ribbon community leaders and Provincial representatives into Society as members of the Board and removes local elected officials;</li> <li>Separates the Society from the municipal corporations and local politics and allows for greater latitude in operations;</li> <li>Greater clarity in fiduciary duties;</li> <li>Board is more representative of the key stakeholders; and</li> <li>The potential marketing and operating synergy between the Exhibition and raceway is retained.</li> </ul>
<b>Model Weaknesses</b>	<ul style="list-style-type: none"> <li>Financial challenges remain on an operating basis; still requires financial support (operating and capital) from the Province;</li> <li>Mid- to long-term capital costs (upkeep, rebuilding, refurbishment, renovation) remain with the Society;</li> <li>Question of mandate potentially continues between raceway and Exhibition; and</li> <li>Incorporation as a Society is for a more mature organizational state.</li> </ul>
<b>Potential Risks</b>	<ul style="list-style-type: none"> <li>Market for entertainment dollar remains competitive and will continue to produce operational challenges (more competing venues, tighter margins);</li> <li>Harness racing as a spectator sport continues its downward trend in popularity;</li> <li>Continued decline in the state of exhibition infrastructure limits the scale and scope of the annual exhibition;</li> <li>Society membership becomes dominated by a local faction with an agenda counter to the betterment of the facility; and</li> <li>Province loses direct control of the Commission and entrusts its operation to the Board of Directors.</li> </ul>

<b>Next Steps</b>	<ul style="list-style-type: none"> <li>• Incorporation of the Commission under the Societies Act;</li> <li>• Recruitment of a new General Manager;</li> <li>• Mandate established by the Province through statute;</li> <li>• Board and management to develop a five-year business plan;</li> <li>• Recruitment of Society members; and</li> <li>• Clearer financial controls, budgeting processes and key performance indicators tied to Society bylaws.</li> </ul>
<b>Operational Considerations</b>	<p>If this option is selected, consideration should be given to:</p> <ul style="list-style-type: none"> <li>• Cleaner financial reporting with stand-alone financial statements;</li> <li>• More efficient budgeting and linkage to key performance indicators;</li> <li>• How the financial and board secretarial roles will be filled;</li> <li>• The development of a Board selection process (e.g., skill sets, Nominating Committee) and orientation process to ensure effective governance;</li> <li>• The recruitment of a new General Manager and the filling of financial and board secretary roles; and</li> <li>• The preparation of founding bylaws with ownership direction.</li> </ul>

# 7 Overall Conclusions

The Commission has been in existence for over 58 years and there is a history of harness racing at the Exhibition dating back to 1875. In that period of time, the Commission and exhibition grounds have witnessed considerable change, including the loss of the grandstand because of fire. The Commission currently operates a raceway, indoor sports facility (Agridome) and various other agricultural venues, as well as, hosting the annual Nova Scotia Provincial Exhibition in August of each year. All the facilities are starting to show their age and reduced functionality when compared to similar competing venues. At the same time, the decline of the harness racing industry combined with the proliferation of competing venues in the marketplace for the consumer's entertainment dollar is making the economics of operating the Commission more difficult each year.

The Commission finds itself at a crossroads with respect to its different operations and facilities. While the Commission is seeking economic sustainability, from its various operations it is effectively insolvent and unable to meet its immediate and long term obligations, specifically a debenture held by the Nova Scotia Farm Board in the amount of \$359,000. Many agricultural exhibitions are experiencing similar economic pressures, but the Commission is unique in its severity.

In the introduction of this report, five key questions were reviewed as a framework for our review and related conclusions. The questions with related analysis are as follows:

**1. *Does the current strategy and operation of the Commission achieve a balance between serving the agricultural community and the harness racing industry?***

Clearly there is an ongoing dispute between the THHOA and the agricultural stakeholders in the Commission. Mixed into the dispute are local politics and personalities which only complicates an already difficult situation. Once all the issues and historical grievances are peeled back, it is apparent that there are several key issues facing the Commission:

- i. Unfocused mandate* - It is clear that the Commission lost its focus on its mandate. Its decision to purchase and construct the Agridome to service community sports groups and other non-agricultural organizations has contributed to placing it in an insolvent position as concluded by Grant Thornton. The Commission has never been able to recover enough revenue to pay for the Agridome's operational costs and service the debt on its construction.
- ii. Declining raceway operations* - With respect to the raceway, there has been a continued decline in attendance and wagering. In turn, event purses have decreased from \$30,000; 25 years ago to approximately \$7,000 today. It is apparent that the THHOA has ignored this trend, did not prepare its members for the declining purse and believed it was business as usual at the raceway even though there were clear signs of ongoing difficulty.
- iii. Lack of harmony between agricultural interests and raceway operations* - There has been no balance between serving the agricultural and harness racing interests of the Commission. Each group has embarked on their own agenda blaming the other side for eventual problems. The reality is that currently the agricultural Exhibition and the raceway are dependent upon one another and will not be sustainable long term without working together. The raceway needs the crowds, activity and market presence that the annual Exhibition and its ongoing monthly agricultural events can generate. The agricultural Exhibition supporters require the wagering revenue of the raceway and the activity on the grounds

outside Exhibition week. It was suggested by several interviewed stakeholders that the raceway and Exhibition should be split into separate operations. In our opinion, the two operations have a symbiotic relationship; if the Commission is to prosper it will require the further integration of the raceway and Exhibition to leverage the mutual benefits of each other's attractions.

**2. Are the Commission's current internal controls sufficient and were Commission funds expended for the intended purposes as determined by the Board?**

The Commission currently places reliance on trust in their employees and volunteers to operate effectively and safeguard assets. Ideally established processes and internal embedded controls would align with priorities of the Commission as set by the Board. The current state is a symptom of self-interest behaviors displayed by the former Board members.

The practice of relying on trusted employees and volunteers exposes the Exhibition to risk of financial loss. Inadequate financial information could result in poor management. We have concluded that the internal control environment is not sufficient.

Based on our review of Commissions funds expended between January 1, 2012 and December 31, 2013 in section 5 Operational Controls and Historical Expenditures, we have concluded that funds were expended for the intended purpose in that oversight was exercised in the approval of all expenditures.

**3. How do the Commission's operations compare, financially and operationally, to similar agricultural Commissions of similar size and scope of operations?**

The Commission's financial position is the most difficult of all the comparative exhibitions. Excluding the Summerside Lobster Festival (SLF) which is operated as a municipal festival, the three remaining exhibitions all generate a profit on their operations. The most financially successful comparator is the Fredericton Exhibition (FREX) which generated approximately \$240,000 in profit on revenue of \$1,200,000 in 2013.

Three of the four comparators have harness racing affiliated with their organization however in all cases the harness racing was operated by a separate entity.

Operationally, the comparators range from a municipal department to an independent Society; there are no commissions established under provincial statute. The closest comparator to the Commission is the FREX which has a mandate to deliver an agricultural exhibition and hosts harness racing on its grounds. In the past 3 years, the FREX has undergone an operational review and the General Manager position was replaced with a more marketing and strategically focused Executive Director position.

**4. In terms of the governance and business model, which model provides the most value to the Commission?**

Before the Commission answers the governance and business model question, it needs to clearly state its mandate and priorities. Is it first and foremost a catalyst for the promotion of agriculture and rural way of life or the operation of a harness racing venue or an agricultural organization operating a harness racing business that recognizes the importance of the annual exhibition to the promotion of farming?

Once the mandate for the Commission is clearly articulated, the rest of the decisions should fall into place. It is our belief that the most appropriate board model for the Commission at its present state is the Commission (Dependent Board) model. Applying this option, the Commission would operate under the authority of Provincial statute with its own Board of Directors. The day-to-day management of the operations and facilities of the Commission would be performed by the management and employees of the Commission. However, as outlined in our report, a number of changes would need to be implemented in order to make



It is our understanding that the current interim Board members believe the interim board to be an “Operating Board” (as at May 2014). It is our view that the Commission Board should be moving towards being the “Engaged” Board. Accordingly the following recommendations on governance structure, processes and membership are modeled on the “Engaged” Board; characteristics of an “Engaged” Board are shown on page 45.

**5. *Is the staffing model effective and efficient? Are the right people and skills in place at the Board and Staff level to operate the Commission?***

The Commission’s staffing model has been in a state of flux for the past seven (7) years as General Managers have come and gone. The termination of the last General Manager and bookkeeper in December 2013 was the final significant change in staffing for the Commission prior to the appointment of the Interim Board. Clearly, the right people and skills are not in place to operate the Commission.

There are five key roles in the Commission:

1. General Manager – responsible for the overall operation of the Commission and the promotion and marketing of the facility. The position must have a knowledge of harness racing to effectively manage the raceway;
2. Accountant – responsible for the financial management of the Commission and the preparation of financial statements for the Board;
3. Board Secretary – responsible for the preparation of Board agendas and the recording of minutes at Board meetings;
4. Grounds Foreman – responsible for overseeing the maintenance and daily operation of the Exhibition grounds and raceway; and
5. Grounds Crew – responsible for the maintenance and daily operation of the Exhibition grounds and raceway.

Of all the roles, the critical role for the Commission is the filling of the General Manager’s position. It is essential that the Commission hire someone with the vision, drive and knowledge to reinstate the Commission as the premiere agricultural and community venue for Nova Scotia. This one position will be the largest lever for the Commission to pull in re-establishing its operations. Accordingly, in order to attract top quality candidates, the Commission will be required to compensate the position above the traditional salary level. This may be difficult financially in the short to medium term without the support of its creditors, including the Department until the Commission returns to successful profitability.

The Accountant and Board Secretary are critical back office support roles that ensured both good governance and profitable operations. We are of the opinion both these roles could be filled by a service provider that offers skilled staff at a cost less than a full time employee over a year.

Grounds Foreman and Maintenance staff are the final component of the Commission's staffing complement. The Commission operates 65 acres of land with a variety of facilities. In order ensure a proper state of repair and operation, the Commission employs approximately three (3) full-time and three (3) part-time / seasonal maintenance staff. As the Commission regains its footing and grows as a venue, consideration should be given to the appointment of a Grounds Foreman to coordinate and direct the work of the Grounds staff thereby allowing the General Manager to focus on marketing, events management and strategic partnerships.

# 8 Recommendations and Implementation Plan

## A. Conclusions

As discussed in section 7 Overall Conclusions we have concluded on the following:

1. The existing governance structures and relationships at the Commission are not effective and we have made recommendations that a commission style governance structure be implemented that will have a dependent board acting in an advisory capacity. This will change from the current state of an advisory board acting on an operational capacity. In the future as the Commission becomes solvent and self-sustaining, the governance model should change to be a society model with an independent board, reducing the Province's involvement;
2. The current internal controls are not adequate and the Commission is at risk of loss as a result of reliance on the ethical integrity and honesty of key employees as opposed to proper processes and related internal controls. We have made 35 recommendations (see appendix C) for improvement in internal controls covering all processes included in the scope of this report. We have recommended that the Commission undertake a more comprehensive review of the operational and business processes once a stable governance model and staffing are implemented to ensure that key controls are designed and implemented to mitigate the risks to the Commission;
3. Through our review of expenditures between January 1, 2012 and December 31, 2013 (see section 5 Operational Controls and Historical Expenditures) we have concluded that funds were expended for the intended purpose. We defined the intended purpose as having proper authorization and support as there was no clear mandate or other definition as to what intended purpose represents. We have also recommended that the Commission undertake a comprehensive review of their expenditures and revenues to better understand what events and facilities contribute (or cost) to make better informed decisions; and
4. We have concluded that an effective business model needs to first have an organization that has a clear mandate or purpose. We have recommended that the Province of Nova Scotia, being the entity that enacted the Commission into existence, set this mandate to provide clear direction allowing the Commission to focus their efforts on obtaining sustainable operations. As noted in this report we have provided a recommendation related to how the Commission should be governed. Without a clear mandate developed for the Commission and a stable governance structure it is difficult to consider other areas including target customers, strategies, infrastructure and organizational structures. However, through our comparator analysis we can see similarities in the challenges facing the Commission and provide the following recommendations for consideration which we have commented on throughout our report:
  - Harness racing has seen a steady decline in attendance with less interest among the younger demographic. We recommend that the Commission continue to operate the raceway with the goal of attracting a younger audience through having races that complement other events held at their facility, increasing traffic and exposure to the raceway. We recognize that the Commission is unique in that they operate the raceway where the comparators do not. Given the Commission owns the raceway, it is in their best interest to continue to operate the facility provided it does not become a financial burden.

- The commission should develop a strategy that incorporates a focus on the generation of revenue throughout the year diversifying their reliance on the raceway and the exhibition event. We have noted that the FREX appear to have been successful changing their strategy through a staffing model that is focused on event management and marketing. They currently operate with only three full time staff including an Executive Director, a Marketing Director, and an Events Promotion Director.
- As previously recommended, a more detailed operational cost and revenue review should be undertaken to better understand the contribution and cost of the facilities. We have observed that most facilities are in need of repair and as a result the annual maintenance cost is high. Given the financial condition of the Commission it is not possible at this time to spend on capital upgrades without external funding. A more detailed understanding of the costs and revenue sources should be used to make key decision as to what facilities to close or where to focus revenue generation efforts. Examples from the comparator analysis included the Hants Country exhibition that generates significant revenue through rental of their facilities for storage and events and the FREX who have been focused on events that use their facilities year round (e.g. roller derby) not only providing much needed revenue to cover the fixed costs of the facilities but also creating an awareness for the FREX.
- Review the current organizational structure and look to strategic partners who can provide services at a reduced cost. Outsourcing should be considered as a way to effectively reduce costs. One obvious consideration is the outsourcing of the management and operation of components of the Commission such as the raceway, effectively providing the Commission with a stable fee that would cover certain costs related to the upkeep of the facility. We do not feel the outsourcing of raceway operations would be in the Commission's best interest at this time as the Commission may lose control and could eventually end up with a raceway that is in worse condition. Also, raceway operations appears to be a core responsibility of the Commission based on the Act. Another area to consider could be the outsourcing of certain general and administrative processes. Given the close relationship the Commission has with the municipalities we would recommend attempting to negotiate a shared service arrangement where a municipality agrees to perform certain administrative functions such as bookkeeping for a notional cost in recognition of the Commissions benefit to the community.
- We recommend that once a strategy is on place that staffing be reviewed to ensure the most appropriate use of resources. The ability to outsource certain administrative functions will provide the Commission with the need to re-focus responsibilities. As noted previously, the FREX have three full time staff all focused on marketing and event management. Given the Commission operates a raceway, a structure that only focuses on marketing and event management may not work for the Commission however a change in this direction should be considered given the success of the FREX.

## **B. Business Model Recommendations**

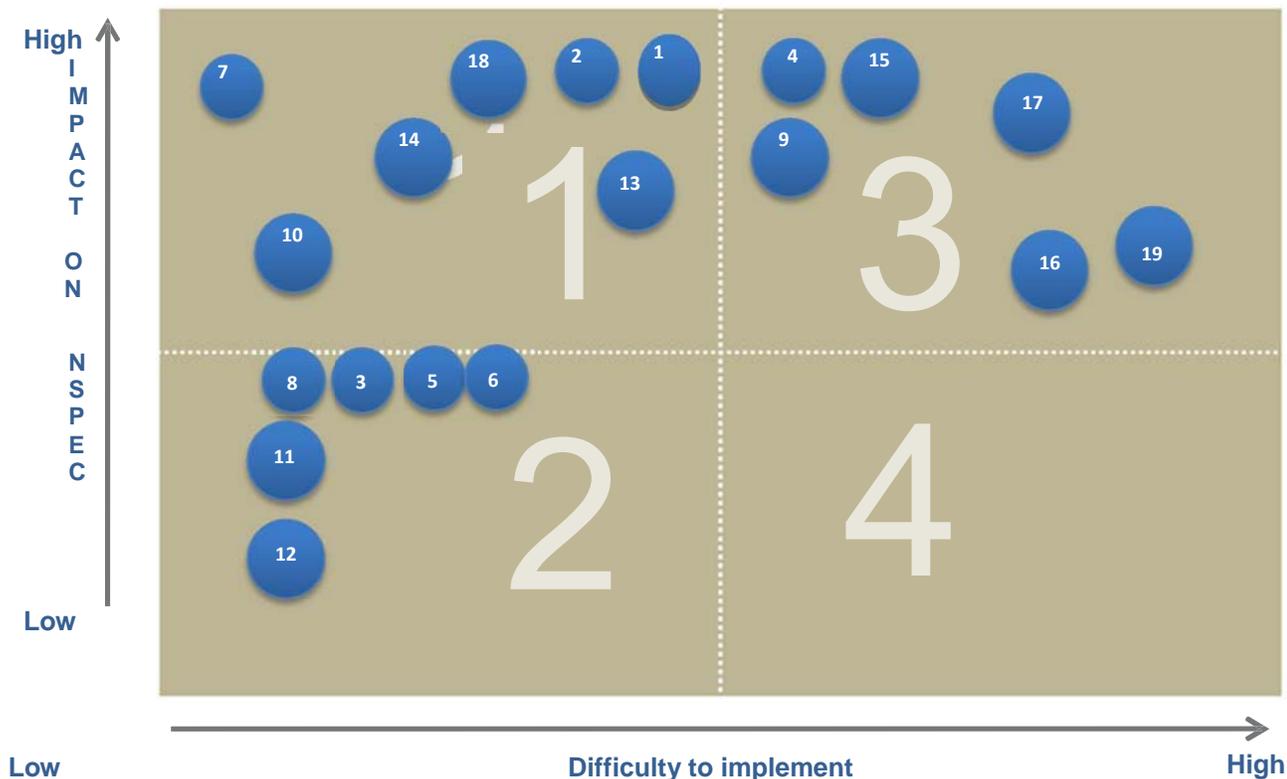
Based on our conclusions in part A we have provided the following detailed recommendations as an action plan for the Commission to consider as the next steps. These recommendations will assist the Commission with the implementation of a governance model that provides the basis for the development of an appropriate business model once a mandate is established. The Commission or the Province should completed the following:

1. The Province clearly dictate the mandate for the Commission;

2. The Commission actively recruit a new General Manager with a background in events marketing and a knowledge of harness racing as well as agriculture;
3. The Province, in its capacity as a key lender to the Commission, consider the financial impact of the increase in salary required to recruit a new General Manager in the short to medium term such that concessions be made to the Commission to allow it to return to profitability;
4. The Commission review alternatives to full-time staff to provide accounting and administration support through a service provider;
5. The Board of Directors for the Commission have six seats with the following representatives:
  - a. One ex-officio from the Department representative
  - b. One THHOA representative
  - c. One Agriculture representative who is engaged in farming in the area
  - d. Three members at large from the local business community;
6. The Chair of the Board of Directors would be selected by the Minister from the three members at large;
7. The Board of Directors for the Commission have no elected officials from the Province of Nova Scotia or local municipalities;
8. The Board of Directors would sit for three (3) year terms with the initial terms to expiry being staggered over five (5) years to ensure board continuity. No Board members should be permitted to serve longer than two (2) consecutive terms;
9. The Board of Directors would require the approval of the Minister before the removal or termination of the General Manager;
10. The Commission establish a charter that clearly defines the responsibilities and authority of the Board Chair and Board members and a procedural bylaw to govern the conduct of their Board meetings. The Charter would also detail the relationship between the Commission and its key stakeholders at the farm museum and the raceway;
11. The Board of Directors meet each month; quorum would be a majority three Board members;
12. One week prior to each regular meeting of the Board of Directors, an agenda package is prepared that includes the following:
  - a. Agenda
  - b. Minutes from past meetings
  - c. Delegations
  - d. Staff reports
  - e. Financial statements for the prior month including budget variance reports
  - f. Correspondence
  - g. Adjournment
13. The Commission adopt an operational and capital budget prior to December 31<sup>st</sup> of each year. The budgets are to be submitted to the Minister following adoption;
14. The Commission conduct month end procedures and prepare financial statements for the Board's review. Quarterly unaudited financial statements are to be provided to the Minister. Annual financial statements are to be completed and audited four (4) months after year end. Audited financial statements are to be provided to the Department who in turn will provide to the Legislator;
15. The Commission develop four to six key performance indicators (KPIs) that the General Manager monitors and reports on each month. Example KPIs would include:
  - a. Exhibition – attendance;
  - b. Commission – operating costs compared to budget, events planned/held, and
  - c. Raceway – dollar per bet placed, attendance, source of bets (online, off-track, inperson).

16. The Commission assess the utilization, operational cost and state of repair of its facilities. Those facilities with a low utilization and high operational cost be removed from the Exhibition grounds;
17. The Commission review the operational costs of its facilities and assess the fees and charges to determine the percentage of cost recovery for each facility;
18. The Commission annually prepare an events program for the Exhibition grounds. There should be one signature event on the Exhibition grounds each quarter; and
19. The Commission prepare a 5 year business plan with the following components:
  - a. Executive summary;
  - b. Market analysis – what is the potential market in terms of size, structure, growth prospects, trends and sales potential;
  - c. Organization description - what is the nature of the business as well as the crucial factors that the Commission believes will make their operations a success;
  - d. Organization and management - detail the organizational structure, the ownership of the Commission, descriptions of its management team and qualifications of the Board of Directors;
  - e. Marketing and sales strategies - define the Commission’s marketing strategies, tactics channels and market segments that it will pursue to build a customer base;
  - f. Service and / or product line - describe the Commission’s service and product. Include a prospective long term events program; and
  - g. Financials – 3 to 5 years of historical data and projections going forward with key targets.

We recognize that certain recommendations will be more time and cost intensive and the impact to the Commission will vary. Below we have provided our view of the impact and effort to implement. Each number corresponds to the respective recommendation above. We recommend that the highest priority be given to the implementation of all items listed in quadrant number 1 as these items are critical and will have an immediate impact. Items listed in quadrant 2 are of moderate importance as they will have an immediate impact on the organization but not as great as the items listed in quadrant 1 and they should be next in priority. Items categorized in quadrant 3 are of low propriety and should implemented last. Some items listed in quadrant 3 will depend on items in quadrant 1 and 2 being completed before the recommendations can be implemented.



**Sample rating of each of the potential recommendations for improvement against two criteria:**

- **Difficulty to implement**
  - This rating indicates the degree to which the potential recommendations for improvement would be difficult (higher) or simple (low) to implement; and
  - A difficult implementation would come at a higher cost to the Commission and / or may take longer to implement, while a simple implementation would come at a minimal cost and / or may be implemented within a short time frame.
  
- **Impact on the Commission**
  - This rating indicates the degree to which the potential opportunity for improvement would produce large (high) or minimal (low) benefits for the Commission; and
  - A large benefit would reduce the deficit by more than a small benefit.

The order that recommendations should be implemented would be: (1) top left quadrant (low difficulty, high benefit), (2) bottom left (low difficulty, low benefit) and (3) top right (high difficulty, high benefit).

high benefit). Those recommendations with a complex implementation and low benefit to the Commission (bottom right of the quadrant) would be considered to be optional as a result of the potential effort required versus the potential benefit derived.

## **C. Operating Controls Recommendations**

In addition to the recommendations listed in part B of this section we have identified a number of control deficiencies and gaps based on our detailed review of the operational practices in section 5. We noted that there have been a number of recent changes in employees with a number of positions being filled by volunteers, which has caused these control deficiencies and gaps. Regardless, with full staff levels certain controls will be difficult to implement. In particular the implementation of proper segregation of duties is a challenge for entities with limited staff levels.

As the finds are numerous we have provided a detailed list of our findings and recommendations in Appendix C to this report which indicates a level of importance based on the risk of loss to the Commission. Although we recommend that all findings that are rated high be addressed immediately, special attention should be given to findings related cash controls and as we believe the highest risk to the Commission is the misappropriation of cash. Currently there is higher than normal volumes of cash transactions as credit is not being extended when buying goods and services. The higher volume of cash transactions increases the need for strong controls over the tracking and reconciling of cash balances. We have highlighted the following findings and recommendations which are a summary of the corresponding items in Appendix C.

1 – The Commission does not have formal policies or job descriptions. We recommend that the Commission focus their efforts initially on job descriptions for key control functions such as the General Manager, Bookkeeper, Office Manager and Pari-mutuel Supervisor. The Commission should begin with the formalization of cash handling and management policies.

2 – Accounting functions are being performed without appropriate review. We recommend that review controls be identified and implemented over cash balances and transactions. This would include regular review of financial results in sufficient detail by the Board and General Manager, a review of general cash account reconciliations, and regular counting and reconciliation of petty cash / cash floats,

10 – Cash kept on site in the general office is not locked. We recommend access to all cash be controlled. At a minimum this would include keeping cash in a locked environment with limited access to keys.

11 – Cash receipts can be held for days before deposited to the bank account. We recommend that the Commission deposit cash daily to ensure only approved levels of petty cash are held onsite at all times.

13 – Currently petty cash balances are consolidated into one general ledger “float” account. This has created difficulty to reconcile cash discrepancies or tracking transactions back to source documents. We recommend that the chart of accounts be updated so that each petty cash and float balance, be given a unique general ledger account to facilitate reconciliation of cash on hand.

14 – We found that the Commission does not reconcile cash taken in, net of cash used for expenses against the amount deposited in the bank, which runs the risk of funds being lost or misappropriated. We recommend that a reconciliation of cash be performed at each deposit, based on payments received and a voucher book for purchases made compared to actual cash on hand for deposit.

15 – During our testing we noted bank reconciliations were not being performed on a regular basis which could result in errors or irregularities not being identified or investigated in a timely manner. We recommend monthly bank reconciliations be performed for all bank accounts on a timely basis by a staff member independent of the individual handling or recording cash receipts and disbursements, and that it be reviewed on a monthly basis upon completion.

19 – Two signing authorities are required for all cheques issued. However, KPMG noted instances where cheques were only signed by one individual. Given the limited controls in place and lack of review process this provides opportunity for unauthorized or inaccurate cash disbursement. We recommend that two individuals sign all cheques and review supporting documentation immediately.

20 – We identified instances where lack of segregation of duties existed. A key area where this is readily apparent is within the process of Pari-Mutuel revenue. The Pari-Mutuel Supervisor was noted as having the responsibility for reconciling cash received for Pari-Mutuel and concession revenue, cash paid for purchases to the self-prepared cash deposit and physical custody of cash. We recommend that other employees be integrated into this process as a method of decreasing the opportunity for theft. A similar instance can be noted over the rental and advertising processes (see 27 in Appendix C), where the Office Manager collects the payments from customers and then enters the information into the accounting system and prepares the deposit. We recommend that segregation of duties be implemented to separate the responsibilities for physical handling of cash, accounting for cash and reconciliation of accounting records to cash balances to reduce the potential for loss or fraud to occur.

# Appendix A: Process Narratives

# Contents

<b>1</b>	<b>Roles</b>		<b>68</b>
<b>2</b>	<b>Cash (excluding raceway operations)</b>		<b>69</b>
2.1	<i>Transactions</i>	69	
2.2	<i>Receipts</i>	69	
2.3	<i>Payments</i>	69	
2.4	<i>Reconciliation</i>	70	
<b>3</b>	<b>Payroll</b>		<b>71</b>
3.1	<i>Payroll Changes</i>		71
3.2	<i>Payroll Processing</i>		72
3.3	<i>Payroll Accounting</i>		73
3.4	<i>Payroll Remittances</i>		73
<b>4</b>	<b>Commissions Revenue (excluding raceway operations)</b>		<b>74</b>
4.1	<i>Advertising</i>	74	
4.2	<i>Rentals</i>	75	
4.3	<i>Liquor</i>	76	
4.4	<i>Canteen</i>	76	
<b>5</b>	<b>Expenses / Accounts Payable</b>		<b>78</b>
5.1	<i>General Purchases</i>		78
5.2	<i>Racetrack Purchases</i>		78
5.3	<i>Invoice Processing and Payments</i>		79
<b>6</b>	<b>Exhibition Revenue</b>		<b>80</b>
6.1	<i>Gate Revenue</i>	80	
6.2	<i>Sponsorship</i>	80	
6.3	<i>Other Revenue</i>	81	
<b>7</b>	<b>Raceway Revenue</b>		<b>82</b>

7.1	<i>Pari-Mutuel Wagering</i>	82
7.2	<i>Video Lottery Terminals</i>	84
7.3	<i>Starting Fees</i>	85
<b>8</b>	<b>HST</b>	<b>86</b>
8.1	<i>HST Collected</i>	86
8.2	<i>HST Paid</i>	86
8.3	<i>Claim Preparation and Submission</i>	86

# 1 Roles

<b>Name</b>	<b>Role</b>	<b>Status</b>
<b>Lynn Curwin</b>	Office Manager	Full time
<b>Cameron MacEachen</b>	Board Member and Acting Controller	Volunteer
<b>Kelly MacEachen</b>	Acting Bookkeeper (wife of Cameron)	Part time
<b>Raymond Tynes</b>	Acting General Manager	Full time
<b>Bruce Kennedy</b>	Board Member	Volunteer
<b>Gary Muise</b>	Board Member	Volunteer
<b>Ritchie Scott</b>	Grounds Supervisor	Full time
<b>Dianne Daniels</b>	Race Office Supervisor	Part time
<b>Joe Kelly</b>	Race Secretary and Announcer	Part time
<b>Julie Gillis</b>	Pari-Mutuel Supervisor	Part time

## 2 Cash (excluding raceway operations)

Cash is used extensively by the entity for purchases as they do not have credit terms with most vendors. Cash receipts for services are received at the general office and deposited as required. Given the limited number of employees there is no segregation of duties in handling cash receipts and deposits. Also, controls traditionally in place to ensure that cash transactions initiated through the general office are properly recorded are no longer being performed. We (KPMG) also observed that timely preparation of bank reconciliations were not being completed. This increases the risk that cash transactions are not recorded on a timely basis and that cash could be subject to misappropriation or fraud without detection.

Currently, the Acting Controller has control over the bank accounts and staff requiring cash from the cash on hand account, are permitted to access the cash if the Office Manager is not present. The entity is relying on the trust of its volunteers and employees to safeguard cash.

### 2.1 Transactions

The entity operates primarily in cash. In the past, they had accounts on credit with various vendors, however due to cash flow constraints they were unable to pay bills on time, and accounts were disallowed. At this time, the entity is no longer able to obtain credit from any vendor, except Home Hardware.

The entity engages in many types of cash transactions, primarily purchases of supplies for the bar and canteen, supplies for repairs and maintenance, and receipt of rental revenue.

### 2.2 Receipts

When cash is brought to the office, the Office Manager takes the cash and records the cash received in the Cash Book. The Office Manager then writes the customer a pre-numbered receipt and puts the cash aside. Once there is enough cash built up (several hundred dollars), the Office Manager prepares a bank deposit form and brings the cash to the bank. There is no review of the bank deposit and the Office Manager is responsible for all facets of this process.

### 2.3 Payments

There is a cash float kept at the office, which is typically \$500-\$600, however the balance varies based on the inflows and outflows of the day. The balance that remains on hand is at the discretion of the Office Manager, based on estimated cash flow needs.

When an individual requires cash to make a purchase, they come to the Office and ask for the money from the Office Manager. The Office Manager takes the money from the float and records on a piece of paper how much was taken and by whom. Cash is generally only needed by the General Manager and Grounds Supervisor, but there can be others from the canteen or bar that may require cash. If the Office Manager is not present, the employee requiring cash can go and get it themselves from the float and record how much they took.

In many instances, cash that was received and is waiting to be deposited is used as the float, as cash needs are high without having credit with various vendors.

## 2.4 Reconciliation

In the past, there was a reconciliation performed over the cash received per cash book, and the deposit to be made to the bank. This would often identify differences, which would be followed up and reconciled by the Office Manager. However, there is no longer a reconciliation process as there is too much in and out of cash for purchases to be able to keep track appropriately given the staff complement.

Prior to January 2014, bank reconciliations were performed by the Office Manager / Bookkeeper (up until November 2013). There would not have been a review of the reconciliation, however cash flow was monitored closely by the Board increasing the probability that an issue would have been identified.

Post January 2014, bank reconciliations are prepared by a Board Member whom is currently the Acting Controller. The Acting Controller prepares the reconciliations, but they are not reviewed. The preparations of reconciliations are currently several months behind, as there have been significant demands of the Acting Controller's time from other areas of the business.

The entity does have online banking, and the only person who has access online is the Acting Controller.

## 3 Payroll

Overall the processing of payroll and related remittances is dependent on the competence and diligence of the Office Manager. This position is currently responsible to set-up new employees, remove departed employees, input payroll data for each pay period and post the journal entries related to payroll. This results in no segregation of duties and increases the risk of human error. Hours worked are approved however, the information provided to the Office Manager is not controlled in all cases and could be changed subsequent to approval. All amounts are reviewed and payments physically signed prior to payments being made however this is being currently done at the board level by volunteers who may not have an appropriate understanding of the employee compliment to identify errors.

### 3.1 Payroll Changes

#### 3.1.1 New Hire

The New Hire process is initiated when the Commission identifies the need for a new hire. There is currently no approval process or budget considerations before going out to hire a new employee. The General Manager will hire a new employee from those who have dropped off resumes, completed an application form, or through staff recommendation. The General Manager is responsible for the majority of the hiring, but in circumstances in which a new employee is needed immediately other Supervisors have the ability to hire if necessary. Once a new employee has been hired they will complete an application form, if not already completed, and a tax form so that the Office Manager has all of the necessary information to create a new employee profile in the accounting system. As well, the new hire must sign an agreement to allow overtime hours to be paid at their regular pay rate. This agreement is put in place because overtime rules do not apply to most farm workers<sup>2</sup>. These documents are kept on file in the main office.

The Payroll process begins once the Office Manager sets up a new hire in the accounting system “Sage,” by creating a new employee profile. This profile requires the employee’s personal information such as, name, Social Insurance Number, date of birth, and date of employment. As well, it requires the employee’s pay rate, whether or not they require CPP or EI deductions, and any deductions the employee has elected to have taken off their payment. There is no peer review once this process is complete.

A new hire’s starting salary is determined by the General Manager, but will generally begin at minimum wage.

#### 3.1.2 Payroll Changes

Payroll changes are authorized by the General Manager. This is an informal approval that is communicated verbally to the Office Manager. Once the new pay rate is determined by the General Manager, the Office Manager will update the employee’s pay rate in their individual employee profile in Sage. This change will ensure that all future payments are made at the new pay rate. There is no peer review once this change is made.

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<sup>2</sup> Based on or directly cited from: Guide to the Nova Scotia Labour Standard Code

### 3.1.3 Adhoc Review

As of January 2014, when the new board was appointed, the Commission had the Acting Controller review the hourly rates of the employees for reasonableness. This review did not indicate any unusual pay rates. This review process was historically not a typical occurrence.

### 3.1.4 Terminations

If an employee has been terminated it is the job of the Office Manager to go into Sage and change their employee status from “Active” to “Inactive”. Then the Office Manager will then fill out a Record of Employment form. There is no review to ensure this process has been initiated (for example, termination is communicated to the Office Manager) or completed, however two signing authorities must sign each payroll cheque, and therefore it would presumably be identified if a terminated employee continued to be paid.

## 3.2 Payroll Processing

### 3.2.1 Payroll Cycle

Within the Payroll process there are two distinct types of employees; General Employees and Pari-Mutuel Employees.

Pari-Mutuel Employees are those that sell tickets on both the live and simulcast races. They are differentiated in relation to payroll because of the method in which their time is recorded. The terminal that they work on creates a report at the end of each day indicating their hours worked. From this report the Pari-Mutuel Supervisor summarizes the Pari-Mutuel Employee’s hours in a spreadsheet, reviews to ensure reasonability and this summary is given to the Office Manager. The employees themselves do not sign off on their hours; they are all calculated by the terminals.

General Employees, such as grounds people or race office employees, record their time manually on a timesheet that is signed off by their supervisor. The timesheet details the day, hours worked, and task completed by the General Employee. At the end of the two week payment period this timesheet is brought to the Office Manager at the Commission office by either the employee themselves or their supervisor.

At the end of the two week payment period the Office Manager enters each employee’s hours worked into Sage. There is no peer or self-review performed after entering this information into Sage.

### 3.2.2 Payment Processing

Payment is made to employees on a biweekly basis. Once the hours have been entered into Sage by the Office Manager, Sage will automatically calculate the employee’s pay for the period based on their salary rate and applicable deductions.

The hourly wage is set-up upon a new employee profile being created as detailed above.

The applicable deductions are taken off based on the options selected in the employee’s profile and reflect the deductions for the current year. Each year there is a new version of Sage which will update the necessary Canadian Pension Plan (CPP) and Employment Insurance (EI) deductions.

From this data, two cheques are then printed on blank paper; one to be used as a payment stub and the other to be kept with the timecards and filed. Then the cheque is written and must be signed off by two of the three signing authorities: the General Manager, or two Board Members (one of which is the Acting Controller). When signing the cheques, the signing authorities consider reasonability of the amount being

paid and may identify very unusual payment amounts, but they do not perform an actual review of hours worked or rate of pay.

### **3.3 Payroll Accounting**

#### **3.3.1 Journal Entry Postings**

Journal entries are posted biweekly as the payroll is completed. Once the Office Manager has entered the hours into the Sage system the entries will be posted. There is no formal self or peer review process before these entries are posted.

### **3.4 Payroll Remittances**

#### **3.4.1 Payroll Remittance Payment and Preparation**

At the end of each month the Office Manager calculates the CPP and EI remittances, and income taxes withheld.

To calculate the income taxes withheld, the Office Manager runs a report in Sage which automatically gives the income tax detail for the period.

The Office Manager calculates the CPP and EI remittances by totalling the amounts indicated on all pay stubs for the month. Once the amounts are totalled a Remittance Form is completed and a cheque is written by the Office Manager and this cheque is signed by two of the three signing authorities.

The Office Manager uses a calculator to add up these amounts and there is no review process in place to check the calculations. There is a report that can be run in Sage to calculate the remittances for a specified period, but due to the Office Manager's lack of training this feature was not known and the report was not used.

#### **3.4.2 Payroll Remittance Changes**

At the end of each year the Commission gets a new version of their accounting system, Sage. The deductions for CPP and EI are pre-programmed within this system and are subsequently deducted from an employees pay based on the CPP and EI options chosen in their individual employee profile.

## 4 Commissions Revenue (excluding raceway operations)

Significant sub-sections within the Commission's Revenue process include Advertising, Rentals, Liquor and Canteen. Within the Rentals sub-process there are a number of different properties which the Commission rents to their customers, which include:

- Horse stalls;
- the Agridome;
- the MacMillan Center; and
- the Industrial Building.

### 4.1 Advertising

The Commission charges vendors to display their signs at the racetrack. Each vendor has a separate one year long-term contract with the Commission and is invoiced at the beginning of each year.

At the beginning of an advertising relationship with a new vendor the Office Manager will create a customer profile in Sage. This profile will detail the company's name, contact information, the type of revenue received from the customer, for example, Advertising Revenue, and that the sale is tax exempt.

Once a profile is created the Office Manager is able to create an invoice for the year of advertising space. Within this invoice the Office Manager would indicate the price, description, and indicate what project the invoice relates to for example, Advertising Promotions NSPEC. The invoice is then e-mailed, faxed, or mailed to the vendor. If the customer has not paid a previous invoice the Sage system will notify the user upon creating a new invoice.

The vendor is contacted yearly, near the end of their contract, with an option to renew their agreement.

#### 4.1.1 Accounts Receivable Payment

Payment for accounts receivable can be made to the Commission through cash, credit card, or cheque.

Cash or cheque can be received by mail or in person. If the customer chooses to pay by credit card the Office Manager will need to fill out a credit card payment form, which details the customer's credit card and payment information. This form will then be signed by the customer and the Office Manager will call the payment in to "Instalink® IVR", an automated telephone system, to process the payment.

When the payment is received it is the Office Manager's job to record the payment (see Appendix A – Process Narratives, Section 2 – Cash (excluding raceway operations)). Once the payment is made then the Office Manager will issue the customer a receipt, either in person or through e-mail.

Once there are several payments recorded in the ledger, the Office Manager will enter the payment as received in Sage, and post the entry against the corresponding invoice. To indicate that the payment has been recorded the Office Manager will place a small "tickmark" next to the line in the ledger.

After a page has been filled up in the office ledger, the Office Manager will review the payments on the page in Sage to ensure that they have been recorded correctly.

As well, monthly, the Office Manager performs checks on outstanding accounts and if necessary will stamp them “past due” or send out letters indicating that payment has not been made.

## **4.2 Rentals**

The purpose of the Rentals sub-process is to record transactions in an accurate and timely manner in which the Commission has entered an agreement with customers such that the customers are charged a fee to rent one of their properties. This sub-process is broken down into two sections, Stall Rentals and Property Rentals.

### **4.2.1 Stall Rentals**

The Commission rents out individual stalls for horses on a month to month basis.

The Stall Rental process is initiated with the customer completing a “Race Horse Stall Rental Contract”. This contract details the horse, gender, tattoo number, colour, vet, vet’s phone number, owner, and owner’s contact information. Once the form is completed the Office Manager inputs the customer’s information into Sage and into a spreadsheet to track which stall they have rented.

Stalls are rented out at a standard price per month as per the “Race Horse Stall Rental Contract”.

Monthly, the Office Manager invoices the customer using the Sage system. Within this invoice the Office Manager would indicate the price, description, and indicate what project the invoice relates to, for example, Barns. The invoice is then e-mailed, faxed, or mailed to the customer. If the customer has not paid a previous invoice the Sage system will notify the user upon creating a new invoice. The Office Manager also prints a copy of the customer listing and manually writes in the invoice number that matches to each customer. This listing is then filed at the Commission office.

On an ad hoc basis, the Office Manager reviews the stall rental listing and compares the stalls physically occupied to the spreadsheet. Where discrepancies are noted they are follow-up and if needed horses are removed from the premises. Similarly, the accounts receivable listing is reviewed by the general manager. Where stall rental payments are in arrears follow-up action is taken to collect overdue balances and if required horses are removed for failure to pay. Allowances are recorded for any payments considered uncollectible.

When payment is received the process follows the same steps as indicated in section 4.1.1 above to track and record the payment.

### **4.2.2 Property Rentals**

The Commission rents out their various properties on a per hour, day, weekend, or multi-day basis. Each rental requires an individual agreement between the Commission and the customer, which can be negotiated.

If the customer is requesting a common or recurring rental then the Office Manager will provide them with a quote and draft an agreement to be signed by the Office Manager and the customer. There is little to no negotiating on these standard rentals.

If the rental is more complex, such as a multi-day or multi-venue event then the Office Manager will take the request to the General Manager or the Board. Then the decision and negotiation of the agreement would shift to the General Manager or the Board. Once the specifics of the event have been agreed upon the Office Manager will write up a contract for the General Manager or Board Members and the customer to sign.

Each rental is recorded tentatively, as negotiations take place, and then permanently recorded on the calendar in the Office Manager's office. The calendar is colour coded to indicate which property is being rented and shows events through 2014 and 2015.

Once the agreement has been signed by both parties a copy of the agreement is filed in the "NSPE Commission Agreements" binder by the Office Manager.

Once the agreement is made the Office Manager will create a new customer profile, if necessary, in Sage. Then the Office Manager will create an invoice, ideally while contracts are being signed but in many cases the invoice may not be created until the after the event has taken place.

When payment is received the process follows the same steps as indicated in section 4.1.1 above to track and record the payment.

In certain situations the Commission may ask for a deposit from the customer to hold the facility. This is decided upon on a case-by-case basis and usually occurs if the customer or event is unfamiliar to the Commission.

### **4.3 Liquor**

The Commission sells alcoholic beverages at their grandstand during raceway events.

The liquor sales are tracked through the use of a cash register and a "Liquor Control Sheet" which is filled out by the bartender each day. The sheet details the starting and ending inventory for each type of beer, cooler, hard liquor shot, and pop. The inventory will either be counted by the bottle or by measurement if it is a hard liquor shot. At the end of the night the bartender will print off the receipt from the cash register for the day. The amounts recorded as sold by the cash register is reconciled to the change in inventory on the "Liquor Control Sheet" by the Pari-Mutuel Supervisor, after the bar closes.

The revenue from the liquor sales is then collected by the Pari-Mutuel Supervisor, who will then record it in the Concession Report and deposit it in the bank.

This Concession Report is then put in a folder in the Commission office to be picked up by either the Acting Bookkeeper or the Acting Controller. This folder is picked up every two to three days and the Acting Bookkeeper will then enter the revenues and expenses into the accounting system, Sage from home by accessing the server over VPN.

### **4.4 Canteen**

The Commission has a canteen in their grandstand which sells food and beverages on Sundays during the live races.

The canteen is run by a Canteen Manager whom also works as the cook. The Canteen Manager is responsible for purchasing supplies, maintaining inventory, and selling the food, with the help of a Canteen Worker. At the end of the day the Canteen Manager brings the cash to the Pari-Mutuel Supervisor. The

Pari-Mutuel Supervisor then counts the cash and creates a separate deposit slip and deposits the cash on the same day.

This deposit slip is also added to the folder in the Commission office to be picked up and entered into Sage by the Acting Bookkeeper.

The canteen is run completely by the Canteen Manager without use of a cash register. There is a cash register available to the canteen staff, but it is locked. The previous Canteen Manager has not returned the cash register keys and therefore the canteen does not use a cash register and has not implemented processes to control inventory or sales.

# 5 Expenses / Accounts Payable

The majority of the Commission's expenses fall into the following categories: repairs and maintenance, office supplies, rent, utilities, miscellaneous services, and racetrack expenses. Most invoices/expenses are processed for payment based on verbal approval from the purchaser and do not have a corresponding purchase requisition or purchase order.

The Commission does not have a formal process in relation to purchases. The major methods that are used to make purchases are through purchase orders or paying with cash or cheque.

## 5.1 General Purchases

Where credit is provided by vendors, purchase orders (POs) are issued by the Office Manager, General Manager or the Grounds Supervisor, however purchases can also be initiated by employees without a PO. The majority of POs generated are for purchases made by grounds people for supplies needed for repairs and maintenance. All POs are created using a purchase order booklet which details the date, item to be purchased and signature of the person authorizing the order. A duplicate copy is kept in the PO booklet in the office. Once the employee returns with the receipt it is matched with the purchase order and filed for the Acting Bookkeeper. Where no PO was issued, the invoice is submitted for processing.

The majority of purchases are made using cash or cheque. Larger purchases often, but not always, have a set price or quote from a vendor. If this is provided the Office Manager will cut a cheque and get two of the three signing authorities to sign off. For other purchases the Office Manager will give the employee cash to make the purchase, and consequently create a petty cash voucher or a simple note to keep in the office indicating the item to be purchased and the date. The Office Manager uses their discretion in determining if a purchase request requires approval. Once the employee returns with the receipt this voucher is discarded and any remaining cash gets put into the office till. All purchases are made in cash except for purchases at Home Hardware, a local hardware store, which allows the Commission credit.

There is no identifiable reconciliation or matching process over the funds that are taken and the receipts received, as often there are a number of transactions taking place and it is difficult to track which funds were taken for which purpose.

All of the receipts from day-to-day activities are collected in a folder by the Office Manager.

Currently, there is no formal authorization processes over purchases. If a purchase is of a large monetary value, then it appears to flow through the General Manager, but this is not a formal process.

## 5.2 Racetrack Purchases

Purchases made for the racetrack include bar supplies, milk and cream (for complimentary tea and coffee), and office supplies.

The Pari-Mutuel Supervisor makes these purchases as required, which is usually weekly for the bar. Purchases are made using cash from the racetrack cash room and receipts are filed.

Before January 2014, the process was for the Pari-Mutuel Supervisor to collect receipts and give them to the Acting Bookkeeper. The Acting Bookkeeper would then write a cheque within 1 or 2 days to reimburse the racetrack cash room.

With the vacancy of the full time bookkeeper position, the cash room is not being reimbursed in a timely manner. As a result, post January 1, 2014 the Pari-Mutuel Supervisor will collect receipts for the current Acting Bookkeeper to enter into the accounting system. No reimbursement is required as the Pari-Mutuel Supervisor uses the cash receipts from the racetrack to reimburse the racetrack cash room by withholding funds to be deposited in the bank from bar or wager sales. The Pari-Mutuel Supervisor fills out a sheet with a reconciliation of the original deposit, the amount of cash withheld and the reason it is being withheld. This sheet, the original receipts and a photocopy of the deposit slip are matched and stapled together. This process allows the Acting Bookkeeper and Acting Controller to trace the cash, which also allows the Pari-Mutuel Supervisor to have adequate cash on hand.

The two seller supervisors and the Pari-Mutuel Supervisor are the only employees with access to the racetrack cash room. The room is controlled by a locked door that can be accessed with a key.

### **5.3 Invoice Processing and Payments**

All invoices pertaining to the Commission operations are currently processed by the Acting Controller and his wife who is the Acting Bookkeeper in relation to Accounts Payable.

On a daily basis the Office Manager collects receipts and invoices in a folder in the Commission office to be picked up by either the Acting Bookkeeper or the Acting Controller. This folder is picked up every two to three days and the Acting Bookkeeper will then enter the purchases into the accounting system, Sage from home by accessing the server over VPN.

The Acting Controller will do an accounts payable review once per week, as payments come due. This review is done as a method of monitoring cash flow and in some cases to help decide which accounts should be paid before others, and not necessarily to identify errors.

Payments are made primarily through cheque which requires two of the three signing authorities. Other payments are being made through pre-authorized withdrawal or electronically by the Acting Controller. Any pre-authorized payments require authorization from at least one of the three signing authorities, while the online banking is restricted to the Acting Controller through password protection.

## 6 Exhibition Revenue

Each year, in August, the Commission runs the Nova Scotia Provincial Exhibition (Exhibition), a five-day event attended by more than 40,000 people. “The EX”, as it has been called from the beginning, includes a major 4-H show, beef and dairy shows, heavy horse pull, light horse show, rodeo, demolition derby, antique farm machinery displays and a wide range of agricultural and craft competitions. The Exhibition also includes entertainment in the form of concerts, numerous commercial and non-commercial exhibits and demonstrations, and a selection of carnival rides and attractions.<sup>3</sup>

### 6.1 Gate Revenue

The gates to the Exhibition are run by employees; these employees are seasonal in that they are hired each year specifically to help with the Exhibition. The Commission has a large list of recurring Exhibition employees that work each year. Customers are required to purchase bracelets to enter the Exhibition. Each bracelet is colour coded to indicate the type of pass purchased, ie: Adult, Youth, or Child, and the length of time it covers, ie: daily or weekly pass. Each bracelet is also numbered; this numbering system is used so the Commission is able to reconcile the cash received to the number of bracelets sold.

At the beginning of the day the person working the gate is given a package of bracelets of each type and the range of numbers the bracelets span is recorded on the daily tally sheet by the Exhibition Manager. Then, at the end of the day the remaining bracelets are returned and a reconciliation is completed to match the number of each type of bracelet sold to the cash received.

The Commission offers discounted or free admission to select groups, such as the 4-H members and Exhibition sponsors. In order to keep track of the discounted or free admissions the Commission gives the organizations numbered cards. These cards can then be provided at the gate in exchange for discounted or free admission. This card will be kept in the gate cash box to aid in reconciling the cash received at the end of the day.

It is not possible to track which type of bracelet was purchased with the discounted or free passes, and therefore there are small differences expected at the end of the day when the reconciliation is performed.

All of the bracelets that are sold are priced to include HST. Therefore, when the gate revenue is recorded in the accounting system, Sage, the Office Manager must back out the HST and record separately.

### 6.2 Sponsorship

The Commission obtains sponsors as a method of financing the Exhibition each summer.

The Commission obtains these sponsors through sending letters and making phone calls to local businesses. As well, they use business relationships to speak to the businesses directly or through business contacts.

If a company is considering a sponsorship then the Office Manager will send them a “NSPE (Commission) Sponsor Package” which explains the different price ranges and sponsorship packages the Commission

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<sup>3</sup> Based on or directly cited from: [www.nspe.ca](http://www.nspe.ca)

offers. The company will then negotiate a price, sponsorship package, and subsequent sponsorship level of Gold, Silver, or Bronze with the Commission through the General Manager.

Once the price and package has been decided the Office Manager will create an invoice in the Sage system. If it is a new relationship the Office Manager will create a customer profile in Sage. This profile will detail the company's name, contact information, the type of revenue received from the customer and that the sale is tax exempt. Once a profile is created the Office Manager is able to create an invoice for the sponsorship. Within this invoice the Office Manager would indicate the price, description, and indicate what project the invoice relates to. The invoice is then e-mailed, faxed, or mailed to the vendor. If the customer is an existing customer that has not paid a previous invoice the Sage system will notify the user upon creating a new invoice.

When payment is received the process follows the same steps as indicated in section 4.1.1 above.

### **6.3 Other Revenue**

Other streams of revenue that stem from the Exhibition include entrance fees, parking, carnival, and vendor revenue.

Entrance fees are related to competitions such as harness races, tug of war, horse shows, demolition derbies, and 4-H events. The prize structure for each of these events dictates the cost of the entrance fee, therefore the revenue remaining after prizes have been awarded is not a significant amount.

Parking and carnival revenues follow a similar process in that both activities are run by a third-party and the Commission receives a certain percentage of revenues. The parking is run by the Salmon River Fire Brigade as a fundraiser, while the carnival is run by Midways. Based on each third-party's corresponding agreement, the Commission will receive a percentage of the revenue earned. Vendor revenue is collected in the form of an upfront fee to "show" at the Exhibition, based on the type of vendor (commercial or concession) and the location of the booth (outside or inside).

Concessions revenue specifically is collected in the form of a flat rate fee for a vendor to participate in the Exhibition. In the past, the Commission had agreements with each vendor stating that a percentage of the revenue earned by that vendor would be due to the Commission. But, the Commission experienced a lot of difficulty receiving this payment and also had no way of knowing if the correct amount was being collected. It was for these reasons that the Commission changed their fee structure to a flat rate per vendor.

# 7 Raceway Revenue

Truro raceway is the province's largest harness racing facility. It offers both live and simulcast standard bred harness racing along with a canteen and Trackside Lounge<sup>4</sup>.

## 7.1 Pari-Mutuel Wagering

The Commission sells tickets on both live and simulcast harness races throughout North America.

The wagering process begins by a customer placing a bet in one of three ways: in person through a Pari-Mutuel seller, using a self-serve betting terminal, or placing their bet online.

### 7.1.1 Online Wagering

The Commission has an agreement with HorsePlayer Interactive, such that the Commission receives a percentage of total gross wagers as revenue.

To place a wager online the customer will have to create an account on HorsePlayer Interactive. Money can be contributed to their account through cash, debit card, money order, cheque, or credit card-cash advances<sup>5</sup>. After logging into their account the customer will enter the information relating to their bet ie: racetrack, race, horse, and the type and amount of bet and their payment will be made through their account.

At the end of each month the third party company, which is administered out of Toronto, sends the Commission a report showing the settlement for the month. This report details cash in and out, adjustments for commissions and fees, and the net final amount owed to the Commission based on their percentage of gross wagers. The Commission must then review the report for completeness and accuracy and e-mail back confirming the amount. Once this confirmation is received the third party company will electronically transfer the money into the Commission's bank account. The electronic transfer process was set up in February 2014 by the Acting Controller, previously the Commission would wait to receive a cheque in the mail.

Once this process has taken place the Acting Controller or Acting Bookkeeper will enter the journal entry reflecting the confirmed amount into the Accounting system, Sage.

### 7.1.2 Betting Terminal Wagering

The process is the same when placing a bet through a Pari-Mutuel seller or by using a self-serve betting terminal. The individual will enter the necessary information into the betting terminal, ie: racetrack, race, horse, and the type and amount of bet. Once the required information is inputted and the payment is made either to the seller or the terminal itself using cash, the terminal will then print out a ticket for the customer. It is this ticket that can be later cashed in if the customer has placed a winning bet.

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<sup>4</sup> Based on or directly cited from: [www.truroraceway.ca](http://www.truroraceway.ca)

<sup>5</sup> Based on or directly cited from: [www.horseplayerinteractive.com](http://www.horseplayerinteractive.com)

The Commission has three locations with betting terminals: the Truro raceway's grandstand, the Truro Horsemen's Club, and Brewster's Restaurant & Lounge in Bedford (Brewster's). The grandstand and Brewster's are the locations with live Pari-Mutuel sellers.

The betting terminals are leased from an outside company, United Tote. United Tote provides live on-site support to the Pari-Mutuel sellers on live race days and for a certain number of hours throughout the week. They also provide detailed seller and betting information to the Commission on a daily basis once the races are complete.

#### *Wagering and Pay-out Process*

Once a customer places a bet the seller or terminal will collect the cash and give the customer their ticket.

Each seller begins their shift with a \$200 float to sell tickets. The sellers do not have a cash register to record the transactions. All transactions are recorded through the betting terminals by individual seller ID numbers.

If a customer wins on their bet they must bring the ticket to a Pari-Mutuel seller. The seller will scan the ticket to confirm if it is a winning ticket. If the customer has won then there are three options to collect their winnings: cash from the seller, a voucher (which they can use to place additional bets), or if it is a large win waiting for a cheque from the Commission office (this would have to be requested by the Pari-Mutuel Supervisor). If the seller does not have enough cash to pay out a win then they will ask for money from a supervisor's float or the Pari-Mutuel Supervisor's larger float if necessary. Otherwise, the win would be paid out through a voucher or a cheque. The self-serve terminals will only issue vouchers; these vouchers must be taken to a live seller to receive cash.

#### *Balancing Process*

Once the last race has finished the seller will log off of their betting terminal, either on their own or by United Tote. United Tote will log an employee off if they are still logged in a half-hour after the last race has ended. This process is in place to ensure that employees are not remaining logged into the terminal when races are over to increase their hours worked and therefore increase their pay.

The United Tote terminals keep track of the bets for the day, so the seller's supervisor will enter each seller's ID into the computer in the race office to confirm the seller's balance for the end of the day. Then, the seller will give the office their funds for the day and their supervisor will count their cash to ensure it matches the balance indicated by the terminal, plus \$200 for the initial float. If the seller is short by more than approximately five dollars then the seller must pay the difference. A seller may be short by mistakenly printing an incorrect ticket or through miscounting a customer's change. It is unusual for a seller to be short a significant amount, but it is well-known to the sellers that they will have to pay the difference and therefore the Commission has not had much trouble with sellers being short.

Each night the Pari-Mutuel Supervisor will review the total balances for the day. Within a half hour of the final race of the day United Tote's Ontario "Hub" sends four summary reports to the Pari-Mutuel Supervisor: the Group Balance Report, the Terminal Sales Report, the Seller Balance Report and the Simulcast Liability Report. It is the Group Balance Report that the Pari-Mutuel Supervisor will use to check the total balances in both Truro and Bedford. The Group Balance Report summarizes the tickets sold, vouchers sold and cashed, group income, draws, returns, and the net money room cash for the day by location.

The Pari-Mutuel Supervisor will balance the cash received to the "net money room cash" amount on the report. The amount for Truro includes both the grandstand and Horsemen's Club locations. Since the

Horsemen's Club only has a self-serve terminal there is no seller that has to balance at the end of the day. Instead, the bartender working that night will empty the cash and keep it in an envelope to bring to the Pari-Mutuel office every 2-3 days. Therefore, when the Pari-Mutuel Supervisor is counting the cash to balance at the end of each day it may be necessary to take cash out of the cash room to supplement the cash from the grandstand if the money has not been received from the Horsemen's Club.

The Pari-Mutuel Supervisor records on paper what has been taken from the cash room and once this cash is received from the Horsemen's Club the money taken from the cash room is replaced. Once the cash is counted and matches the "net money room cash" on the report the Pari-Mutuel Supervisor fills out the deposit slip and the "Daily Deposit Report" for Truro. The Pari-Mutuel Supervisor then deposits the cash in the bank.

The supervisor at Brewster's also counts the cash from their terminals and balances it to the Group Balance Report. The supervisor then completes the deposit slip and deposits the money. This deposit slip is then faxed to the Pari-Mutuel Supervisor in Truro to add to the file and the "Daily Deposit Report" is completed for Bedford.

The "Daily Deposit Report" summarizes the total cash deposited in the bank each day from both locations.

The Pari-Mutuel Supervisor also completes a "Cash Summary Sheet" which shows the detailed breakdown of the deposit for Pari-Mutuel sales.

Once all of the spreadsheets are complete the Pari-Mutuel Supervisor prints the "Cash Summary Sheet", "Daily Deposit Report", and the Group Balance and Simulcast Liability reports from United Tote to keep together with the deposit slip for the file.

#### *Revenue Recording*

These reports are then placed in a folder in the Commission office to be picked up by either the Acting Bookkeeper or the Acting Controller. This folder is picked up every two to three days.

On a weekly basis the revenues are then entered into the accounting system, Sage by the Acting Controller or Acting Bookkeeper from home by accessing the server over VPN. Before entering the revenue amount into Sage the Acting Controller or Acting Bookkeeper will confirm the amounts on the summary sheets back to the original reports from United Tote.

## **7.2 Video Lottery Terminals**

The Commission has five video lottery terminals (VLTs) in the raceway's grandstand trackside lounge through an agreement with the Atlantic Lottery Corporation, whereby the Commission gets a portion of the funds.

There are four VLT floats of \$1,000.

At the end of each day the supervisor or bartender working that day will print off the cash flow report from the terminals. This report will indicate cash in and cash out of each terminal for the day and will give the final balance for the day. Then, the supervisor or bartender will take the money out of the machines and count it to make sure that it matches the report.

If the count shows that the VLT is short money, this immediately must be paid by the person who emptied the terminals that night. This is the Commission's policy because there is no way for the terminals to be

short money unless the person emptying it lost or took the cash. Once counted, the supervisor will place the money aside for the Pari-Mutuel Supervisor to review.

Each night the Pari-Mutuel Supervisor will fill out the video lottery revenue and expense (amount paid out) on the "Concession Report" and deposit this cash in the bank.

This Concession Report is then placed in a folder in the Commission office to be picked up by either the Acting Bookkeeper or the Acting Controller. This folder is picked up every two to three days.

On a weekly basis the revenues are then entered into the accounting system, Sage by the Acting Controller or Acting Bookkeeper from home by accessing the server over VPN. Before entering the revenue amount into Sage the Acting Controller or Acting Bookkeeper will confirm the amounts on the summary sheets back to the deposit slip.

### **7.3 Starting Fees**

At certain points throughout the year the racetrack will have special races that are referred to as, "stake races". Stake races are those that have a larger purse to be distributed to the winners; in order to have this increased purse, there is a starting fee that must be paid by each participant.

Once these starting fees are collected they will be entered into the accounting system Sage, by the Office Manager under "Starting Fees & Purse Sponsors". Then, the purse will be paid out under "Purse Expense". They have no financial impact to the Commission.

# 8 HST

## 8.1 HST Collected

HST is collected on the revenues from advertising, rentals, concessions and the Exhibition excluding sponsorships. These HST collections are put in a specific HST collection account in the accounting system Sage using two methods.

The first method is used by the Office Manager as invoices are sent out and revenue is received. Upon creation of the invoice the system gives the user the choice as to whether or not the item is tax exempt. The Office Manager will select the appropriate choices and the system will therefore allocate the HST and the revenue into their separate accounts when revenue is recorded.

The second method is a journal entry, which is used for concessions and Exhibition revenue. Concessions and Exhibition revenue are different in that all sales are made inclusive of HST and do not use an invoice, as in the method above. For concessions, at the end of each day concession revenues and expenses are summarized on the “Daily Concession Report”. It is from this report that the journal entries will be entered into the system by the Acting Bookkeeper, for both the revenue and the HST collected. As for the Exhibition, revenues will be tracked through numbers of bracelet sales and the corresponding HST can be backed out for remittance. From there, the journal entries will be entered into the system by the Acting Bookkeeper for both the revenue and HST collected.

## 8.2 HST Paid

HST is paid on the majority of the Commission’s expenses, but only certain purchases can be claimed. The Commission uses the same two methods as above to record HST paid.

First, as an invoice is paid, the Acting Bookkeeper will enter whether or not the item is tax exempt and the price including HST or excluding HST with HST keyed in separately. This process will require identification of the type of revenue and thus the system will allocate HST paid into one of two accounts: one relating to grandstand purchases related to betting and one for the remainder of purchases. This is an important distinction for the Commission to make because any HST paid on purchases relating to the betting aspect of the operations cannot be claimed.

Secondly, for concessions expenses the Acting Bookkeeper will create journal entries from the “Daily Concessions Report”. These journal entries will record the expenses and HST paid in relation to concessions by backing out the HST as described in section 8.1 above.

## 8.3 Claim Preparation and Submission

At the end of each quarter the Acting Bookkeeper and/or Acting Controller will run an account summary of the three accounts relating to HST for the quarter, these include:

- HST collected;
- HST paid relating to the grandstand betting; and
- HST paid relating to all other expenses.

From these summary reports the Acting Controller will complete the online HST remittance form, which would include the HST collected and the HST paid relating to all other expenses. There is no peer review process completed before the Acting Controller submits the claim.

During discussions with the Acting Controller we found that the Commission has had circumstances where they were unable to track an expense to the correct revenue stream. This would occur if an expense was recorded as “grandstand” but did not indicate whether it was related to concessions or betting. In this situation the Acting Controller will be conservative and assume the expense is related to betting and thus will not claim the HST.

# Appendix B: Controls Matrix

## CASH MANAGEMENT

Risk #	Risk	Control Objective	Control	Control Owner	Financial Statement Assertions								Control Type	Preventive or Detective (P/D)	Automated or Manual (A/M)	Antifraud Control (Y/N)	Frequency (RM, D, W, BW, M, C, SA, A, IT, AN)	Summary of Testing	
					Presentation	Completeness	Existence	Accuracy	Valuation	Ownership	Authorization	Safeguarding of Assets							
1	Cash balances are misstated in the accounting records or actual cash is misappropriated.	Cash balances appropriately stated at month end.	Bank reconciliations are performed and reviewed monthly for each bank account.	Office Manager & Acting Controller		X	X	X						Reconciliation	D	M	Y	AN	Bank reconciliations were not performed after the last bookkeeper was let go. KPMG prepared FY2013 bank reconciliation for audit purposes.
2a	Cash on hand can be misappropriated, as it can be accessed without Office Manager present.	Access to cash on hand is restricted and disbursements are approved and recorded.	Office Manager approves / monitors disbursements and ensures expenditures are recorded.	Office Manager & Acting Controller		X	X	X				X		Physical control & Authorization	P	M	Y	AN	KPMG observed cash on hand being disbursed (May 2014) by Office Manager with receipt submitted, to be recorded in accounting system. However, we noted that access to cash was not restricted.
2b	Cash on hand can be misappropriated, as it can be accessed without Office Manager present.	Access to cash on hand is restricted and disbursements are approved and recorded.	Cash is periodically deposited at the discretion of the Office manager or acting controller	Office Manager & Acting Controller		X	X	X			X	X		Physical control	P	M	Y	AN	KPMG observed that cash received is not always deposited daily. Cash may be held to be used for upcoming expenditures or may not be viewed to be significant enough to warrant a daily deposit. Cash should be deposited when received.
3	Cash balances could be misappropriated.	Cash balances appropriately stated at month end.	Monthly bank reconciliations performed by Office Manager.	Acting Controller		X	X	X				X		Reconciliation & Review	D	M	Y	M	Bank reconciliations were not performed for December 31, 2013 after the last bookkeeper left the Commission. Also, the acting controller controls the back accounts including the ability to write cheques and wire bank transfers. This is not a proper segregation of duties.
4	Cash receipts are incorrectly recorded or missed when making deposits.	Cash receipts are properly recorded.	Recording of cash receipts is reviewed independently.	Office Manager & Acting Controller		X	X	X						Reconciliation & Review	D	M	Y	AN	KPMG did not observe this control being performed. Due to small employee compliment, lack of segregation of duties prevents independent review. This control has been suggested by KPMG to be performed.
5	Transactions paid through petty cash are not recorded or cash is misappropriated	Ensure cash balances are accurate and complete.	Office Manager counts petty cash each month and reconciles differences;	Office Manager & Acting Controller		X	X	X						Reconciliation & Review	D	M	Y	M	KPMG observed this control not being performed. Through discussions with the Office Manager, there are too many cash receipts and disbursements throughout the day, week, etc to monitor and reconcile petty cash.

**CASH MANAGEMENT**

Risk #	Risk	Control Objective	Control	Control Owner	Financial Statement Assertions								Control Type	Preventive or Detective (P/D)	Automated or Manual (A/M)	Antifraud Control (Y/N)	Frequency (RM, D, W, BW, M, Q, SA, A, F, AN)	Summary of Testing
					Presentation	Completeness	Existence	Accuracy	Valuation	Ownership	Authorization	Safeguarding of Assets						
6	Transactions paid through float cash for events (raceway, Exhibition, etc.) are not complete and accurately recorded.	Ensure cash balances are accurate and complete.	At the end of events, cash is counted and transactions are used to reconcile the opening to closing balances including amounts paid from cash. Supporting documents, such as invoices, are attached.	Pari-Mutuel Supervisor; General Manager		X	X	X										KPMG observed that cash transactions are being tracked in many cases. The Pari-Mutuel Supervisor has implemented processes to ensure that cash is consistent with expectations and all expenditures paid from float cash are identified and passed on to the office manager for recording. The exception noted was that there are no processes over the canteen cash payments or receipts. Also, the supporting documentation related to expenditures is often inconsistent and not clear. In many cases support consisted of amount written down for cash payments made (i.e. prize payouts for the Exhibition).
7	Cash transactions are not recorded on timely basis or are inaccurate.	Ensure cash balances are accurate and complete.	Monthly bank reconciliations performed by Office Manager.	Acting Controller		X	X	X				X						Bank reconciliations were not performed for December 31, 2013 after the last bookkeeper left the Commission. Also, the acting controller also controls the back accounts including the ability to write cheques and wire bank transfers. This is not a proper segregation of duties.
8	Cash transactions are not recorded on timely basis or are inaccurate.	Ensure cash balances are accurate and complete.	Cash used to fill the ATM is included in the summary of cash transactions from the Pari-mutuel reconciliation	Pari-Mutuel Supervisor		X	X	X				X						KPMG noted that there is no effective control over the amounts deposited to the ATM. Currently the pari-mutuel supervisor is responsible for filling the ATM. This is reported as part of their daily cash reconciliation. However there is no control to ensure that ATM related deposits into the main bank account reconcile to the amounts deposited after deducting the revenue from ATM fees.

**ACCOUNTS RECEIVABLE & GENERAL REVENUE**

Risk #	Risk	Control Objective	Control	Control Owner	Financial Statement Assertions								Control Type	Preventive or Deterrent (P/D)	Automated or Manual (A/M)	Antifraud Control (Y/N)	Frequency (RM, D, W, BW, M, Q, SA, A, TR, AN)	Summary of Testing
					Presentation	Completeness	Existence	Accuracy	Valuation	Ownership	Authorization	Safeguarding of Assets						
1	Payment has been recorded incorrectly or missed.	Payment received is recorded completely and accurately.	Office Manager ensures all amounts are recorded from the cash receipt log through periodic review and entered in Sage.	Office Manager		X	X	X									RM	KPMG observed a cash receipt transaction (May 2014) and noted the Office Manager record the cash in cash receipt log. KPMG substantively tested the accounts receivable balances at FY2013 and FY2014.
2	Customers who are not paying in a timely manner are not identified for follow-up and estimates for allowances for bad debts are not adjusted on a timely basis.	Customers who are not paying for services are identified on a timely basis and corrective action taken.	Monthly, the Office Manager performs checks on outstanding accounts to stamp them "past due" and sends out letters.	Office Manager				X	X	X							M	KPMG observed the existence of follow-up invoices stamped past due. It was noted the Office Manager does not follow-up in all cases and is based on her knowledge and history with customers.
3	Customers who are not paying in a timely manner are not identified for follow-up and estimates for allowances for bad debts are not adjusted on a timely basis.	Sales are only made to creditworthy customers.	If Office Manager creates an invoice for a customer that has not paid their most recent invoice the accounting system Sage will give a notification.	Sage				X	X								RM	KPMG observed with the Office Manager (on their system), when new sale transaction is processed (for an existing customer) that a reminder pops up informing the user to check for outstanding past due amounts and send a follow up invoice if needed. However through discussions this reminder is often ignored.
4	Horse stalls are rented out but not invoiced.	Stalls rented out are invoiced monthly and recorded as revenue.	Review stall rental spreadsheet to prepare invoices monthly.	Acting Bookkeeper		X	X	X									M	KPMG reviewed the May 2014 (along with December 2013) horse stall spreadsheet which noted stalls rented out for the month. Through discussion with the Office Manager, she would on occasion perform a walk through of the stalls noting which were occupied with horses (to ensure for insurance purposes the horse occupying the stall was paid for by the owner). There is no formal reconciliation of the stall rental spreadsheet to the actual stall rentals.
5	Horse stalls are occupied without a rental agreement.	Stall occupied are invoiced monthly and recorded as revenue.	Review stall rental spreadsheet to prepare invoices monthly.	Grounds Supervisor & Office Manager													M	KPMG reviewed the May 2014 (along with December 2013) horse stall spreadsheet which noted stalls rented out for the month. Through discussion with the Office Manager, she would on occasion perform a walk through of the stalls noting which were occupied with horses (to ensure for insurance purposes the horse occupying the stall was paid for by the owner). There is no formal reconciliation of the stall rental spreadsheet to the actual stall rentals.

**ACCOUNTS RECEIVABLE & GENERAL REVENUE**

Risk #	Risk	Control Objective	Control	Control Owner	Financial Statement Assertions								Control Type	Preventive or Detective (P/D)	Automated or Manual (A/M)	Antifraud Control (Y/N)	Frequency (RM, D, W, BW, M, Q, SA, A, IT, AN)	Summary of Testing
					Presentation	Completeness	Existence	Accuracy	Valuation	Ownership	Authorization	Safeguarding of Assets						
6	Property rentals are not invoiced.	Rental of property is invoiced and recorded as revenue in a timely manner.	Currently no controls in place.			X	X	X									KPMG did not observe controls to ensure rental income is invoiced and paid as there is no formal listing of rentals. We would expect that a log or calendar of rental events is kept and reviewed monthly. This review would include ensuring all invoices are set for events during the month.	
7	Liquor sales are not accurate and complete.	Each liquor sale transaction is recorded and cash is collected / recorded.	Reconciliation between change in 'liquor control sheet' (beginning inventory) and ending inventory balances to end of day cash register receipt.	Bartender & Pari-Mutuel Supervisor		X	X	X					Review & Reconciliation	D	M	Y	D	KPMG observed this control operating effectively for December 2012 and December 2013.
8	Cash from liquor sales is misappropriated before it is deposited.	Each liquor sale transaction is recorded and cash is collected / recorded.	Liquor control sheet, along with end of day cash register receipt, concession report and daily deposit is sent to the NSPEC office and reviewed.	Pari-Mutuel Supervisor & Acting Bookkeeper / Acting Controller		X	X	X					Review & Reconciliation	D	M	Y	D	KPMG observed this control operating effectively for December 2012 and December 2013.
9	Destruction, loss or theft of liquor inventory.	Physical inventory of liquor exists and is safeguarded against destruction, loss or theft.	Physical access to liquor inventory is limited to authorized personnel.	Bartender & Pari-Mutuel Supervisor			X						Physical Control	P	M	N	W	During site visit (May 2014) KPMG observed that the liquor inventory was restricted to authorized personnel. KPMG noted through review of December 2013 liquor inventory listing, a small theft had occurred.
10	Canteen sales are not recorded.	Each canteen sale transaction is recorded and cash is collected / recorded.	Currently no controls in place.	Canteen Manager		X	X	X										KPMG noted that the cash is received from the canteen manager and revenue is booked based on their representation of sales and costs.
11	Canteen inventory is not tracked.	Changes in inventory (in / out) are recorded and monitored.	Currently no controls in place.	Canteen Manager		X	X	X										KPMG noted that the cash is received from the canteen manager and revenue is booked based on their representation of sales and costs.
12	Cash may be lost or stolen when removed from the VLT.	Cash received is recorded completely and accurately.	Reconciliation between cash and cash flow report from VLTs completed each day.	Pari-Mutuel Supervisor or Bartender		X	X	X					Reconciliation	D	M	Y	D	KPMG observed this control operating effectively on August 13, 2012 and October 4, 2013.

RACEWAY - PARI-MUTUEL

Risk #	Risk	Control Objective	Control	Control Owner	Financial Statement Assertions								Control Type	Preventive or Detective (P/D)	Automated or Manual (A/M)	Antifraud Control (Y/N)	Frequency (RM, D, W, BW, M, Q, SA, A, IT, AN)	Summary of Testing	
					Presentation	Completeness	Existence	Accuracy	Valuation	Ownership	Authorization	Safeguarding of Assets							
1a	Cash transactions are not completely or accurately recorded or cash in cash room is misappropriated.	Cash transactions are recorded completely and accurately.	The expected net amount in cash received and paid from betting is tracked by an outside third party (United Tote) and reconciled to the individual seller's cash balance and terminal report daily.	United Tote		X	X	X						Configuration	P	M	Y	D	KPMG observed this control operating effectively. Transaction dates: June 17, 2012 and October 12, 2013
1b	Cash transactions are not completely or accurately recorded or cash in cash room is misappropriated.	Cash transactions are recorded completely and accurately.	Reconciliation between individual seller's cash balance and terminal report is completed daily. Shortfalls are recovered from the "seller" responsible.	Supervisor and seller		X	X	X						Reconciliation	D	M	Y	D	KPMG observed this control operating effectively. Transaction dates: June 17, 2012 and October 12, 2013. No shortfalls noted for observed transactions.
1c	Cash transactions are not completely or accurately recorded or cash in cash room is misappropriated.	Cash transactions are recorded completely and accurately.	Reconciliation between the total cash balance and the Group Balance report is completed daily.	Pari-Mutuel Supervisor		X	X	X						Reconciliation	D	M	Y	D	KPMG observed this control operating effectively. Transaction dates: June 17, 2012 and October 12, 2013
1d	Cash transactions are not completely or accurately recorded or cash in cash room is misappropriated.	Cash transactions are recorded completely and accurately.	Cash in excess of float balances is deposited at the end of each race day (deposit slip is filled out).	Pari-Mutuel Supervisor		X	X	X						Reconciliation & Physical Control	P	M	Y	D	KPMG observed this control operating effectively. Transaction dates: June 17, 2012 and October 12, 2013
1e	Cash transactions are not completely or accurately recorded or cash in cash room is misappropriated.	Cash transactions are recorded completely and accurately.	Pari-Mutuel Supervisor records on paper and provides receipts of expenditures when money is taken from the cash room that must be replaced. This record is filed with the receipts and a copy of the deposit slip which reconciles the cash deposited net of expenditures incurred and forwarded to accounting for	Pari-Mutuel Supervisor				X						Reconciliation	P	M	Y	D	KPMG observed this control operating effectively. Transaction dates: June 24, 2012 and October 5, 2013

RACEWAY - PARI-MUTUEL

Risk #	Risk	Control Objective	Control	Control Owner	Financial Statement Assertions								Control Type	Preventive or Detective (P/D)	Automated or Manual (A/M)	Antifraud Control (Y/N)	Frequency (RM, D, W, BW, M, Q, SA, A, IT, AN)	Summary of Testing
					Presentation	Completeness	Existence	Accuracy	Valuation	Ownership	Authorization	Safeguarding of Assets						
1f	Cash transactions are not completely or accurately recorded or cash in cash room is misappropriated.	Cash transactions are recorded completely and accurately.	When cash is withheld by the Pari-Mutuel Supervisor, a sheet is filled out explaining the reason it is being withheld. This sheet is filed with the receipts and a copy of the deposit slip which reconciles the cash deposited net of expenditures incurred and forwarded to accounting for g/l entry.	Pari-Mutuel Supervisor				X										KPMG observed this control operating effectively. Transaction dates: June 24, 2012 and October 5, 2013. Reasons cash withheld noted for small purchase items.
2	Loss or theft of cash.	Physical cash exists and is safeguarded against loss or theft.	Access to the cash room is restricted to authorized personnel through a locked door and restrictions of key access.	Pari-Mutuel Supervisor			X											During May 2014 site visit, KPMG observed that the cash room was locked and a specific key was used to access the room (restricted to Pari-Mutuel Supervisor (Julie) and two seller supervisors (Katie and Shelly); General Manager does not have access to this room).
3	Raceway seller's cash float does not reconcile to terminal balance and initial \$200 float at the end of the race day.	Cash received is recorded completely and accurately.	Seller's supervisor counts cash and matches to balance of sellers terminal at end of day. Any differences are paid by seller.	Pari-Mutuel Supervisor and Pari-Mutuel Seller		X	X	X										As all cash from the sellers go to the cash room, this control is reviewed by the Pari-Mutuel Supervisor as part of 1b. See above.
4	Online wagering revenue and cash are not accurately tracked and recorded in the accounting system.	Online wagering revenue and cash are accurately tracked and recorded in the accounting system.	Third party reports of online wagering settlement are reviewed prior to funds being released to a bank account, confirming online wagering revenue and cash due.	Acting Bookkeeper / Acting Controller		X	X	X										KPMG noted that these reports are used in the reconciliation of bank accounts to identify and record cash deposits from online wagering.
5	Betting terminal wagering revenue is not recorded accurately or in a timely manner.	Betting terminal wagering revenue is recorded accurately and in a timely manner.	Betting terminal wagering revenue is booked weekly, based on summary sheets prepared by the Pari-Mutuel Supervisor and reconciled to United Tote reports.	Pari-Mutuel Supervisor		X	X	X										The Pari-Mutuel supervisor forwards the cash reconciliations to the accountant to record the related transactions including betting revenue. This is performed by a journal entry to the accounting system.

**EXHIBITION**

Financial Statement Assertions																		
Risk #	Risk	Control Objective	Control	Control Owner	Presentation	Completeness	Existence	Accuracy	Valuation	Ownership	Authorization	Safeguarding of Assets	Control Type	Preventive or Detective (P/D)	Automated or Manual (A/M)	Antifraud Control (Y/N)	Frequency (RM, D, W, BW, M, Q, SA, A, IT, AN)	Summary of Testing
1	Consecutive, unique numbers are not assigned to sales.	Gate sales are complete and accurate.	Entrance bracelets are color-coded and numbered. As bracelets are given out each day, the bracelet numbers are recorded so it is known who has which numbers.	Exhibition Gate Worker and Office Manager		X							Reconciliation	P	M	Y	AN	KPMG testing occurred after year end, as a result KPMG could not observe this control being performed. No supporting documentation was provided to substantiate that this control was in effect during the Exhibition.
2	Bracelets are given out without payment.	Gate sales are complete and accurate.	Reconciliation is completed between the number of bracelets sold and the cash received.	Office Manager		X		X					Reconciliation	D	M	Y	AN	KPMG testing occurred after year end, as a result KPMG could not observe this control being performed. KPMG did observe supporting documentation (FY2013) that a reconciliation was being performed between the number of bracelets sold and cash received.
3	Discounted or free admission is given to individuals who are not authorized.	Only the authorized number of discounted or free admissions are administered.	Groups with discounted or free admission must exchange a numbered card for a bracelet at the discounted price.	Exhibition Gate Worker		X							Reconciliation	D	M	N	AN	KPMG testing occurred after year end, as a result KPMG could not observe this control being performed. No supporting documentation was provided to substantiate that this control was in effect during the Exhibition.
4	Revenue and related expenditures are not recorded in the general ledger.	Accurate and complete records of revenue and expenditures are included in the accounting records.	At the end of the exhibition a deposit is made of cash on hand. This amount is reconciled based on all known cash transactions with the difference revenue for the Exhibition.	Bookkeeper/ General manager		X	X	X					Reconciliation	D	M	N	A	KPMG noted that the annual reconciliation was performed with a difference being recorded to cash over/short. KPMG noted a \$16,000 error related to the recording of cash float cash that is believed to overstate revenue. The deposit was done once at the end of the event leaving large amounts of cash on hand. Support for the items recorded was often representations of cash payments made. As a result we concluded this control was not effectively designed as it was not frequent enough and the required detail was not sufficient.

**PROCUREMENT PROCESS**

Risk #	Risk	Control Objective	Control	Control Owner	Financial Statement Assertions								Control Type	Preventive or Detective (P/D)	Automated or Manual (A/M)	Antifraud Control (Y/N)	Frequency (RM, D, W, BW, M, Q, SA, A, IT, AN)	Summary of Testing
					Presentation	Completeness	Existence	Accuracy	Valuation	Ownership	Authorization	Safeguarding of Assets						
1	Routine purchases are not properly authorized, resulting in unauthorized acquisition of goods or a misstatement of expenditures.	All purchases are complete, accurate and authorized.	Authority to initiate purchase orders is restricted to the Office Manager, General Manager and the Grounds Supervisor.	Office Manager, General Manager, Grounds Supervisor			X	X					Authorization	P	M	N	AN	KPMG did observe that a purchase order booklet was in place at the office, but rarely used. This was also confirmed through discussions with Lynn Curwin (Office Manager). KPMG did not observe this control being performed.
2	Invoices are not processed in a timely manner and may not be paid in accordance with the payment terms which may result in penalties.	Invoices are processed completely, accurately and in a timely manner.	As noted above, purchase orders are used to authorize and track expenditures. We did not identify controls in place to ensure the completeness of invoices.	Acting Controller	X	X	X						Review	P	M	N	W	We noted above the purchase orders are not used consistently. Ideally all purchases would be evidenced through a purchase order that could be used as a reconciling document to identify when an invoice is received and entered into the accounting system, however there is no control in place at present.
3	Petty cash vouchers for purchases approved by Office Manager are misplaced.	Vouchers for other (small) purchases are tracked properly resulting in approved payments.	Petty cash vouchers are stored in a safe location (locked) at the end of the business day to avoid misplacement.	Office Manager		X	X	X					Authorization	P	M	Y	AN	KPMG noted that petty cash on hand was stored in a small box located within the Office Manager's desk. Access during the day was not restricted (when the Office Manager was not in the room). KPMG observed (May 2014) a petty cash receipt and disbursement (for purchase of wire by the General Manager). A small note was written indicating when, how much cash was disbursed, to whom and the purpose which was then placed in the petty cash box. KPMG did not observe the receipt being provided or change submitted for this transaction.
4	Cash disbursement is inappropriately paid.	Cash disbursement is in compliance with company policy and with the agreed contracts.	Cheques are signed by two of three responsible parties.	General Manager, Board Member, Acting Controller		X	X	X					Authorization	P	M	Y	AN	KPMG noted through review of numerous cheques (payroll and general disbursements) written during FY2012 and FY 2013 that in some instances two signatures were recorded on cheques and in other instances only one. KPMG noted this control is not operating effectively.
5	Racetrack purchases (i.e. bar / office supplies) that are reimbursed from cash receipts from the racetrack are unauthorized.	Pari-Mutuel Supervisor approves purchases that are appropriate.	Original receipts, copy of deposit slip and reconciliation of cash withheld are sent to Acting Bookkeeper and Acting Controller as part of the bank deposit information	Pari-Mutuel Supervisor, Acting Bookkeeper, Acting Controller		X	X	X					Authorization & Review	P	M	Y	AN	KPMG reviewed several transactions with the Pari-Mutuel Supervisor for FY2012 and FY2013 where forms were filled out indicating the total cash received, less ATM reimbursement and net deposit. Supporting documentation was filed to reconcile cash withheld.

**PROCUREMENT PROCESS**

Risk #	Risk	Control Objective	Control	Control Owner	Financial Statement Assertions							Control Type	Preventive or Detective (P/D)	Automated or Manual (A/M)	Antifraud Control (Y/N)	Frequency (RM, D, W, BW, M, Q, SA, A, IT, AN)	Summary of Testing				
					Presentation	Completeness	Existence	Accuracy	Valuation	Ownership	Authorization							Safeguarding of Assets			
6	Pre-authorized withdrawals or electronic payments from the bank account(s) are unauthorized.	All payments are substantiated by supporting documentation and approved appropriately.	Pre-authorized payments require authorization by at least one of the three signing authorities.	Acting Controller		X	X	X								Authorization & Review	P	M	Y	AN	KPMG did not observe this control being performed. However, through discussions with the acting controller, there are only a few pre-authorized payments these include: ALC remittance related to VLT receipts and a tractor lease. In terms of electronic payments the only one currently set up is for NS Power. KPMG suggests a form be created to provide support for authorized pre-payments and electronic payments.

PAYROLL PROCESSING

Risk #	Risk	Control Objective	Control	Control Owner	Financial Statement Assertions								Control Type	Preventive or Detective (P/D)	Automated or Manual (A/M)	Antifraud Control (Y/N)	Frequency (RM, D, W, BW, M, G, SA, A, IT, AN)	Summary of Testing	
					Presentation	Completeness	Existence	Accuracy	Valuation	Ownership	Authorization	Safeguarding of Assets							
1	New hire employee information is recorded incorrectly resulting in an error in payment.	Ensure employee information is correctly input when hired.	New hire application form (along with overtime agreement and tax forms) is required to be completed prior to new employees being entered into Sage.	Office Manager			X	X						Authorization	P	M	N	AN	Through payroll testing for FY2012 and FY2013, KPMG compared the employee files to the timesheets and also to the Sage generated reports. No information differences were noted. However, there was inconsistent employee information kept in each of the employee files. Only one employee contract was noted as signed, the remainder had either a record of employment, or basic Provincial and Federal tax documentation. In addition, some employees had removed their information from the file, citing that they only wanted the government to have access to their personal information. We noted that currently there is no review of the data entered from the new hire form to the computer system.
2	Payroll rate changes are not approved by the General Manager.	Changes in employee pay rates are approved.	Payroll changes are approved and communicated to the Office Manager by the General Manager. There is limited access to the accounting system to update these pay rates.	Office Manager			X	X						Review	P	M	N	AN	No change application forms or payroll change forms were identified through testing payroll. Evidence of acknowledgement of pay rates was through the signing of payroll checks. There is no process to check rates periodically or when changes are made.
3	Inaccurate recording of working hours for hourly employees may lead to inappropriate payments to personnel.	General employee time and attendance data recorded reflects actual working time.	Time sheets are approved by responsible personnel.	Supervisors (i.e.: Grounds Supervisor or Race Office Supervisor)		X	X	X						Review	D	M	Y	BW	For sample employees tested, KPMG observed that timesheets were approved by responsible personnel. We have noted that this approval should be more formalized. Also there are no controls to specifically verify that hours entered in the payroll system are accurate and complete.
4a	Inaccurate recording of working hours for hourly employees may lead to inappropriate payments to personnel.	Pari-mutuel employees are paid based on their logged time using the terminal machines.	Supervisor records the pari-mutuel employees time on a spreadsheet based on terminal records and submits to payroll for processing.	Pari-Mutuel Supervisor		X	X	X						Review	D	M	N	BW	Tested below in 4b
4b	Inaccurate recording of working hours for hourly employees may lead to inappropriate payments to personnel.	Pari-mutuel employees are paid based on their logged time using the terminal machines.	Review summary spreadsheet with pari-mutuel employees time compared to actual terminal reports.	Acting Bookkeeper		X	X	X						Review	D	M	N	BW	For selected pari-mutuel employees testing, KPMG compared the time sheets submitted to the underlying terminal report. We noted that consistent with 3, there are no procedures to review the data entered into the payroll system.
5	Inaccurate working time data may lead to inappropriate payments to personnel.	Time and attendance data recorded for employees reflects actual working time.	Pari-Mutuel employees are automatically logged off of their terminals within a half hour of the last race ending.	United Tote (application)		X		X						Configuration	P	A	N	D	Through discussion with the Pari-Mutuel Supervisor KPMG noted the system automatically logs off the employee.
6a	Cash payroll disbursement is inappropriately paid.	Cash payroll disbursement is in compliance with company policy and with the agreed contracts.	Payroll cheques are reviewed by responsible personnel for reasonableness.	Any two of General Manager, Two Board Members			X	X						Review	D	M	N	BW	As part of the signing process the payroll support is reviewed by the employee or director authorized to sign cheques.

PAYROLL PROCESSING

Risk #	Risk	Control Objective	Control	Control Owner	Financial Statement Assertions								Control Type	Preventive or Detective (P/D)	Automated or Manual (A/M)	Antifraud Control (Y/N)	Frequency (RM, D, W, BW, M, G, SA, A, IT, AN)	Summary of Testing
					Presentation	Completeness	Existence	Accuracy	Valuation	Ownership	Authorization	Safeguarding of Assets						
6b	Cash payroll disbursement is inappropriately paid.	Cash payroll disbursement is in compliance with company policy and with the agreed contracts.	Payroll cheques are signed by two of three responsible parties.	General Manager, Board Member, Acting Controller				X					Authorization	D	M	Y	BW	During testing of payroll (FY2012 and FY2013) KPMG observed for some selected individuals the signed cheques had only one signature rather than the required two.
7	Payroll remittances are calculated incorrectly and remitted to the government in error.	Payroll remittances are calculated correctly based on the annual revised percentages as determined by CRA.	Payroll system is updated annually at the beginning of the fiscal year for revised payroll remittance percentages.	Office Manager	X	X	X						Configuration	P	A	N	A	Given the timing of the testing performed by KPMG, we did not observe the payroll system being updated at the beginning of the year. However, KPMG recalculated the remittance rates in the accounting system and noted the remittances differed for individuals. Upon further investigation, it was noted that the amounts per the payroll module are not followed and that a manual calculation is being performed based on what was remitted historically.
8	Payroll remittances are calculated incorrectly and remitted to the government in error.	Payroll remittances are calculated correctly based on the annual revised percentages as determined by CRA.	Once payroll system is updated for revised CRA payroll remittance percentages, verify calculations after the first payroll report for the year is run.	Office Manager	X	X	X						Review	D	M	N	A	Per discussion with Lynn, at the beginning of the year she performs a manual review of the government remittance calculations to ensure they are being calculated appropriately by Sage.
9	Payroll remittances are not totaled properly or reviewed before being remitted to CRA.	Monthly payroll remittances (including CPP, EI and income taxes withheld) for all employees are totaled properly and remitted to CRA.	Monthly remittance form along with supporting calculations are reviewed.	Acting Controller	X	X	X						Review	D	M	N	M	We discussed the review process with management however there is no evidence of the review occurring. We noted that the Commission is up to date on their remittances.
10	Terminated employees remain 'active' in the system and are paid after termination.	After date of termination no further payments to the employee are made.	Upon notification of termination, employee is coded in the payroll system as 'inactive' and the subsequent pay period report (and cheques for signing) are reviewed to ensure no further payments to the terminated individual are made.	Office Manager & another cheque signing authority				X					Review	D	M	Y	BW	Through discussion with management, all known termination are marked as inactive. There are limited employees paid regularly and the review of payroll cheques at signing was considered appropriate to mitigate this risk given there is no formal communication process.
11	Payroll journal entries are posted incorrectly in the general ledger.	Payroll expense is posted to the correct account(s) or for the correct amount(s).	Monthly review of payroll expense, where variances are reviewed and followed up on.	Acting Bookkeeper & Acting Controller	X	X	X						Review	D	M	Y	M	The system is configured to post the payroll expense. There is no formal review of the accounting entry or operating results that would further assist in ensuring the configuration remains accurate.
12	Historical payroll data is lost and able to be recovered for support to CRA.	Payroll data is preserved for the prescribed period by CRA.	All data files are backed up regularly to a USB stick.	Acting Bookkeeper	X	X							Backup	P	M	N	W	KPMG confirmed with Office Manager, accounting records are backed up weekly on a USB stick that is kept in her purse.

**HST COLLECTION AND REMITTANCE**

Risk #	Risk	Control Objective	Control	Control Owner	Financial Statement Assertions								Control Type	Preventive or Detective (P/D)	Automated or Manual (A/M)	Anti-fraud Control (Y/N)	Frequency (RM, D, W, BW, M, Q, SA, A, IT, AN)	Summary of Testing	
					Presentation	Completeness	Existence	Accuracy	Valuation	Ownership	Authorization	Safeguarding of Assets							
1	HST is not charged on revenue transactions when required under regulations	Ensure all HST is appropriately tracked for remittance to CRA	The Commission has a listing of all services and goods that it understands to be HST exempt versus where HST is charged	Acting Controller		X	X	X						Review	P	M	N	AN	We discussed the exemptions with management and we noted some exemptions that we questioned why they were HST exempt (i.e. advertising revenue). No support was provided as no formal record of an HST review was identified.
2	HST paid is not tracked in sufficient detail to allow the organization to claim ITC's when permitted	Ensure all HST is appropriately tracked for remittance to CRA	HST paid is tracked in separate accounts. Very few expenses are claimed as ITC's.	Acting Controller & Office Manager		X	X	X						Review	P	M	Y	AN	We noted the existence of HST related expense accounts. Not claiming HST paid is a conservative view, however where amounts are paid to deliver a service or good that is charged HST, there is an opportunity to track and claim these amounts as ITC.
3	HST is not remitted to CRA on a timely basis	HST is properly remitted to CRA.	Quarterly, the HST accounts are reviewed and amounts input to the HST filing form.	Office Manager		X	X	X						Review	D	M	N	Q	We noted that the commission was up to date on their HST filings.

# Appendix C: Findings and Recommendations

# Contents

<b>1</b>	<b>Prioritization of Observations</b>	<b>103</b>
<b>2</b>	<b>General</b>	<b>104</b>
<b>3</b>	<b>Treasury</b>	<b>111</b>
<b>4</b>	<b>Procurement</b>	<b>115</b>
<b>5</b>	<b>Pari-Mutuel Revenue</b>	<b>117</b>
<b>6</b>	<b>Revenue General</b>	<b>118</b>
<b>7</b>	<b>Payroll</b>	<b>122</b>
<b>8</b>	<b>HST</b>	<b>126</b>

# 1 Prioritization of Observations

The following findings have been prioritized by the significance and likelihood that, if not addressed by management, would potentially result in inadequate processes and internal controls necessary to achieve departmental objectives. The prioritization categories are defined as follows:



High priority:

The recommendation should be given immediate attention due to the existence of either a potentially significant internal control weakness or operational improvement opportunity.



Medium priority:

The recommendation should be addressed in the short to intermediate term to either improve internal controls or efficiency of the process.



Low priority:

The recommendation is not critical but should be addressed in the longer term to either improve internal controls or efficiency of the process.

## 2 General

General findings relate to observations that were made during our review of process and controls or an aggregation of similar findings that relate to all processes reviewed and are best addressed to the Commission as a whole and not individual processes.

### *1 Policies and Procedures*

The Commission does not have written policies, procedures, or job descriptions. The lack of reference materials has prompted employees to rely upon informal means for guidance on job responsibilities, which causes uncertainty and leads to miscommunication between business segments.

Formal policies will assist with the following:

- Help to ensure that all procedures are applied in a consistent manner by all personnel;
- Provide an overview of the financial operation of the Commission;
- Facilitate the training of new personnel; and
- Explain the important internal control aspects of personnel responsibilities.

### *Risk Rating*



### *Recommendation*

Ideally the documentation of policies and procedures would extend to all areas of the Commission's operations through the development of policy manuals, procedures manuals, and job descriptions and distributing them to all employees. Policy manuals would include a reference tool for training new personnel, facilitates cross-training and substitution of personnel during absences and helps to ensure consistent application of management's accounting and control policies and procedures. These items will establish the framework for the Commission's operations and their development would benefit all areas of the operations.

We recognize that smaller organizations may not have the time and resources to develop detailed operating manuals. However to ensure that clear direction and understanding exists amongst employees we recommend that at a minimum job descriptions be developed for each role and key policies and practices be developed. Policies would include consistent procurement policies and practices applied to all operations, detailed policies and practices related to the handling of cash that can be applied to betting and related revenue at the raceway and for events during the year requiring the handling of cash such as the Exhibition. Period end financial processes and practices should also be developed to ensure the financial records are complete and accurate at each month, quarter and annual period end.

### *2 Accounting Oversight*

Accounting functions are being performed without appropriate review. Where the Commission has limited resources, effective detective controls can be implemented to mitigate risks. Effective detective controls would include a management review function to detect errors related to data entry or missing information.

The nature and extent of the review would depend on the nature the risk. Currently there is limited review of data entered into the accounting system.

*Risk Rating*



*Recommendation*

We recommend the establishment of formal policies and procedures to ensure that account analyses are prepared regularly throughout the year, and appropriate review takes place on a timely basis. We suggest that the Commission establish a checklist of procedures to be performed each month and each quarter, and assign individual responsibility for each task. The checklist should be used as a guide for the periodic procedures to be performed, and should be initialled and dated by the person performing the procedures and the review. The person doing the review should not be the same as the person who was responsible for the data entry. Certain reviews may need to occur more frequently than monthly due to the volume of transactions and risk of error being higher.

Examples of key review procedures include; detailed review of supporting documentation by cheque signatures prior to signing checks, detailed reconciliations of a deferred revenue schedule to accounting records, and a detailed reconciliation of cash used in the ATM to cash received from the bank related to ATM use less fee revenue. Many of these examples are included in the detailed process recommendations.

*3 Record Retention*

We observed that the Commission's record retention was poor. Accounting documents were found to be maintained and stored in boxes in the Commission office and at the home of the Acting Controller / Board Member. There did not appear to be a structured approach to ensuring all records were tracked and filed in a manner that allowed for them to be traced back to the digital accounting records. This type of disorganization exposes the Commission to the risk of documents being lost or damaged. If loss or damage were to occur this could lead to the Commission not being able to support their accounting records, or having misstatement or error in their financial statements.

*Risk Rating*



### *Recommendation*

Due to the importance of these documents, we recommend that data be entered into the accounting system as soon as possible and a systematic filing process be implemented to ensure that transactions can be easily traced back to source documented. One consideration should be scanning all documents when received. This would greatly reduce the clutter and improve organization.

Also, we recommend that the physical files be stored in a locked room once they are no longer required by the Commission (for example, paid invoices).

### *4 Budgeting*

The Commission does not have a formal budget in place nor does it monitor its financial performance against a baseline. Therefore, cash could be spent freely without restrictions or considerations of future cash flow requirements. This exposes the Commission to the risk of overspending in non-strategic areas or outside their means, creating financial hardship for the Commission.

### *Risk Rating*



### *Recommendation*

We recommend a budget process be implemented as a means of formally planning the attainment of the Commission's goals, and of controlling elements of income and expense.

Since all members of management are responsible for meeting these goals, a successful budget system requires the active participation of those people responsible for meeting individual objectives. So, we recommend that management as well as the Board participate in formulating the budget.

A formal budget would enable management to compare actual results with planned activity. It would also provide an indication of potential problems in their early stages when they can be most readily solved.

We recommend that both a short-range and long-range budget be created. The short-range plan might cover the following areas:

- Sales plan;
- Expense budgets;
- Capital expenditure budgets;
- Cash flow forecast; and
- Breakeven analysis.

A long-range budget or operations plan should give consideration to:

- Profit objectives;
- Marketing and sales objectives;

- Financial resource objectives; and
- Growth objectives.

The budget should be prepared in essentially the same form as the financial statements, and should be entered thereon as a basis for comparing actual results. Any significant variations should be explained in writing. This comparison should be done periodically and brought to the Board for review.

#### *5 Code of Conduct*

The Commission does not have a Code of Conduct to outline the integrity and ethical values within the organization. Codes of Conduct outline the expectations of organizations related to employee conduct. Where the Commission has relatively few people and is reliant on key individuals, the Code of Conduct establishes what acceptable practices is.

#### *Risk Rating*



#### *Recommendation*

We recommend that the Commission create a Code of Conduct. This declaration should be signed by employees upon being hired and annually to ensure that they are familiar with the terms of the code and that they intend to adhere to the policies and practices contained therein.

This Code of Conduct would assist the Commission is establishing a strong control environment built on high integrity and ethical values. Furthermore, it would clearly highlight for employees what is acceptable and unacceptable behaviour and it would make employees accountable for their actions. Key issues to be addressed within the Code would be as follows:

- Emphasize the Commission's values and objectives;
- Discuss other key policies of the organization; such as conflict of interest, confidentiality, professional conduct, ethics, etc;
- Provide guidelines of proper behaviour, as well as emphasize compliance with laws, rules and regulations;
- Provide examples of prohibited actions or behaviours that are regarded as misconduct; and
- Reporting of any illegal or unethical behaviour.

## 6 Work Around Processes

We noted in many instances that a work around of the accounting system was put in place or that it was not being used to its capabilities. Examples included not using the Sage application to calculate payroll deductions, the configuration of the application to not allow view access to all relevant information but rather restrict view access to only data entered by that individual. This can make it difficult to perform routine functions such as answering questions when asked by customers and vendors.

### *Risk Rating*



### *Recommendation*

We recommend that the Commission seek outside assistance in reconfiguring their accounting system to ensure the system is integrated as much as possible. This will allow users to more efficiently and effectively communicate and fulfil their roles and responsibilities.

## 7 Appropriate Password Protection

The Commission's accounting system, Sage, requires a user name and password for sign-on authorization. During our general review of data processing controls, we noted that passwords are not appropriately designed in that the user names are the respective employee's name and the password is usually their name as well. We also noted that passwords have not been changed since implementing this accounting system and the previous Bookkeeper's user account has not been removed from the system, but is used by the acting bookkeeper. This presents a security risk to the Commission's accounting records.

The current process for information systems security has a high risk of unauthorized access. This makes it difficult to create accountability or restrict user access if an individual has access to the computing environment.

### *Risk Rating*



### *Recommendation*

We recommend that the Commission change system user passwords for those individuals currently authorized to access the accounting system and remove users whom have been terminated. Then we recommend that the Commission implement a continuing policy of periodically changing these passwords and removing users when terminations occur. The Commission should also consider establishing guidelines related to password format, change frequency and usage.

### *8 Data Back-up*

During our review, we noted that accounting data is backed up to a USB drive which is retained by the office manager. The USB is often stored in the office manager's purse. USB drives can be unstable and subject to lost data due to environmental forces. Also, they are inherently easy to steal or lose due to their small size.

#### *Risk Rating*



#### *Recommendation*

We recommend that a back-up procedure be implemented on a safe and secure device that is stored off-site in a relatively controlled environment. This could include an employee being held responsible, however, guidelines outlining acceptable storage practice should be established and enforced. Ideally storage of data would be at third party site that is secure. One example is a safe deposit box.

### *9 Journal Entry Review*

As noted in Finding and Recommendation # 2 there is a lack of review over accounting functions. We note specifically that there is no formal review or approval process in place surrounding journal entries. This presents issues including lack of segregation of duties and the risk of errors in reporting. Journal entries represent the ability of staff to change accounting records. Typically they are used to record transactions that are not otherwise recorded through existing process. The Commission has a high volume of journal entries as the accounting system is not well integrated in business process when accounting entries are required. Information is provided to the bookkeeper for manual entry.

#### *Risk Rating*



#### *Recommendation*

We recommend that a formal review and approval process be put in place before journal entries are posted. This process would involve the General Manager reviewing the draft journal entries and the supporting documentation. These draft entries would then be signed off on and returned to the Office Manager or Bookkeeper before the journal entry is posted. This process would ensure that journal entries are being

posted correctly and would mitigate the segregation of duties issue that the Commission is currently facing. As there exists a high volume of journal entries, this review process may be tailored based on risk and involve individuals who review key journal entries. If a tailored approach is preferred we recommend that a manual period review be put in place where the General Manager scans all journal entries and investigates unusual items as a mitigating control to ensure all journal entries are in fact reviewed.

## 3 Treasury

### *10 Safeguarding Cash*

Cash kept in the Commission office is not locked. This includes petty cash and cash received for deposit. The practical purpose is so any employee is able to access and handle cash for procurement purposes as delegated by their supervisor to address immediate needs. The ability to have cash readily available should be considered in the context that cash is a temptation from a fraud perspective and the unsecured cash provides opportunity for fraud.

#### *Risk Rating*



#### *Recommendation*

Cash should be kept in a locked box or safe in the office, to prevent risk of loss, theft and fraud. Authorization of purchases should be limited to only those positions whose position requires purchases to be made, which may include the General Manager, Office Manager, Grounds Supervisor and Pari-Mutuel Supervisor. As such, only those authorized to make purchases should have access to the cash.

### *11 Cash Deposits*

During our review we noted that cash deposits are held for several days at the Commission office before being deposited in the bank. In particular we noted that during the Exhibition week when there are high volumes of cash (between \$20,000 - \$45,000), a reconciliation and deposit is not done until after the events have concluded. This practice increases the risk of loss or theft during the extra time that the deposit is on site.

#### *Risk Rating*



#### *Recommendation*

It is our recommendation that deposits be made on a daily basis to mitigate the risk of loss or theft. In particular during events where there are high volumes of cash on hand that run over multiple days, cash reconciliation procedures should be performed daily and excess cash deposited. We recognize that cash

on hand may be higher during these events than periods during the year to pay for expenses however daily cash requirements should be planned and excess cash secured through daily deposits.

### *12 On-site Cash Management*

No formal system exists for cash management at either the Pari-Mutuel or Commission office. Since there is no system in place the Commission has no cash forecasts and therefore cannot determine the appropriate amount of cash to be kept on hand at each site. Therefore, the Commission runs the risk of either having too much cash on hand, which increases the risk of loss or theft, or not enough to operate their day-to-day activities.

#### *Risk Rating*



#### *Recommendation*

A formal cash management system should be implemented. This system would encompass cash forecasts and cash requirements which would be approved by the Board before implementation. In order to provide a more accurate determination of operating cash requirements and anticipate needs, we recommend that the cash flow projections be prepared for the fiscal year and be monitored and updated on a monthly basis. The minimum and maximum levels of cash requirements would reflect these projections. Since the Commission has had financial instability in the past, we recommend that the cash management system approved by the Board, include contingency plans in the event that the Commission must choose which vendor to pay. This is currently being decided upon by the Acting Controller, but we believe that a method of determining priority should be reviewed and approved by the Board.

### *13 On-site Cash Tracking*

The general ledger chart of accounts aggregated a number of petty cash balances into one “float” account. Aggregating the balance does not permit detailed reconciliations of cash on hand to specific accounts. As a result any cash discrepancies may not be able to be traced back to a source. Also, each float and petty cash amount should be physically separate in the general and pari-mutuel operations.

#### *Risk Rating*



### *Recommendation*

We recommend that the chart of accounts be updated to give each petty cash and float balance a separate general ledger account to facilitate a more detailed tracking and reconciliation of cash.

#### *14 On-site Cash Count and Reconciliation*

The office of the Commission does not reconcile the amount of cash taken in, net of cash used for expenses, against the amount deposited in the bank. Since there is no reconciliation process the Commission runs the risk that the amount taken in will not match the amount deposited due to loss, theft, or fraud. Due to this lack of control there is currently no way for the Commission to know if all of their funds have been correctly deposited in the bank.

### *Risk Rating*



### *Recommendation*

There should be a reconciliation performed to identify how much cash should be on hand at each deposit. This reconciliation would be based on the office ledger for payments received and the voucher book for purchases made compared to how much is actually on hand for deposit (less amount retained for petty cash). There should not be a discrepancy between the two.

#### *15 Bank Reconciliations*

The Commission has not performed bank reconciliations on a timely basis as a result of staff leaving. Currently the Acting Controller, a volunteer and board member, is responsible for completing bank reconciliations which is done as time permits. The December 31, 2013 bank reconciliation was completed in June 2014.

The effectiveness of the bank reconciliation is diminished when they are not prepared in a timely manner. The risk that errors and irregularities will not be identified and resolved increases.

### *Risk Rating*



### *Recommendation*

A monthly bank reconciliation of the bank accounts on a timely basis by someone independent of the handling or recording of cash receipts and disbursements is an essential control over the cash balance. The reconciliation is important to ensure that the books reflect the same cash balance as the actual amount of cash in the bank after consideration of reconciling items, but even more important, the independent reconciliation provides a unique opportunity for an internal verification of cash receipts and disbursement transactions. Because of the importance of monthly reconciliation of bank accounts, another common control we recommend is having a responsible employee review the monthly reconciliation(s) as soon as possible after its completion.

### *16 Cash Handling*

We have identified a segregation of duties issue as cash is received, recorded in the accounting system, and deposited to the bank by the same person. This increases the risk of fraud or loss, as there is never another person involved in the process and therefore creates an opportunity for fraud.

### *Risk Rating*



### *Recommendation*

Although a complete segregation of duties may not be attainable due to the limited number of personnel, internal controls need to be implemented over the cash process.

We recommend that these duties be split up such that someone independent of the ledger posting should initially receive the cheques and prepare the bank deposit. A log of cash receipts should be kept and forwarded for entry to the accounting system. This log should be compared to the daily deposit made each day.

# 4 Procurement

## *17 Purchase Orders*

Purchase orders can be issued by the Office Manager, General Manager, or the Grounds Supervisor but are not being used on a consistent basis. Also, there are no documented policies or procedures surrounding procurement processes. Therefore, there is a risk that unauthorized, excessive, non-value added or expensive purchases may be incurred if there is no established, documented procurement policy.

We noted that the Commission is largely required to be pay cash on delivery and has credit terms with relatively few vendors. As a result, petty cash is being distributed to pay for items in advance.

### *Risk Rating*



### *Recommendation*

The procurement policy should be formalized, documented, and widely distributed and understood by employees. The policy needs to be strictly and consistently implemented.

The policy should use a purchase order system that would include the following controls:

- Purchase orders should be numbered sequentially and required for all purchases of supplies;
- Purchase orders should bear the appropriate documented approval from the appropriate responsible employee; and
- Purchase order authorization limits should be in place such that the Office Manager and Grounds Supervisor have a lower limit than the General Manager.

### *18 Pari-Mutuel Purchase Approval*

It was noted that there is currently no approval process for purchases made by the Pari-Mutuel Supervisor, and there is no budget that they must remain within. There is a risk that funds may be spent in ways that is not consistent with the overall goals of the Commission.

#### *Risk Rating*



#### *Recommendation*

Once a budget is created, as suggested in Finding and Recommendation #4, the Pari-Mutuel Supervisory should be given this budget to operate within. As part of Finding and Recommendation #2 we recommend that a formal review process for expenses be put in place. This review process would involve a weekly report being printed off detailing the expenses made during the week. This report, along with the supporting documentation, would then be given to the General Manager to review and approve. By completing this process weekly, it will mitigate the risk of errors in reporting and ensure that the Pari-Mutuel Supervisor is spending within the authorized limits put in place by the budget.

### *19 Dual Signing of Cheques*

From our review it was noted that some cheques (mostly related to payroll) had only one signature rather than the required two signing authorities. Given the limited controls in place and lack of review processes, it is critical that cheques be signed by two authorized individuals to help ensure payments are authorized and accurate.

#### *Risk Rating*



#### *Recommendation*

We recommend two individuals sign all cheques and review supporting documentation immediately.

# 5 Pari-Mutuel Revenue

## *20 Pari-Mutuel Segregation of Duties*

Pari-Mutuel Supervisor is responsible for reconciling cash received for Pari-Mutuel and concession revenue and cash paid for purchases to the self-prepared cash deposit. There is lack of segregation of duties as one person is responsible for every aspect of cash management in this department.

### *Risk Rating*



### *Recommendation*

We recommend that other employees be integrated into this process as a method of decreasing the opportunity for theft.

The employee that is responsible for counting concession revenue should be independent of the employee that deposits the funds. By segregating these duties, there will be increased accountability to ensure that the money is not lost or stolen.

We understand that given the number of employees this may not be practical as cash reconciliations occur the day of races. Other mitigating controls that should be considered would include the presence of two people at all times when cash is being counted, bonding of key employees to protect against financial loss and delay of cash reconciliations until the next day to allow for other employees to perform the reconciliation procedures related to the bank deposit.

## 6 Revenue General

### *21 Advertising Revenue*

The Commission does not have a formal listing of advertising customers. Due to this lack of documentation there have been instances where a client was not invoiced due to the Office Manager being new to the job and not being aware of all the advertising clients.

#### *Risk Rating*



#### *Recommendation*

We recommend that information on advertising clients be tracked in a spreadsheet by the Office Manager. This spreadsheet would include client information and contract terms. We recommend that as clients are invoiced, the Office Manager record the invoice number in this listing as a method of further documenting this process.

### *22 Stall Rentals*

The Commission does not have a process to ensure stall rentals adhere to contracts. We noted that instances of stalls being used without a contract or authorization have been reported in the past.

#### *Risk Rating*



#### *Recommendation*

To prevent unauthorized stall use, all horse stalls should be locked until they are rented out to a client. Also, an inventory of rented and unrented stalls and key details of rental agreements should be logged and retained by the office manager. This list would form the basis for period invoicing. We also recommend that periodically (minimum of monthly), a formal check of the stalls should be performed to ensure there is no unauthorized access to stalls.

### *23 Property Rental Policy*

There is no formal policy in place surrounding authorization of property rentals. Currently, there is an informal process whereby smaller, more routine rentals are signed off on by the Office Manager or the General Manager and other larger, more complex rentals are brought to the Board. There is also a segregation of duties issue whereby in small more routine rentals the Office Manager will approve it, draft the agreement, sign the agreement, and then complete the entire accounts receivable process.

#### *Risk Rating*



#### *Recommendations*

We recommend that a formal policies and procedures be put in place which would define the level of authorization required when executing a rental agreement (for example, Office Manager, General Manager or Board) based on revenue level and complexity of the rental (for example, multiple days and locations). This policy would clearly define the signing authority.

We also recommend that the ability to sign rental contracts other than a pre-approved contract used for hourly rentals, be restricted to the General Manager or Board Members. This would clear up the segregation of duties issue by allowing the Office Manager to draft the contract but not be able to sign it. It would also implement a review process for the contract as the signing authority would review the document before signing.

### *24 Canteen Operations*

The following description outlines the current cash process for cash sales at the canteen:

- Canteen operates with a cash box;
- The food being bought and sold is not tracked; and
- Cash is verified the next day by the Pari-Mutuel Supervisor who also prepares the deposit.

With the canteen's current operations, there is no way of tracking inventory or sales. Thus, a reconciliation cannot be completed to ensure the inventory and cash on hand is accurate. As a whole, this puts both the cash and inventory in the canteen at a high risk for loss, theft, or fraud.

#### *Risk Rating*



### *Recommendation*

Where practical, cash registers should be used for all canteen sales. Also, inventory for the canteen should be tracked by counting opening inventory and closing inventory for each event. Cash registers would provide a better way to track sales and to manage inventory. It would also assist in preventing skimming as customers would obtain a receipt thereby ensuring that all sales would be rung through the register. At the end of each shift, cash and the change in inventory recorded by the inventory count should be reconciled to the register tape.

### *25 Exhibition Revenue Tracking*

During the Exhibition, the Commission tracks free or discounted bracelets by requiring the customer to present a numbered card in exchange for the bracelet. The numbered cards can be used to purchase an adult, youth or child bracelet; therefore, the Commission is unable to reconcile the gate revenue completely and accurately.

### *Risk Rating*



### *Recommendation*

In order to reconcile the revenue completely the Commission would need to know what type of bracelet each card is being used to purchase. We recommend that the type of bracelet purchased be written on the card which is then kept in the cash box. Then the Commission will be able to completely track the number of each type of bracelet purchased.

### *26 Review of Accounts Receivable*

The Commission does not currently utilize a systematic method for the review of accounts receivable to determine the adequacy of the related allowance for doubtful accounts. By not performing a review over the collectability of accounts receivable the Commission runs the risk that accounts receivable are over or understated.

### *Recommendation*

We recommend that a periodic review (for example, at least quarterly) be made by the General Manager and the Board to determine the adequacy of the allowance for doubtful accounts. Standard procedures for the periodic review should be established and documented. The procedures should include consideration of the aging of the balance and payment history for each account. Consideration should also be given to the impact of such factors as the economic environment, credit conditions, account mix, and change in credit practices. Where customers are identified as not being able to pay, all service to this customer

should be suspended with the General Manager having the authority to offer new services once the delinquent customer is paid in full or the general management does not believe collection risk is significant.

Establishing and implementing standard review procedures will result in a more accurate estimate of allowance for doubtful accounts and improve periodic financial reporting by providing a consistent method of performing the review of accounts receivable.

#### *27 Cash Receipts*

We noted a segregation of duties issue for the rental and advertising revenue processes. Currently, the Office Manager collects the payments from customers and then subsequently enters this information into the accounting system. This control gap creates the opportunity for loss, theft, or fraud to take place.

#### *Risk Rating*



#### *Recommendation*

Where practical, we recommend that proper segregation of duties be implemented surrounding cash collection for rental and advertising revenue. The employee collecting the payments should be independent of the employee who enters the information into the accounting system. This segregation, along with the review processes recommended in Finding and Recommendation #9, will help to mitigate the risk of loss, theft, or fraud surrounding the collection and recording of revenue.

# 7 Payroll

## *28 Hiring Process*

The Commission does not have a formal hiring process in place when it comes to its hourly shift staff. It appears as though the General Manager is responsible for the majority of the hiring, although this process is not always followed.

For instance, KPMG observed staff members being hired by the Grounds Supervisor. The only notification of the employee being hired was a handwritten note given to the Office Manager containing the employee's personal information for payroll purposes.

There is a risk that the employee hired is not actually required as part of the business plan, or may not be the best person for the job.

### *Risk Rating*



### *Recommendation*

The Commission should implement a formal hiring process whereby the General Manager must authorize the hiring of hourly shift staff. This authorization should be documented by General Manager signing off on the employee's intake form.

## *29 Background Checks*

The Commission does not perform educational background checks or criminal checks on new employees hired for hourly shift work at the racetrack or on the grounds. By not performing these checks, the Commission is exposing itself to risk of loss, theft and also risks not hiring the best individual for the job. The risk of loss and theft is increased by the fact that there are not appropriate controls in place throughout the organization.

### *Risk Rating*



### *Recommendation*

Standards for hiring with a focus on doing background checks related to education and criminal history (in addition to confirming employment history) demonstrates an organization's commitment of competence, hiring trustworthy people, and establishing an environment with high integrity individuals. The Commission should expand its hiring process to include performing educational and criminal background in addition to confirming past employment.

### *30 Employee Data Review*

During the review of controls over the payroll process, KPMG noted that when a new employee is entered into the accounting system or changes are made, there is no independent review of the information or changes to ensure that the approved changes have been accurately entered into the payroll system. Without independent verification, there is a risk that information could be entered incorrectly.

### *Risk Rating*



### *Recommendation*

Whenever a new employee is added or employee information is changed, a supervisor independent from the payroll function should verify the employee's payroll records to ensure information has been entered correctly.

### *31 Payroll Segregation of Duties*

Our walkthrough of the Commission's payroll system identified that one employee is responsible for adding new employees to the payroll records, entering biweekly timesheets, preparing payroll cheques, and posting payroll expenses. Without segregation of duties or independent verification, there is a risk that payroll funds could be misappropriated.

### *Risk Rating*



### *Recommendation*

The formal review procedures noted in Finding and Recommendations #2 should include an individual independent of the maintenance of the payroll records be responsible for monitoring and reviewing the amount of payroll to be distributed. This review process could involve a biweekly report being printed off detailing the payroll amount for the two week period for each employee. This report, along with the supporting timesheets, would then be given to the General Manager to review and sign off on. Once reviewed, the payroll process could be completed by the Office Manager.

### *32 Direct Deposit Payroll*

The Commission does not offer direct deposit of payroll cheques into employee bank accounts. This is a service that was available in the past, but has since been eliminated due primarily to high employee turnover.

### *Risk Rating*



### *Recommendation*

The costs and time savings associated with the implementation of a direct deposit program can be significant. Therefore, we recommend that the Commission review the merits of the reimplementation their direct deposit program.

### *33 Payroll Remittances*

At the end of each month the Office Manager calculates the CPP and EI remittances manually by totalling the amounts indicated on individual pay stubs for the month. This process lacks any type of review and is very susceptible to human error. Also, the amount remitted is not reconciled back to the accounting records. As a result any under or over-payments may go unnoticed.

### *Risk Rating*



### *Recommendation*

The Office Manager should use the remittance report feature in their payroll system, which details the total CPP and EI to be remitted for the specified period. This report can be used as a method of verifying the amount calculated manually. The amount remitted should be reconciled to the accounting system. Difference between actual remitted and the amount recorded as payable should be reviewed to ensure proper compliance with Canada Revenue Agency (CRA) regulations.

## 8 HST

### *34 HST Collected*

We noted in our review that the HST treatment related to certain revenue transactions were not consistent with our understanding. For example, no HST is recorded for advertising revenue. We were not engaged to perform a HST/GST review however management should ensure they retain proper documentation to support HST/GST treatment of revenue streams. HST/GST rules can be complex and require specialized knowledge in making assessments.

#### *Risk Rating*



#### *Recommendation*

We recommend that the Commission periodically retain a HST/GST specialist to review the impact of changes to rules or when new sources of revenue are introduced to the Commission.

### *35 HST Input Tax Credits*

We noted that there is an opportunity to reduce the HST/GST remitted to the government. Currently HST/GST paid on goods or services incurred during the delivery of HST services are not being tracked in sufficient detail to easily allow the HST/GST portion of the expense to be identified and claimed on quarterly HST/GST remittances.

#### *Risk Rating*



#### *Recommendation*

We recommend that the Commission track their expenses more closely by ensuring that items purchased relating to the delivery of services or goods that result in collection of HST/GST can be identified so that an ITC can be claimed by the Commission, reducing their required remittance.

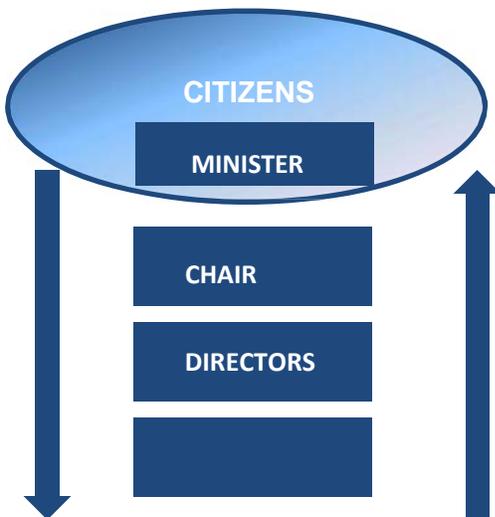
# Appendix D: Leading Practices in the Governance of Not-for-Profits

## 1. Recruitment and Appointment Process

- a. Recruiting good people to agencies through a *timely, transparent* and *competence-based* process will help increase public confidence in agencies and reinforce the governments confidence to good governance
- b. *Composition and Appointment of the Board*
  - i. Board of Directors should include a majority of individuals who qualify as *unrelated Directors*.
  - ii. Board of Directors should appoint a *committee* to support the Board in decision-making and governance arrangements.
  - iii. Board of Directors need to be engaged in the *selection of their chair and CEO*.
  - iv. *Orientation and Training* program for new recruits to the Board should be an integral element of the process of appointing new Directors.
  - v. Board of Directors together with the CEO, should *develop position descriptions* for the Board and CEO, including a definition of management's responsibilities.

## 2. Roles and Responsibilities

- a. Clear statements about Roles and Responsibilities are prerequisites to good governance.
- b. Successful governance requires defined lines of authority, responsibility and accountability.
- c. The diagram below represents a clear interpretation of governance and accountability.



**Council:** The legislative body accountable for the agency

**Chair:** The agency member who is appointed, designated or elected to preside over the agency

**Board of Directors:** The agency directors who, by the agency's constituting instrument, have been collectively assigned, designated etc. to direct the affairs of the agency

**Director:** The individual director, governor, trustee, member, etc who sits on the agency board

**CEO:** The senior staff person of an agency

- d. The agency should have the following clearly articulated roles and responsibilities through formalized documentation:

***Strategic Planning and Risk Management***

1. The Board
  - Sets the strategic direction and priorities,
  - Sets Board policies and management performance expectations,
  - Identifies and manages risk,
  - Monitors and evaluates organizational achievements in order to exercise its accountability to the agency and its stakeholders.
2. Management staff are led by the agency's CEO. They are:
  - Responsible for the day to day operational activities of the agency. They should work within the agency's strategic direction and within the parameters delegated by the Board.
  - Accountable to the Board, through the CEO, and as such must provide suitable reporting to enable the Board to effectively monitor their performance.
3. Board members need to ensure an appropriate and relevant 'risk aware' approach is in place

***Public Policy Objectives***

4. The agency should document and update their public policy objectives as well as undertake a periodic review to examine the continuing relevance of their mandate and legislative.

***Appointing Senior Management***

5. The Board should give due regard to succession planning, including appointing, training and monitoring senior management.
6. The Board should select the CEO which reinforces the CEO's accountability to the Board.

***Evaluate Management Performance***

7. The Board should periodically evaluate the CEO's position and performance.

***Frequent and Consistent Communications***

8. The Board is responsible to ensure that the agency communicates effectively with the staff, public and shareholder.

***Financial Management and Reporting***

9. The Board is responsible for the integrity of the agency's internal control and management information systems.

***Committees***

10. The Board should establish appropriate committees that support their oversight responsibilities. (e.g. audit committee –responsible for the oversight of financial controls, risk management and disclosure)

### 3. Clear Accountability Mechanisms and Effective Working Relationships

#### **Organizational Structure:**

1. Clear and unambiguous lines of reporting, accountability and responsibility, both within the organization and with its shareholder are critical to effective governance.

#### **Managing the Relationship with the Chair and Board:**

2. Managing the relationship with the Chair and Board is a critical element of effective governance.

#### **A Good and Clear working Relationship between the Chair of the Board & CEO:**

3. Need to ensure there is in place appropriate and robust reporting and information systems so that the CEO knows what the Board requires and the Board has confidence in what is being reported.
4. Create a culture that promotes candid communication and rigorous decision-making and supports the development of an effective working relationship between Board of Directors and Management.

#### **Relationships with External Stakeholders:**

5. The success of relationships that agencies develop with stakeholders is affected by the agency's reputation of integrity, openness and accountability.
6. Agencies need to ensure that they can explain and defend their decision-making and that they have clear procedures for dealing consistently and equitably with stakeholders.

### 4. Term of Office

- a. Agencies are best governed with a *mixture of seasoned Directors* who have served on the Board for several years and *new Directors* who bring a fresh perspective and commitment to their posts. This balance can be achieved by using *fixed terms of office* to limit the length of a Director's service on a Board.
- b. The fixed terms of office for the Directors may be *renewed based on performance*.
- c. Term limits should be clearly stated in the agency's enabling documents.

### 5. Code of Conduct and Ethics

- a. Agencies should have an appropriate code of conduct, including conflict of interest disclosure practices and safe disclosure practices, for all Directors and agency staff.
- b. Development and implementation of appropriate codes of conduct and ethics are essential elements of good agency governance.

### 6. Strong Leadership and Culture

- a. Strong leadership by heads of agencies and senior management is critical and influences virtually all elements of governance.
- b. Ethics is embedded in culture. Agencies can ensure an ethical culture by modeling desired behaviours, discussing difficult ethical issues, and ensuring consistency between rules and actual behaviours.

### 7. Evaluations

- a. Performance monitoring, reviews and evaluations are all essential tools for ensuring agencies regularly 'reality check' their governance systems and identify potential risks that could affect their ability to achieve outcomes.
- b. Agencies should have systems in place that allow ongoing monitoring of performance including evaluations related to Board and Director performance.

*Agency evaluations:*

- Assess how the agency is doing and determine whether or not it is achieving its mandate (review business plans, annual reports, performance measures).

*Board evaluations:*

- Assess the Board's relationship with the responsible minister and other relevant government individuals or officers.
- Assess the Board's understanding of the government's intended strategic direction for the corporation.

*Director evaluations:*

- Assess the Director's attendance record, preparedness and overall contribution.
- Assess effectiveness of the Chair.

## **8. Remuneration**

- a. Establish an appropriate, fair and transparent remuneration policy that attracts committed, diverse and talented people and realistically reflects the responsibilities and risks involved in carrying out Director's duties and staff duties.

## **9. Comprehensive Risk Management, Compliance and Assurance Systems**

- a. Agencies should recognize the importance of having flexible compliance, decision making and risk management systems to allow for changes in leadership, objectives, direction, resources and risk.

*Risk Management:*

- Key component of good agency governance.
- Underpins any agency's approach to achieving its objectives.
- Sound systems for risk oversight and management and internal control should be integrated into agency business planning process.

*Compliance and decision-making tools:*

- Introduce a range of tools and systems to enhance agency compliance and decision making process (include: guidelines, protocols, checklists etc.).
- Record keeping of procedures and protocols is essential to accountability.