

December 10, 2015

PNE Internal Controls Audit

Background

The Pacific National Exhibition (PNE) is a non-profit organization that has hosted Vancouver's annual summer Fair for over 100 years and provides family friendly attractions year-round. The PNE continues to evolve each year by offering a diverse portfolio of events and improving the long term environmental sustainability of operations.

PNE is owned by the City of Vancouver and governed by a Board of Directors comprising of elected officials, community leaders and senior management members from the City and Park Board. PNE manages the 165-acre Hastings Park on behalf of the City and operates four activity streams:

- the annual 15-day summer Fair;
- Playland amusement park;
- year-round rental of facilities; and
- maintenance of the park grounds and facilities.

All net proceeds from the above activities are invested back into Hastings Park facilities and outdoor spaces. In 2014, the PNE generated \$45.9M in total revenue and \$45.5M in expenses, resulting in a positive net income of \$402,598¹. The PNE's annual Fair accounts for approximately 50% of revenue, while Playland (including Fright Nights) accounts for about 25%. Year-round events contribute to the remaining 25%, such as concerts, sporting events, and community events.

2010 PNE Master Plan

In December 2010, City Council approved the Hasting Park / PNE Master Plan. The objectives of the plan are to transform Hastings Park into a greener, year-round destination for park use, cultural, and recreational activities. Since the Master Plan was approved, multiple areas within Hastings Park have become renewed spaces, including the Empire Field, Italian garden and playground, Momiji gardens, the Sanctuary pond, and a skate park.

Change in registered charity status

In July 2014, the Canada Revenue Agency (CRA) revoked PNE's status as a registered charity. Without charity status, the PNE does not qualify for special GST reporting where only 60% of GST collected is remitted to CRA. Additionally, donation receipts cannot be issued. Based on discussion with management, the estimated impact of the change in GST reporting will result in an annual reduction of net income by \$250K.

¹: PNE 2014 Annual Report.

Through the PNE's discussions with the Charities Directorate, they have determined that the PNE's charitable status should not have been originally granted in 1977. As such, the Charities Directorate is recommending an annulment of the PNE's charity status. The PNE's Board of Directors has subsequently accepted this direction, and PNE staff will finalize the activities required for annulment of charitable status.

Scope

The audit objective was to provide reasonable independent assurance that the existing internal controls supporting the PNE's established business objectives are adequate and effective. Our work included review of:

- Hiring practices;
- Cash & credit card handling;
- Information Technology;
- Business Continuity and Risk Management;
- Equipment training and maintenance;
- Financial processes;
- Procurement; and
- Sustainability practices.

Conclusion

There is potential for improved internal control over business processes and additional risk mitigation in the following areas: business continuity planning and risk management, background checks for cash and credit card handling staff, formalization of procurement practices, and other operational controls noted in this report.

Findings and recommendations have been discussed with appropriate management and they have committed to address the issues.

The more significant findings and recommendations are:

Formalize a business continuity plan and risk management process

Business continuity planning and risk assessment processes are important elements of managing risk. There is opportunity to implement an overall business continuity plan and formalized risk assessment at PNE. Other components of emergency planning have already been implemented, such as an emergency evacuation plan and IT disaster recovery plan. Management has committed to developing a business continuity plan and a formalized risk assessment with mitigating actions plans.

Conduct background checks for cash and credit card handling staff

Background checks for positions with significant cash handling duties are an effective control measure for protecting monetary assets. While background checks are regularly conducted at PNE for exempt and permanent positions, background checks for positions with significant cash and credit card handling duties were not performed. Management has committed to conducting background checks for new and returning staff with significant cash and credit card handling duties.

Formalize a procurement policy

Best practices recommend having a formalized procurement policy and invoice signing authority limits. Management has committed to formalize a procurement policy and establish signing authority limits to further strengthen the current foundation of procurement controls.