

ROSE BOWL RIDERS
Internal Audit Report
January 1, 2023 - December 31, 2023
April 9, 2024

Submitted by Morgan Schwartz (Treasurer), Lisa Grabow (Vice President),
Christian Koziol (Director at Large), Diane Bergman and Priscilla Benson

In response to a request by Rose Bowl Riders (RBR) membership, the RBR finance committee was appointed by the board of directors to conduct an internal audit. The finance committee was composed of executive members of the RBR board and RBR volunteers.

Each financial category was reviewed in detail by a member of the finance committee. Recommendations pertaining to this investigation may be found below. In summary, the audit committee did not find any evidence of fraud. Additionally, even though bylaws and guidelines were not consistently followed, all the expenses incurred by RBR were board approved.

Summary of Findings

In conducting this audit, the committee identified several irregularities that contributed to discrepancies between financial projections and reported outcomes. The board approved a 2023 budget that projected a \$15k loss to cover unpaid items from 2022. In addition, board minutes demonstrated an early awareness of a decline in membership income and of cost overruns. Knowing they were entering the year with a projected loss and could be facing other financial difficulties, the board should have implemented extensive cost-cutting as well as income-producing endeavors – including raising membership and board fees and the facility fee paid by Myrtle Hill Farms – at the *beginning* of 2023 to maintain a balanced budget. As a result of not taking early action, RBR accrued an additional \$65k in expenses that were unbudgeted in addition to the projected \$15k loss for a variety of reasons.

To start, several large 2022 expenses were booked in 2023. This impacted 2023 finances twofold: 1) 2022 finances were mistakenly portrayed as not running a loss and, 2) 2023 finances started the year with over \$27k in expenses from the previous year. These 2022 expenses, which include \$15,000 for rent, \$7200 for water, \$8,100 for feed, and \$1,450 for manure disposal, were normal 2022 operational expenses whose liabilities should have been booked in 2022.

A significant contribution to the deficit was the increased and unbudgeted costs of labor for arena and road maintenance which was charged at two to three times standard hourly rates. The BOD should have stopped this excessive billing early in the year and found a provider who would bill at standard rates. Overall expenses for arenas and roads went up approximately \$40,000 to \$81,000 from 2022 to 2023 and there were no determinable efforts to offset this loss.

Other notable overages to budget were equipment repair, the leasing of equipment, the public benefit lesson charge, rodent control, electrical repairs, arena leveling and workers comp. While there is not an official policy regarding acquiring multiple bids, there is a proposed methodology

for the board to follow. The committee did not find sufficient evidence, such as: records of competing bids; seeking volunteer assistance; board meeting discussion and approvals; or other supporting documentation that would definitively demonstrate the business need of incurring expenses at this level, especially in light of the magnitude of the running deficit.

Recommendations

Internal Controls

- The finance committee recommends that audits be performed at least every two years to ensure the fidelity of the budget and organization overall.
- The board needs to more closely follow the existing Conflict of Interest policy and avoid even the appearance of conflict, especially in regards to contract negotiations and contractor hiring and management.
- Bids should be required for any labor or labor+material projects expected to cost over \$1000. Additionally, a standardized reporting system for bids should be implemented such that the final decision is clearly documented.
- Every single board member should review the financial statements prior to board meetings in order to understand any expense overages, losses and trends that might negatively impact the health of the organization.
- The audit committee recommends the fees collected from third party operators be adjusted annually to reflect increases in operation costs.
- Initialed and dated receipts should be collected and retained for major deliveries such as feed or sand.

Communication

- Monthly financial reports should be posted in Wild Apricot along with the minutes.
- The board meetings should be focused on the business of the organization. In order to allow the board to more closely concentrate on the essential business of RBR, we recommend that public comment be limited to 2 minutes a person.
- Accurate and contemporaneous membership numbers should be regularly reported in board meetings and recorded in the financials to maintain visibility and maintain accurate estimates of revenue.

Bookkeeping

- Improvements should be made to bookkeeping practices to ensure all necessary financial data is available from a single source (Quickbooks). This change will facilitate the efforts of future audits and reduce the amount of time that is spent retrieving data.
- Invoices/receipts should always be attached to their entry in quickbooks.
- Expenses should be split when possible into their respective line items even when all line items fall within the same account category.
- Descriptions need to be more specific and should be written such that someone not involved with daily finances can understand the line item.

Events

- Over the course of a year, events should be conducted within budget, taking into account both income and expenses.
- The bookkeeping descriptions of expenses and revenues associated with the horse shows should be more specific in order to improve future budgeting ability, e.g. separate lunch revenue from registration.
- RBR should invest in a book of course designs and jumps to reduce expenses for shows.
- Record keeping for shows should be standardized to generate a final report for each show that is kept in a location available to the board.

Feed

- Feed costs should be charged and booked in the month in which they occur.
- A surcharge should be charged for horses who eat timothy hay to reflect the increased cost.
- Boarder hay rates should be updated more regularly, e.g., quarterly, to more accurately reflect changes in price and ensure reasonable passthrough of feed costs
- Hay deliveries should be verified and signed off by the barn manager.

Contractors

- Before hiring a contractor for routine work at RBR, the board should collect information about standard rates for this type of work or collect bids from no fewer than three competing contractors. The decision to hire a particular contractor should be documented with this additional information.
- Conflicts of interest need to be managed with regards to board members overseeing and interacting with contractors.
- For larger projects, the board should collect a proposal for the work that will serve as a point of comparison when the final invoice is received.
- For contractors who use RBR equipment, their rate should be negotiated to reflect their reduced overhead as a result of using RBR equipment.
- Billing should be negotiated on half or quarter hour increments in advance.
- Time required for a given job should either be audited or estimated in advance to prevent overbilling.
- Contractors providing ongoing work should be paid at an hourly rate equal to the typical wage that would be paid to an employee for that work.
- For routine property work, the board should provide a written schedule with expectations. Any deviations from the schedule should require approval from at least one board member.

Wages/Payroll

- Employee hours should be tracked and logged in a secure manner and on a consistent basis.
- Communications should redact any sensitive information whenever inclusion of such sensitive information is not essential to the communication.