RSM McGladrey

# Iron Range Resources

## Forensic Accounting and Risk Management Consulting Services for Ironworld Development Corporation

Prepared by RSM McGladrey

January 26, 2010

RSM McGladrey

January 26, 2010

RSM McGladrey, Inc.
801 Nicollet Ave., Ste. 1300
Minneapolis, MN 5402-2505
O 612.573.8750 F 612.376.9876
ww.rsmmcgladrey.com

Ms. Marianne Bouska
Director of Human Resources and Strategic Results
Iron Range Resources
P.O. Box 441, 4261 Highway 53S
Eveleth, MN 55734

Dear Marianne:

We have provided certain forensic accounting and risk management consulting services related to the financial oversight and management of Ironworld Development Corporation (IDC). Our services were performed during late December 2009 and early January 2010 in accordance with the terms of our proposal and the professional and technical services contract with the state of Minnesota.

- Executive Summary — an overview of the background of this engagement, the scope of procedures performed, and a summary of the key observations.
- Financial Review — an overview of financial activity and results as requested by Iron Range Resources with emphasis on revenue and expenditures.
- Observations and Recommendations — detail related to specific observations resulting from the scope of procedures performed. These observations are organized by the source of procedures performed as requested by Iron Range Resources. Management responses were not collected based on the current closure of the IDC facility and lack of on-site management to address items individually.

This report is intended solely for the information and use of management and the Board of Directors. It is not intended to be and should not be used by anyone other than these specified parties. The company's external auditors and regulators may be provided with a copy of this report in connection with fulfilling their respective responsibilities.

We appreciate the cooperation extended to us during this engagement and are pleased to be of service to Iron Range Resources. If you have any questions concerning this report, please contact Ryan Verstraete at 612-376-9245.

Sincerely,

Ryan W Verstraete

Ryan Verstraete
Director, Risk Management Services

# Executive Summary

## Background

Without advance notice, on Monday, November 16, 2009, Iron Range Resources was informed that the Ironworld Development Corporation (IDC), a nonprofit under contract with Iron Range Resources to operate and manage its Ironworld facilities and properties in Chisholm, Minnesota, was in financial crisis. Due to negative cash flow, IDC was unable to meet its next payroll or continue operating beyond November 20, 2009. The financial records had not been updated since August, due in part to the accountant's leave of absence scheduled from September to early December 2009.

Iron Range Resources contracted with RSM McGladrey for forensic accounting and risk management consulting services to review records and interview certain individuals to determine what conditions led to the financial crisis and to ascertain whether or not fraud or misallocation of funds had occurred based upon the agreed-upon scope of procedures to be performed.

## Engagement Objectives

The primary objective of the procedures performed was to determine what circumstances led to the financial crisis and whether fraud or misallocation of a significant nature had occurred based upon the scope of the procedures we were engaged to perform. In addition, Iron Range Resources asked for a detailed list of observations and recommendations resulting from the procedures performed.

## Project Scope

RSM McGladrey, Inc. completed a limited evaluation of financial records and interviewed individuals with the intent of assessing whether fraud or misallocation of a significant nature had occurred. In addition, we were asked to evaluate IDC's governance processes and internal controls related to accounts deemed to be significant by Iron Range Resources. The engagement began in December 2009 and concluded in January 2010.

To accomplish the evaluation, the following procedures were performed as outlined in our proposal and based on additional instruction from Iron Range Resources as the engagement progressed:

- Calculated a materiality figure based on fiscal year-end June 30, 2009, financials in the amount of $42,000 for purposes of focusing on more significant accounts/processes in our evaluation.

- Conducted an analysis of trial balance activity from the fiscal year ended June 30, 2009, and through the current fiscal year up to November 30, 2009, to determine the significant accounts from a quantitative and qualitative basis (i.e., accounts more susceptible to fraud or requiring higher use of judgment or estimates). Final selection of in-scope accounts was determined with input from Iron Range Resources.

- Conducted walk-throughs of each of the in-scope accounts to further understand business processes, internal controls, and related documentation kept by IDC. Documented policies and procedures were also evaluated, if applicable.

- Performed an analysis/review of bank account activity from the fiscal year ended June 30, 2009, and through the current fiscal year up to November 30, 2009, to determine whether any significant unusual payments without supporting documentation existed.

- Performed an analysis of payroll and vendor master file data to determine whether matches in tax identification or address information occurred that might raise the potential for fraud and require additional investigation.

 

- Performed an analysis of spend by vendor to determine whether a pattern of smaller payments cumulated into a significant payout that may require additional investigation.

- Reviewed Board meeting minutes to determine the tone and structure of the organization from the top, including governance processes.

- Conducted interviews with the Board Chair, Board Treasurer and the accountant related to the analyses and review procedures performed.

- Performed an entity-level assessment of the organization based on the COSO internal control framework, widely recognized as the definitive standard against which organizations measure the effectiveness of their systems of internal control.

It should be recognized that controls are designed to provide reasonable, but not absolute, assurance that errors and irregularities will not occur, and that procedures are performed in accordance with management's intentions. There are inherent limitations that should be recognized in considering the potential design effectiveness of any system of controls. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes in judgment, carelessness or other personal factors. Control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions, or with respect to the estimates and judgments required in the processing of data.

Further, the projection of any design evaluation of controls to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, and that the degree of compliance with procedures may deteriorate.

## Key Observations

During the course of our work, we discussed our findings with management. Our detailed findings and recommendations for improving governance processes, internal controls and certain aspects of operations are described in the detailed issue matrix of this report. A summary of the key observations resulting from our limited review follows:

- While our limited procedures did not reveal any instances of fraud, the fraud risk profile of the organization is elevated due to a lack of segregation of duties in the initiation, authorization, accounting and recording, and independent reconciliation and monitoring of key transactions combined with limited visibility of financial performance information to key stakeholders of the organization.

- The organization spent more than it received in revenues for the past two and a half years based on audited financial statements for the fiscal years ended June 30, 2008, and June 30, 2009, and based on trial balance information from July 1, 2009, through November 30, 2009. While the organization was running out of cash, documentation of the severity of the issue was lacking in Board minutes, and there was no evidence indicating that the financial situation was escalated to Iron Range Resources in a timely manner.

- Board minutes reflect a focus on operational issues at IDC and fund-raising concerns. However, there was no evidence supporting follow-through for efforts to enhance the organization's receipt of contributions. In addition, there was little evidence of a detailed review of the financial health of the organization. Proposals for more significant expenditures were approved on a regular basis with no evidence of a cost/benefit analysis or return on investment and no total cost summary for decisions made versus the organization's budget or capability to afford the expenditures.

- For all business processes related to the in-scope accounts reviewed, internal control design issues were identified. In general, formalized policies and procedures do not exist or should be enhanced, independent review of account reconciliations was lacking, and supporting documentation for transactions should be enhanced.

We discussed recommendations for these key observations with Iron Range Resources and provided a more detailed list of observations and recommendations for management to consider in improving governance and internal control processes at IDC. IDC will prioritize the issues to be addressed. We are available for further consultation if requested.

## Financial Review

| | FY Ended 06/30/2008 [1] | FY Ended 06/30/2009 [1] | Current FY up to 11/30/2009 [2] |
|---|---|---|---|
| Grant Revenue | 1,674,035 | 2,353,343 | 1,217,953 |
| Other Contributions | 19,467 | 1,340 | 821 |
| Admissions Revenue | 134,644 | 81,363 | 60,261 |
| Memberships Revenue | 9,535 | 9,990 | 6,435 |
| Rental Income | 33,830 | 38,481 | 16,018 |
| Interest Income | 670,789 | 396,997 | 3,588 |
| Event Income | 12,493 | 47,097 | 15,387 |
| Other Revenue | 19,742 | 27,345 | 576 |
| Net Sales from Restaurant and Museum Store[3] | 17,872 | 80,745 | 33,274 |
| Museum and Research Expense | 846,176 | 842,302 | Data not available |
| Visitor Services Expense | 805,074 | 617,167 | Data not available |
| Buildings and Grounds Expense | 938,045 | 868,386 | Data not available |
| Management and General Expense | 224,059 | 172,162 | Data not available |
| Fund-Raising Expense | 22,338 | 100,476 | Data not available |
| Total Expenses | 2,835,692 | 2,600,493 | 1,094,570[4] |
| Purchase of Capital Assets | 369,538 | 996,713 | 234,989 |
| Spend in excess of revenues | 612,823 | 560,505 | Excess revenue: 24,754[6] |
| Net Cash Provided by Operating Activities | 10,230,228 Includes $10 million endowment | 794,519 | Data not available |
| Net Cash Used in Investing Activities | (10,434,998) Includes $10 million endowment | (996,713) | Data not available |
| Net Cash Provided by Financing Activities | 0 | 200,000[5] | 200,000 loan repaid[5] |
| Ending Cash Balance | 155,531 | 153,337 | (23,465) |
| Net Property and Equipment | 389,874 | 1,349,852 [7] | 1,584,842 [7] |

[1]Financial data was obtained from the audited financials for the FY ended June 30, 2008, and June 30, 2009.

 

[2]Financial data for the current FY up to November 30, 2009, was obtained from the system trial balance. These numbers are not audited and only represent five months of operations.
[3]Net sales does not include the cost of payroll, utilities and other general expenses that may apply to operating the restaurant and the museum store.
[4]As of November 30, 2009, IDC was at a similar expenditure burn rate as the previous year ended June 30, 2009.
[5]A short-term loan was taken by the organization to fund the remainder of fiscal year 2009 operations prior to receipt of annual grant revenue in July 2009 from Iron Range Resources.
[6]The excess revenue shown for the current fiscal year as of November 30, 2009, does not take into account the short-term loan that was repaid in fiscal year 2010. See footnote five.
[7]Net property and equipment consists primarily of leasehold improvements.

The audited balance sheets and cash flows statements for fiscal years ended June 30, 2008, and June 30, 2009, reflect the purchase of capital assets and corresponding increases in net property and equipment. Regardless of the capital asset purchases, which decrease the cash balance, the organization appears to have spent more than it received in revenues for day-to-day operations.

A short-term loan was originated before the year ended June 30, 2009, to cover cash needs until more grant revenue was received. This resulted in a positive cash balance at year-end June 30, 2009, when there would have been a cash shortfall. Capital asset purchases continued to rise during the first half of fiscal year 2010. From our review, we understand much of this was out of necessity due to the failure of the organization's boiler system. The combined purchasing of capital assets and net operating losses of day-to-day operations drained the organization of operating capital.

The permanently restricted endowment decreased in value for the fiscal year ended June 30, 2008, by $953,600 and for the fiscal year ended June 30, 2009, by $2,695,285. The intent of this endowment was to provide revenues for ongoing operations. The decrease in the value of the endowment also impacts the revenues of the organization.

## Observations and Recommendations

| Observation | Recommendation |
|---|---|
| **Source: Board Minutes Review and Interviews** | |
| Board Governance<br>In interviews with the Board Chair and Board Treasurer, there were different viewpoints on the diligence of the financial statement review. Both believed there was sufficient business acumen amongst the 15-member Board, but that they provide more strategic direction than financial expertise. The accountant was rarely involved in Board meetings, and both Board members believed having more direct contact with the accountant on a periodic basis is well advised. Both believed the CEO should have brought the detrimental financial position into focus more quickly and clearly. | We recommend:<br>• A subgroup of the overall Board be charged with more sophisticated governance-related responsibilities, including more stringent review of financial data, more organization oversight of business matters, assessment of internal controls, and a focus on asking the "right" questions. Generally speaking, a healthy tension between the Board and management indicates the presence of good governance. A copy of the AICPA's Audit Committee toolkit (guidance) was provided to Iron Range Resources. This guide provides several questionnaires and other tools to help an organization assess its governance processes. We are available for further consultation on Board oversight and governance processes, if requested.<br>• The full volunteer Board can and should continue to focus on fund-raising opportunities, exhibits, events, volunteer activities, etc.<br>• Iron Range Resources and/or the Board may want to consider periodic "private sessions" with the external auditor and accountant. These types of meetings can provide "failsafe" channels of communication and promote improved "tone at the top." |

 

| Observation | Recommendation |
| --- | --- |
| Board Review of Audit Findings<br>Management letter comments were gathered from the accountant in order to review previous audit findings. In other areas of our review, we found instances of control issues that should be addressed that agreed with the external auditor's management letter. There is no evidence of review and discussion by the Board for these internal control–related issues. | We recommend:<br>• Periodic meetings between the Finance Committee or other subgroup of the Board charged with governance and the accountant/external auditor (quarterly/annually). This meeting may be part of a larger governance meeting. CEO participation is expected.<br>• A process be established and communicated to all officers and employees that provides for communication of suspected instances of wrongdoing by the entity or employees of the entity. This process should also ensure that anyone making such a report is protected from retaliation for making such a report. |
| Board Reporting to Iron Range Resources<br>It does not appear that Iron Range Resources was contacted in February regarding significant fund-raising concerns raised at the Board meeting. In addition, the special meeting called for during the Board meeting was never followed up on and never occurred per validation with the Board Chair, Board Treasurer, accountant and executive assistant. In addition, there is little evidence of follow-up in the March Board meeting minutes. The March Board meeting attendance included only eight of 15 Board members. There appears to be a breakdown in communication with Iron Range Resources and a lack of follow-through by the CEO and volunteer Board members to take action on financial concerns. | We recommend Iron Range Resources be provided a quarterly report highlighting financial status, wins/losses in grant applications, and significant expenditures (both capital and operating), particularly as they apply to ongoing maintenance costs and capital needs of the facilities which are rented from the State. |

 

| Observation | Recommendation |
|---|---|
| **Financial Reporting and Budgeting by Department, Exhibit, Program, etc.**<br>Through discussion with the Board Chair and Board Treasurer, it was noted that detailed financial analysis is not provided to the Board. The Board Chair would like to see more profit/loss by department, exhibit, program, etc. The presentation for a POS system was probably one of the most detailed cost/benefit-informed decisions the Board has made. Examples of more uninformed decisions (validated by the Board Chair and Board Treasurer) include: museum accreditation, new hires, name/logo change, and touch screen panel purchase. A separate observation and recommendation for a formal purchasing approval process is included in the Significant Accounts Process Controls section of this report. | We recommend:<br>• Revenue/expense budgeting and reporting by department, exhibit, program, etc. be provided by the accountant to the CEO and included as part of a Board packet for monthly meetings.<br>• Post mortem analysis and recommendations for future projects should be performed and documented to help the organization improve its run rate and make more informed decisions in the future.<br>• A greater focus on budgeting (both annual and by department/exhibit/event) and sustainability of certain aspects of the organization needs to occur. |
| **Board Review of Expenditures**<br>A touch screen panel was purchased for $10,000 at a time when cash flow was under duress and loans were being secured to ensure enough operating capital was available to pay bills until the next grant was received. This appears to be a breakdown in management and Board oversight. While the Board approved the expenditure, the Board Chair and Board Treasurer believe the Board was placing reliance on the CEO that the business was being properly managed. | See governance-related recommendations above. |
| **Board Monitoring of Fund-Raising Progress**<br>It was observed through review of meeting minutes and discussions with the Board Chair and Board Treasurer that concerns and ideas for fund-raising are regularly discussed at monthly Board meetings. However, there was little progress made and little accountability for follow-up, even when funding needs became dire. | We recommend a fund-raising monitoring dashboard be created and reviewed at each Board meeting. The dashboard would include volunteers assigned to particular tasks and a roundtable review of progress each month. For those Board members unable to attend in person, follow-up calls should be made. Through peer-to-peer review of follow-through, this may improve progress in fund-raising. If progress is not made by particular Board members for an extended period of time, the Board Chair or CEO should discuss other ways the Board member may better serve the organization. |

 

<table>
<tr><th>Observation</th><th>Recommendation</th></tr>
<tr><td>Defined Board Agendas<br>Through review of the Board minutes, it was observed that the Board meetings spent a majority of time discussing operational issues. The necessity of having the Board weigh in on the details of day-to-day management of the organization was discussed with the Board Chair and Board Treasurer (e.g., HR policies, employee matters, internal meetings, etc.). Both agreed there was probably too much focus on these items.</td><td>We recommend the Board and CEO define Board agenda topics to be covered and prioritize matters that most impact the organization (i.e., fund-raising, exhibits and events serving the mission of the organization and the community, volunteer opportunities, and financial matters).</td></tr>
<tr><td>Board Meeting Documentation<br>In review of the Board meeting minutes, details of the extent of financial review and details of who presented are inadequately documented. Some examples:<ul><li>The Board Chair and Board Treasurer indicated the external auditor presents their findings after the conclusion of the audit, typically in August each year. However, the meeting minutes did not indicate a presentation had been provided by the external auditor or that the results of the audit and financial position of the organization had been discussed.</li><li>The Board Chair and Board Treasurer indicated the Board questioned the staffing model, hiring decisions, “rightsizing” of departments, and sustainability of certain operations, such as food service. There is little evidence in the Board meeting minutes supporting these discussions.</li></ul></td><td>We recommend Board meeting minutes provide more thorough documentation of analysis and discussion, particularly related to financial oversight and overall governance matters.</td></tr>
<tr><td>Risk Assessment and Monitoring of Internal Controls<br>In review of the Board meeting minutes, there is no mention of internal controls or the evaluation of internal controls over financial reporting, operations or technology. In addition, the majority of the external auditors’ management letter comments were outstanding from the fiscal year ended June 30, 2008, through the fiscal year ended June 30, 2009. A formal process for identifying and analyzing risks facing the organization has not been performed.</td><td>Management and the Board should consider whether a risk assessment and internal control assessment program makes sense for the organization. Based on the observations noted throughout this report, an assessment and some form of periodic testing of the internal control structure should be considered, including follow-up on corrective action for more significant concerns. Management and the Board should be provided reporting on the internal control structure and monitor its performance.</td></tr>
</table>

| Observation | Recommendation |
| --- | --- |
| Evaluation of Vendor Expenditures<br>In review of the Board meeting minutes, we noted that one grant in the amount of $4,000 was awarded to the organization. We also noted that the Board approved a $25,000 payment to a vendor that provides grant application writing assistance. In follow-up with the accountant, the $4,000 grant award was applied for by a group of employees. There have been no grant awards for applications written by the vendor, and it is unclear how many grant applications the vendor has provided assistance for. | We recommend the cost/benefit of utilizing the grant-writing vendor be evaluated. A $25,000 fee is paid to the vendor for grant application writing assistance, but no grants have been awarded to the organization to date. |
| Hiring Practices<br>In review of the Board meeting minutes, we noted that an open position was filled without public advertisement. In follow-up with the accountant, we learned the position was awarded to a friend of the former CEO with a unique compensation and benefits setup. When discussed with the Board Chair and Board Treasurer, they had not considered the potential risks of not advertising open positions. During this conversation, both Board members also expressed dissatisfaction in the performance of the development department overall. | We recommend:<br>• All open positions should be advertised to avoid potential or the appearance of potential hiring practices that violate Equal Employment Opportunity Act (EEOA) provisions.<br>• The fairness of the compensation and benefits setup should be evaluated by management and the Board.<br>• The overall cost/benefit of the development department should be revisited. |
| **Source: Significant Accounts Process Controls** | |
| Accounting System Segregation of Duties<br>Based on our walk-through, segregation of duties with respect to accounting system access cannot be achieved because only one person performs all accounting duties. | We recommend that an employee in the CEO role be granted “view only” access to monitor system transactions, manual journal entries, and reports to ensure information is accurate and comprehensive. |
| Segregation of Duties Over Accounts Payable Processing<br>Based on our walk-through, we noted that although the CEO normally signs checks and check signing authority is limited to the CEO, Board Chair and Board Treasurer, the accountant is in control of the check stock, enters invoices in QuickBooks, prints checks for payment and mails the checks. | We recommend the check stock be independently controlled by the CEO or executive assistant. This would promote visibility to check runs and independent review of outbound checks. |

| Observation | Recommendation |
| --- | --- |
| Check Review Process<br>Based on our walk-through, checks with supporting payment documentation are provided to the CEO (currently Board Chair) for review and signature. The check register listing all checks run in the batch is not included. | We recommend a check register listing all the checks run in the batch be included as a part of the check signor's review. This will ensure that all checks printed are reviewed and signed and that the checks are in sequential order. |
| Bank Account Reconciliation Independent Review<br>Based on our walk-through, bank account reconciliations are being performed on a monthly basis by the accountant. Per interview with the accountant, an independent review has not been performed since May. | We recommend that an independent review be implemented for the bank account reconciliations to ensure that the bank account activity is appropriate and that the general ledger ties to the bank statement. The independent review would preferably be performed by someone on staff such as the CEO (best overall understanding of business activity), unless another staff person with accounting or finance experience can be identified. Review by the volunteer Board is also an alternative. |
| Supporting Documentation for Payments<br>Documentation for the short-term loan repayment completed in July 2009 was reviewed on site during our walk-through. There was a lack of supporting documentation for the check repayment. A call was placed to the bank to determine the amount of interest outstanding in order to pay the loan principal and interest in full. | We recommend that all payments have invoices or other external documentation to support the transaction. |
| Formal Purchasing Approval Process<br>Based on our walk-through, a purchasing process is not in place whereby approval of purchases is formally documented and subsequently matched to the related invoice. | We recommend a purchase order process be implemented whereby purchases are approved by authorized individuals before the organization is committed to payment upon receipt of an invoice. This can also help with expenditure tracking on larger events and purchases and ultimately provide better budget tracking by department, project, exhibit, etc. |

| Observation | Recommendation |
| --- | --- |
| Capitalization Policy<br>Based on our walk-through and interview with the accountant, clear guidelines for when assets should be capitalized have not been communicated by upper management to the accountant. This has also been noted by the external auditors in the management letter comments for at least the past two years. | We recommend a capitalization policy be implemented to provide clear guidelines for items that should be capitalized as well as the useful lives that should be assigned to the capitalized asset. |
| Capital Expenditure Request Form<br>A capital expenditure request form is not consistently used by employees to document the bid process and management approval for the expenditure. | We recommend a capital expenditure request form be utilized for capital expenditures in order to track the approval of the expenditure as well as the bids received for the item. These guidelines can be set in the capitalization policy recommended above. |
| Review of Accounting for Repairs<br>Heating repairs were performed after July 2009 while the accountant was out on leave. Based on interview with the accountant, the accounting for a new boiler system needs to be reviewed to ensure funds (grants for capital versus operating expenses) were properly applied and recorded. | Due to the timing and significance of the heating repairs, we recommend the accounting be retroactively reviewed to ensure proper classification and presentation in the financials. |
| Leasehold Improvements Schedule<br>Leasehold improvements have been significant to the organization for the past two years. Based on our walk-through, a schedule of leasehold improvements is not maintained. This does not allow management to conduct an analysis of capital spending by department or to compare to the budget. | We recommend leasehold improvements be listed in a separate schedule in order to track the types of capital expenditures incurred. This will allow management to have better visibility of capital expenditures and conduct analysis by department and compare actual expenditures to budget. |
| Leasehold Improvements Reconciliation<br>A reconciliation of leasehold improvements and subsequent review is currently not performed to ensure the account is stated accurately. This activity is only performed at year-end by the auditors. | Because leasehold improvements activity has been significant in the past two years, we recommend a reconciliation/review of leasehold improvements be performed and independently reviewed periodically to ensure all related capital expenditures are properly capitalized and recorded in the correct period for the correct amount in the proper account classification. |

| Observation | Recommendation |
| --- | --- |
| Recording of Depreciation on Leasehold Improvements<br>At year-end, the auditors review fixed asset accounts and calculate the related depreciation for the year. The accountant then makes the adjusting entry to record depreciation. | We recommend depreciation expense on leasehold improvements be recorded monthly versus as a year-end adjustment. |
| Review of Grant Spending by Management/Board<br>Based on our walk-through, the accountant tracks expenditures for the applicable grants; however, these reports are not utilized by upper management for review of grant spending and remaining funds. | We recommend an independent review of grant spending be performed periodically to ensure funds are used in accordance with the grant and that spending is within the amount of funds remaining in the grant. |
| Guidance for Endowment Fund Adjustments<br>Based on our walk-through, clear guidance is not in place for journal entries to be made for marking the endowment fund to market value, including the frequency of such adjustments. | We recommend more detailed guidance be established for adjusting the endowment value throughout the year based on market value, including accounting treatment and frequency of adjustments to be made. |
| Permanently Restricted Endowment Reconciliation<br>Based on our walk-through, a reconciliation and independent review of the Permanently Restricted Endowment account is currently not performed. | We recommend a reconciliation/review of the Permanently Restricted Endowment account be performed periodically and independently reviewed to ensure the account ties to the fund statements that are received throughout the year. |
| Capital Account Reconciliations<br>A reconciliation and independent review of the Unrestricted, Temporarily Restricted and Permanently Restricted Capital accounts is currently not performed. The accounts are reviewed at year-end by the auditors. (Note: The Temporarily Restricted account was out of scope, but was discussed by the accountant as a part of the capital account process.) | We recommend a periodic reconciliation/review of the Unrestricted, Temporarily Restricted and Permanently Restricted Capital accounts be performed and independently reviewed to ensure all funds are properly categorized based on the use of the fund. |
| Prepaid Expense Account Reconciliation<br>Based on our walk-through and interview with the accountant, the prepaid expense account is only reviewed annually during the year-end audit for accuracy and completeness. | We recommend a periodic reconciliation/review of the prepaid expense account be performed and independently reviewed to ensure all applicable prepaid expenses are accounted for and being recorded in the proper period. |

| Observation | Recommendation |
| --- | --- |
| **Source: Vendor Master File Review** | |
| Vendor Master File Review<br>Overall, we consider the vendor master file for IDC to be extensive given the revenues of similarly sized organizations. Adequate purchasing controls are not in place, which can be a root cause for vendor master file growth. In addition, the combination of poor purchasing and vendor master file controls combined with inadequate financial performance monitoring raises the risk profile of the organization. | In addition to the formalization of a controlled purchasing process, we recommend improved vendor master file controls be put in place and that a vendor master file cleanup process take place. Specifically, we recommend:<br><br>• A person independent of QuickBooks update access review changes to the vendor master file periodically for propriety. For example, a query report of changes in the vendor master file could be run monthly and reviewed by the CEO or other employee without access to QuickBooks. Awareness of new vendors and changes of address are helpful in assessing suspicious activity.<br>• Stale and nonexistent vendor businesses should be deactivated and/or removed from the vendor master file.<br>• Any duplicates should be consolidated. |

| Observation | Recommendation |
| --- | --- |
| **Other Observations** | |
| Operational Efficiency Analysis<br>During interviews with the Board Chair, Board Treasurer and accountant, it was noted that during the off season, consisting primarily of the winter, visitors are lacking while hours of operation and staff levels remain fairly consistent. In addition, the number of positions, organization hierarchy, mix of part-time/full-time staff, and the size of the kitchen menu were identified as potential areas for cost containment. | We recommend that an analysis be performed to determine the optimal hours of operation and staffing levels throughout the year in order to maximize operational efficiencies of the organization. Other areas for cost containment should also be analyzed to determine whether costs/benefits are appropriate given the organization's source of funds and budgeted expenditures. |
| IT General Controls Review<br>IT process and controls were not in scope for the engagement. However, during interviews we learned that the IT function is outsourced. Through other client engagements with this same setup, we have noted that issues can arise relating to a lack of internal personnel taking ownership over IT-related controls, such as access to servers, monitoring of third-party changes, data backup and retention, administrator activity reviews, active directory settings and user access reviews. | We recommend periodic review of IT controls be performed and any issues identified be addressed. |

 