



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

October 20, 2005

Honorable Ron Littlefield
Mayor, City of Chattanooga
City Hall
Chattanooga, TN 37402

RE: Civic Facilities, Audit 05-01

Dear Mayor Littlefield:

Attached is the Internal Audit Department's report on the Civic Facilities. You may note that the report is based on field work that ended in February 2005, when the Civic Facilities were under the direction of the Parks, Recreation, Arts and Culture Department. It should be noted that the Civic Facilities are now under the direction of the new Department of Education, Arts and Culture.

The new Administrator of Education, Arts, and Culture has already taken positive actions in response to our recommendations. We thank the management and staff of the Civic Facilities for their cooperation and assistance during this audit.

Very truly yours,

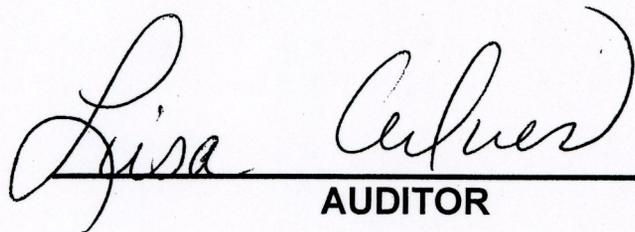
Stanley L. Sewell
Director of Internal Audit

Enclosure

cc: Dan Johnson, Chief of Staff
Missy Crutchfield, Education, Arts, and Culture Administrator
Daisy Madison, Chief Financial Officer
Brian Smart, Manager of Financial Operations
George R. Parker, Manager of Civic Facilities

**PARKS, RECREATION, ARTS AND CULTURE
DEPARTMENT
CIVIC FACILITIES
AUDIT 05-01
FEBRUARY 28, 2005**

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AUDITOR

**PARKS, RECREATION, ARTS AND CULTURE
DEPARTMENT
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Scope

Internal Audit staff reviewed documents and processes used to execute and collect on rental agreements, finalize event settlements, and ensure the collection funds at the Civic Facilities.

Objective

The audit objective was to determine if operating procedures for the Civic Facilities are sufficient to safeguard assets and are performed in a timely and efficient manner.

Background

The Tivoli Theatre and Soldiers and Sailors Memorial Auditorium (described as the "Civic Facilities"), are both operated by the Parks, Recreation, Arts, and Culture Department. The Civic Facilities meet community needs by offering Broadway and family shows, concerts, and student events. The Civic Facilities have an Advisory Board of Directors. North River Civic Center was not included in this audit. Management has traditionally treated the North River Civic Center as an educational and recreational facility, as well as a senior center, whereas the Tivoli Theatre and Soldiers and Sailors Memorial Auditorium have been treated as entertainment facilities.

The Civic Facilities management handles all operating functions of both facilities. This includes booking, promoting, and settling all events with promoters; handling all ticket sales; providing all staffing for the facility and events; and maintenance of the building. Due to this process the City of Chattanooga has established a separate checking account for the Civic Facilities. This account is used solely to facilitate the ease of handling the expenses of the events. Ticket sales for all ticketed events are made in the Civic Facilities box offices and remitted to the Treasurer on daily collection reports. The funds are collected into a liability account in trust for the promoter of the event. After each event, an event settlement summary is provided to Accounting by the Civic Facilities staff that details how funds should be classified into the specific accounts. This procedure clears out the liability account. In FY04, these two facilities collected \$566,886 for 359 events.

Methodology

Internal Audit staff visited the Civic Facilities box office and reviewed operating procedures and responsibilities of the Civic Facilities management staff. Internal Audit staff worked with the Accounting department to review established operating procedures being followed by the Civic Facilities staff regarding show settlements and the checking account. Internal Audit staff examined show settlements, contracts, rental agreements, accounts receivable records, bank statements, canceled checks, the check register, and other financial documentation needed to support the objective of the audit. Internal Audit staff contacted Nashville's Municipal Coliseum, Asheville's Civic Center and Huntsville's Von Braun Center to compare staffing, contracts and operational procedures to current operations of the Civic Facilities.

Findings and Recommendations

1. Segregation of Duties

Internal control is weak due to the lack of segregation of duties at the Civic Facilities. Based upon the current staffing and management structure, it is not possible to separate all duties for proper internal control. The duties of the Business Coordinator, Director, and Box Office Coordinator are currently being performed by one employee. The duties are listed below:

- Issues and signs all checks.
- Reconciles checking account.
- Processes and reconciles all show settlements.
- Deals with each individual promoter handling setup of show and monitoring of ticket sales during sales period.
- Assists with ticket sales.
- Voids, reconciles and monitors all tickets sold for each show.
- Handles all money received.
- Submits collection reports.
- Receives payment from Accounting for reimbursement of shows and makes deposits.

An example of a facility which has developed a staffing model that demonstrates proper internal control is Nashville's Municipal Coliseum. Nashville's Coliseum has six management employees which include a General Manager, Sales Manager, Event Coordinator, Marketing Director, Accountant, and Box Office Manager. The Box Office Manager runs the ticketing office which sells tickets, collects payments, and makes collection reports. The General Manager and Sales Manager negotiate with the promoters to book shows, and handle the settlement of shows. The Accountant handles the budget of the facility, as well as payroll, and billing. The facility also requires two signatures on all checks issued.

Recommendation

To regain internal control and ensure proper accounting procedures are followed, PRAC Administration should identify additional staff resources to facilitate segregation of duties. One person should not be allowed to manage all aspects of cash handling, ticketing, check writing and signing. The box office duties of handling setup of ticketing for shows, selling tickets, and handling the daily ticket sales and collections should be handled by one employee. The duties of comparing total tickets sold to the collection report, issuing checks for show settlements and reconciling shows with promoters, providing proper documentation to Accounting to record show collections and settlements, making deposits to the checking account and reconciling the account should be performed by a different individual. Ideally, a third individual should reconcile the checking account. Two signatures should be required on all checks issued.

2. Accounts Receivable

Due to the lack of standard operating and written procedures for handling accounts receivable, \$28,972.35 was written off as bad debts for the Civic Facilities in FY04. There is a lack of information or documentation provided to Accounting by Civic Facilities to verify if receivables have been invoiced to promoters or turned in and booked. Civic Facilities has the responsibility of issuing the invoices to promoters when a balance is due. They also have the responsibility of remitting the show settlements to Accounting to book the receivable.

Accounting is responsible for recording the receivables from the show settlements. On a monthly basis, Accounting updates an accounts receivable ledger noting the age of the debts and submits this to the Civic Facilities staff for review. Civic Facilities staff does not regularly review the ledger to make certain all settlements have been posted and to determine which shows need invoicing. Civic Facilities staff does not review the monthly report to prevent promoters with balances due from renting the facility. The Arts Education Council owed a total of \$5,638 for all five shows performed during FY04 and did not remit total payment until November 24, 2004. Calvary Baptist currently owes \$3,232.80 from FY04 and rented the facility with this balance due. Marilyn Crawford Dance Studio currently owes \$2,694.18 for a bad check issued to the Civic Facilities for the spring dance recital.

Summary of Accounts Receivable per review of FY04 Events:

A total of 68 events resulted in accounts receivable balances totaling \$122,193.

As of June 30, 2004, 21 of these events still had a balance due totaling \$44,204.

Recommendation

Civic Facilities management should address the balance in the rent receivable account. The oldest balance dates back to May 2003. Immediate action is needed to collect this outstanding balance before another loss of revenue is recorded. PRAC Administration should take steps to start a collection process for these events.

Due to the large write off of bad debts in FY04, the current procedure of setting up receivables should be reviewed. A viable alternative is to have all shows and renters either prepay all estimated expenses or pay all balances due the night of the event. This would reduce the staff time for invoicing and would provide a monetary gain for the facility with all expenses paid upfront. This would also reduce the work in Accounting for monitoring and updating an accounts receivable ledger manually.

If the above recommendation cannot be implemented in a timely manner, then other steps should be taken. First, a dedicated Civic Facilities staff member needs to be assigned the responsibility of invoicing all past due accounts. This procedure should be done on a monthly basis and coordinated with Accounting to ensure all accounts are invoiced and recorded. Second, a late fee should be charged once accounts go past 60 days overdue. This would have to be addressed with a revision of the current contract.

3. Contracts with Promoters

The contract and standard practices currently in use by Civic Facilities encourages late or non payment by promoters and clients. A review of contracts from Nashville's Municipal Auditorium and Huntsville's Von Braun Center, demonstrated the ability in the industry to set deadlines for upfront payments of show expenses. In Nashville, an estimated show expense is agreed upon when the contract is signed. The facility has the authority to cancel the show if, within a two week period of the event, ticket sales or deposits cannot cover the expenses. Nashville also requires full payment of expenses the night of the show.

Currently, a deposit is not required by all renters of the Civic Facilities. If the renter has a "good" history with the facility, the deposit is waived. However, during FY04, 14 events that were not required to make a deposit had a balance due and remained a receivable at June 30, 2004.

The Chattanooga Symphony and Opera (CSOA) is a regular customer of the Civic Facilities that performs about 26 events per year. However, the contract between CSOA and the Civic Facilities has not been updated in a number of years. A verbal agreement between Civic Facilities and CSOA requires a monthly billing of all shows performed and payments due. This lack of a detailed agreement has led to inconsistencies regarding payment schedules.

Further, inadequate documentation is provided to Accounting on the settlement of CSOA shows. CSOA events are more difficult for Accounting to track because settlements are not titled with the specific event name and date. Because payments are not received on a regularly scheduled basis, this procedure requires more analysis by Accounting to match payments received with balances due. Each show cannot always be accurately recorded in proper accounts. If a show's settlement is not remitted to Accounting, then the expenses are not posted and Civic Facilities funds are not reimbursed.

Recommendation

The lease agreement should be updated to read that an estimated contract price will be agreed upon between the lessee and the Civic Facilities. The Civic Facilities should review expenses charged and revenues collected (if applicable) two weeks prior to the event. At this time, the contract should require all lessees to pay a security deposit equal to the estimated contract price less collected revenues. If these terms are not met then the facility should have the right to cancel the event. Regardless, an initial deposit equal to the rent amount should always be collected upon booking.

If the Civic Facilities continue to allow accounts receivable, a clause in the agreement should allow for a late fee to be charged to any balances not paid within 60 days.

The contract with CSOA should be updated with specific deadlines for invoicing and payments, with penalties set for late or nonpayment. Civic Facilities should provide a uniform description for each CSOA event which can be easily tracked by Accounting.

4. Show Settlements

A review of 129 show settlements from FY04 showed that it took Civic Facilities staff an average of 42 days to remit show settlements to Accounting. Accounting requires show settlements to be turned in within 10 days after the event is closed. There were 24 settlements of the 129 which were turned in within the 10 day limit and 12 show settlements were not remitted to Accounting at all.

Another area of concern is that Accounting is not able to verify if a show settlement is due, especially on rentals. The Accounting department uses the Civic Facilities official calendar to track shows along with collections remitted. Accounting loses the ability to record these events when they are not included in the calendar, as well as for events in which tickets are not sold. Since Accounting does not have full knowledge of all shows or rentals, the ability to maintain accurate records is lost. When the Civic Facilities do not remit a show settlement, expenses and revenues are not recorded and the checking account is not reimbursed.

Recommendation

Written procedures should be set in place to address the submission of show settlements, invoicing, and tracking of the final disposition of the settlements.

First, a procedure should be implemented to address the problem of Accounting not having the knowledge of all events performed. This would require Civic Facilities staff to update Accounting on a monthly basis of all shows and rentals scheduled for the next month. Accounting then could monitor if all settlements are properly remitted.

Second, Civic Facilities staff should submit all settlements to Accounting within 10 days. Further, Civic Facilities staff needs to implement a procedure which confirms that all monthly settlements have been sent to Accounting and posted into Banner. The monthly reconciliation reports sent by Accounting could be used as a tool in this procedure. Civic Facilities staff must review these reports and take action on all outstanding items to ensure the entire process works.

Finally, Civic Facilities staff should keep a record of the final disposition of each settlement noting if a balance is due for invoicing or if reimbursement is still needed from Accounting. During this process, written procedures should be established and documented for use by Civic Facilities staff. Cross training procedures should also be implemented for all positions.

Civic Facilities staff and PRAC Administration should consult with Information Services and Accounting on setting up new procedures that would improve efficiency and timeliness of handling collections, reporting, and processing of show settlements.

5. Cash Payments

The Civic Facilities have used one individual, James Germ, for at least the last 12 years, to provide all ushers, doormen, and ticket taking services. The night of the show, Mr. Germ is given cash by the Civic Facilities staff to pay for services provided by ushers, doormen and ticket takers. The promoter is charged the expense for this service on the settlement sheet along with expenses for all other staffing services provided by the Civic Facilities. Mr. Germ has never been given a Form 1099 statement for services provided to the Civic Facilities.

Security for events is provided by off duty City of Chattanooga Police officers. The Civic Facilities staff contacts the Police department prior to the event to obtain off duty officers. The officers are paid cash by Civic Facilities staff for services rendered. The promoter is charged for this expense on the settlement report. The Police officers do not receive a Form 1099 statement for these payments. Further, the payments are not reported to payroll.

Recommendation

Any services provided to the Civic Facilities that are obtained and paid for by the Civic Facilities should be under contract. The Civic Facilities staff will need to execute Personal Service Contracts (subject to applicable City code and procedures) with individuals who provide services to the facilities. The Personal Service contract should detail the work to be performed, rate to be paid and time period. The contract should be renewed on a yearly basis. The contactor should be paid with a check and (if not incorporated) issued a Form 1099 at the end of each calendar year.

The procedure for the Civic Facilities acquiring the City of Chattanooga Police officers for security will have to cease or change. According to the IRS code, Revenue Rule 58-505, 1958-2 C.B., 728, an individual cannot work for one entity in a dual capacity (as an employee and provider of contract services), unless the two job functions are distinctly different. If the Civic Facilities continue to directly employ the services of City of Chattanooga Police officers, they should be paid through payroll.

6. Advances to Shows

Accounting advances funds to the Civic Facilities to cover show expenses prior to the settlement of the show. The funds may be used to pay invoices or for payment to the promoter the night of the show. The Civic Facilities staff either makes checks payable to the promoter or to cash.

In six cases, it was found that the Civic Facilities staff requested the funds either the night of the show or the day after. When the Civic Facilities sends the email request to Accounting without allowing ample time to have the check issued and deposited into the checking account, insufficient funds charges may arise.

Recommendation

The Civic Facilities staff should stop the procedure of issuing any checks payable to cash. When a promoter requires cash, the check should be made payable to an individual staff member of the Civic Facilities (Director). This designated person will cash the checks and receive the actual funds from the bank. This individual will be responsible for obtaining a signed receipt from the promoter. This procedure will add accountability to the staff by ensuring the check is cashed by this person and that the funds are applied to the event specified.

The Civic Facilities staff needs to set a monetary limit of the amount of cash advances given to promoters. Nashville has set their limit at \$20,000. The ticket sales for the event should cover the amount of the advance plus any estimated expenses of the show. A statement in the contract should reflect this procedure plus list the limit on the cash advances. The contract should also state that only checks will be issued to the promoter for the remaining balance due on the night of the event. The Civic Facilities staff should make all advance requests to Accounting in a timely manner to allow for processing and depositing into the checking account.

7. Civic Facilities Checking Account Reconciliation

Accounting currently reconciles the Civic Facilities' checking account. This procedure was initiated due to the lack of timely reconciliation by the Civic Facilities staff. Civic Facilities staff provides the check register to Accounting so the reconciliation can be completed. However, due to the lack of timeliness by the Civic Facilities staff to provide the check register, monthly reconciliations are not performed in a timely manner. Another issue related to the checking account is that bank charges for insufficient funds during FY04 totaled \$810.04. This could be due to a lack of planning by Civic Facilities staff for show expenses. The NSF charges could also be due to the fact that show expenses are not reimbursed due to settlements not being turned into Accounting for processing.

Recommendation

A complete monthly reconciliation of the checking account should be completed by Civic Facilities and submitted along with the check register to Accounting for review. This involves keeping detailed and accurate records of each check written and deposit made, labeling each with the correct event and amount.