

AUDIT REPORT

CITY AUDITOR

Date:	November 26, 2019
Department:	Parks, Recreation, and Community Facilities (PRCF)
Subject:	Mesa Convention Center
Lead Auditor:	Dawn von Epp

OBJECTIVE

This audit was conducted to determine whether effective controls are in place to:

- Ensure that all due fees and charges are accurately calculated, collected, and recorded.
- Prevent or detect errors, fraud, waste, or abuse.
- Ensure compliance with policies, statutes, and other applicable requirements.

SCOPE & METHODOLOGY

The scope of the audit was Convention Center and Amphitheatre revenue during fiscal years 2018 and 2019. To accomplish our objective, we reviewed policies and procedures, interviewed staff and observed processes, analyzed reported Direct Cost Recovery performance data, and performed detailed tests of Convention Center events, Amphitheatre concerts, and refund transactions.

BACKGROUND & DISCUSSION

The Mesa Convention Center features 19,000 square feet of exhibit space and an additional 19,000 square feet of flexible meeting space. Contracted vendors provide catering and audio visual services based on each customer's needs. The Mesa Amphitheatre features a variety of outdoor events and concerts with a general admission capacity of 4,950. In FY 2019 these facilities generated approximately \$3.15M in revenue and \$3.26M in expenses, for a net operating loss of approximately (\$110K). This was a significant improvement over FYs 2018 and 2017, when net losses were (\$411K) and (\$449K), respectively.

CONCLUSION

In our opinion, improved controls are needed to ensure revenue is accurately calculated, collected, recorded in a timely manner, and protected from loss or fraud. Our observations and recommendations are summarized below. For additional details and responses from management, please see the attached Issue and Action Plans (IAPs).

SUMMARY OF OBSERVATIONS & RECOMMENDATIONS

- 1. Observation:** Internal controls related to the concert settlement process need improvement to ensure accuracy and completeness.

Recommendation: Management should ensure that concert settlements are accurate, complete, and consistent with contract terms.

- 2. Observation:** Convention Center event charges were not always accurately calculated and/or documented, and some commonly used rates were not consistent with the Council-approved City of Mesa Schedule of Fees and Charges.

Recommendation: Management should develop controls to ensure that all standard fees and charges are accurately calculated, consistently applied, and authorized by the Council-approved City of Mesa Schedule of Fees and Charges.

- 3. Observation:** Some payments made to contracted vendors were not accurate or lacked supporting documentation.

Recommendation: Management should ensure that all vendor payments are accurate and supported by documentation.

- 4. Observations:** Cash and cash equivalents were not adequately safeguarded during business hours; and other cash handling controls, e.g., reconciliation processes, parking revenue procedures, management oversight/monitoring, etc., need improvement.

Recommendation: Management should ensure that cash is always stored in a secure location, all cash receipts are reconciled daily, and appropriate management oversight processes are in place.

- 5. Observation:** Concert ticket and fee pricing, and concession revenue sharing arrangements were not established in written agreements.

Recommendation: Management should ensure that all agreements are in writing and signed by both parties.

- 6. Observation:** Employees issue refunds with no documented review or approval process.

Recommendation: Management should ensure that refunds are reviewed and approved in writing, to reduce the risk of improper refunds or other potential losses.

- 7. Observation:** Direct Cost Recovery performance data reported by staff was not accurate.

Recommendation: Staff should ensure all reported performance data is complete and accurate.

- 8. Observation:** Concert revenue was not recognized in a consistent and timely manner.

Recommendation: PRCF Finance staff should implement procedures which ensure revenue is recognized in a consistent and timely manner.

Issue and Action Plan #1

Issue #1: Concert settlements are not always accurate.

Observation:	Concert settlements were inaccurate and inconsistently processed. Included in these were both promoter and Amphitheatre expense amounts (e.g., staff labor, insurance, public performance royalties, credit card and internet expenses, etc.) and revenue calculations (e.g., service fees, facility fees, and the venue's portion of merchandise sales).
Criteria:	Concert settlements represent the final step in contracts between the Amphitheatre and concert promoters or artists. As such, they should accurately and completely reflect the contract terms.
Comments:	Inaccurate, incomplete, and inconsistent application of the contract terms may result in over- and underpayments to concert promoters or artists.
Recommendation and Management's Action Plan:	<p>Recommendation #1-1: Develop controls to ensure concert settlement accuracy and completeness prior to payment issuance.</p> <p>Action Plan #1-1: Replace current estimate/offer and settlement excel spreadsheet with industry-specific web-based service (Prism), a system currently in use at the Mesa Arts Center. Prism is an automated talent buying and venue management software which will allow for accurate tracking of revenues and expenses from offer through settlement.</p> <p>Estimated completion date below indicates the date by which Prism subscription will be implemented.</p> <p>Individual or Position Responsible: Luis Ruiz (Venue Operations Supervisor) Stacy Nupoff (Amphitheatre Booking and Sales Specialist)</p> <p>Estimated Completion Date: 1/15/2020</p>

Issue and Action Plan #2

Issue #2: Event settlements contained inaccuracies and standard pricing that is not consistently within Council approved ranges.

Observation:	<p>Of the 30 Convention Center events tested for accuracy and completeness:</p> <ul style="list-style-type: none">• 19 included fees and charges that either were not on the approved Schedule of Fees and Charges, or were standard rates which did not fall within the approved ranges.• 6 contained errors that either over or under charged customers.• 5 either did not have supporting documentation for all charges or did not match system records.
Criteria:	<p>PRCF Guideline 2.7 "Fees and Charges", Statement of Philosophy Section states:</p> <p><i>"The implementation of new fees and charges will be thoroughly evaluated once a year by Department staff, with recommendations submitted to the Parks and Recreation Advisory Board which, in turn, will make recommendations to the City Council for final action."</i></p> <p>City of Mesa Schedule of Fees and Charges, PRCF Commercial Fees, Fee Policies:</p> <p><i>"Fee Adjustments: There will be occasions when special consideration may be needed to negotiate fees that fall outside of the adopted fees and charges structure. Therefore, the Director (or designee) is authorized to negotiate special pricing if it is in the best interest of the City of Mesa."</i></p> <p>Convention Center fees and charges should be accurate, complete, and consistent with supporting documentation.</p>
Comments:	<p>Negotiation of fees and charges is inherent in the Convention Center industry and this has been addressed in the Fee Adjustments policy, which is cited above. However, while staff members are authorized to occasionally negotiate fees and charges which fall outside of approved ranges, we found that some of the standard rates were outside the approved ranges. In addition, inaccuracies and lack of supporting records increase the risk of over- or under-payments.</p>

**Recommendations
and Management's
Action Plans:**

Recommendation #2-1: Develop more effective internal controls to ensure the accuracy and completeness of fees charged to customers.

Action Plan #2-1:

1. Replace current estimating Excel spreadsheet with system generated (Fastbook) estimates. This new process will encompass all steps from estimating through final invoicing, thereby eliminating the likelihood of inaccuracies and ensure accurate and complete charges to the client.
2. A new fee waiver/discount procedure will be created and implemented. The procedure will include a Discount/Waiver Form which documents discounts and/or waiver of labor or equipment fees and reason for the request and will require an authorizing signature from the Venue Operations Supervisor. The documentation will be placed in the hard copy event folder and in Fastbook. Appropriate staff will be trained on the new procedure to ensure compliance.

Individual or Position Responsible:

Luis Ruiz (Venue Operations Supervisor)

Estimated Completion Date: 1/15/2020

Recommendation #2-2: Ensure that all standard fees and charges are authorized and fall within Council approved ranges; and obtain Council approval for all additions or changes to the approved Schedule of Fees and Charges.

Action Plan #2-2: All current and proposed fees and charges have been reviewed and recommendations have been submitted for Council approval, to take effect on April 1, 2020. Review of recommendations by PRCF Staff is pending.

This Plan was partially completed on 11/4/19, as described above. However, full implementation will occur upon Council approval.

Individual or Position Responsible:

Dyan Seaburg (Parks, Recreation and Community Facilities Administrator)

Estimated Completion Date: 4/01/2020

Issue and Action Plan #3

Issue #3: Vendor payments were inaccurate or unsupported.

Observation:	Vendors were paid amounts which did not match the supporting documentation.
Criteria:	<p>Departmental procedures direct staff members to use system reports to verify weekly catering and concession sales prior to issuing payment to the vendor.</p> <p>The City's "Contract Management Framework", Section i. Receiving and Inspecting Deliverables, includes the following:</p> <p><i>"2. All aspects of a vendor's bill must be critically examined and verified. This includes: ... Quantities must be verified (number of hours billed, tasks completed, etc.)."</i></p> <p><i>"ii. Review invoice and billing accuracy. Specific attention should be given to verifying all costs and rates being billed by the vendor."</i></p>
Comments:	The caterer was paid the amount on their invoice, but the invoice did not match the supporting documentation from the events. The audio visual services vendor was paid based on their initial invoice, but a revised invoice had been issued for a reduced amount, and the lower amount was collected from the customer.
Recommendation and Management's Action Plan:	<p>Recommendation #3-1: Develop a more effective internal control to ensure employees verify the accuracy of vendor invoices prior to payment.</p> <p>Action Plan #3-1:</p> <ol style="list-style-type: none">1. Review current process with appropriate staff on charges for invoices and required supporting documentation.2. Create a written process for changes made to contractor invoices to include notification to contractor of changes and a reduction or increase in commission and invoice payments.3. All commission payments will be reviewed thoroughly by Venue Operations Supervisor prior to approval. <p>Individual or Position Responsible: Luis Ruiz (Venue Operations Supervisor)</p> <p>Estimated Completion Date: 2/1/2020</p>

Issue and Action Plan #4

Issue #4: Cash is not adequately safeguarded against loss or theft.

Observation:

Checks, cash payments, and the Box Office cash box, were not secured during working hours. The room in which they were kept was locked overnight, but unlocked during the day.

Reconciliation to ensure all cash and check payments are recorded is not always occurring, and overages and shortages are not being identified, recorded, or monitored.

Parking revenue processes are not well controlled. Parking cash counts are not always signed by two individuals before and after a concert; the number of parking tickets sold is not always documented accurately; and the current process prevents an accurate reconciliation of parking revenue.

Criteria:

Management Policy 210 requires:

- Segregation of duties or other compensating controls to ensure that one person does not have complete control of the cash handling process.
- Ensure that cash is protected from loss.
- Cash should be stored in a secured location.
- Provide assurance that the amounts being reported as deposited were deposited into the City's account by using a cash register/terminal that prints uniquely numbered receipts and produces a report to reconcile cash receipts.
- Administrators should periodically review the nature and extent of overages and shortages, compare actual deposits with expected receipts, review cash activity reconciliation, compare the mode of payment with check totals on deposit document, and evaluate overall internal controls to ensure that reasonable controls exist to safeguard cash.

PRCF Guideline 2.1 "Financial Management Policy" includes the following:

- A. Cash Handling. *"During daily activities, cash, cash funds and cash related forms (e.g., punch cards, swim pool passes, comp tickets) should be secured, at all times, in a cash register, locked box, safe or box office. All cash, change funds, petty cash funds and receipts should also be secured throughout the day and retained overnight in a locked safe."*

Comments:

When cash is not safeguarded, the risk of theft or loss increases. Without reconciliation and monitoring, the risk that the loss would go undetected, also increases.

**Recommendations
and Management's
Action Plans:**

Recommendation #4-1: All cash and cash equivalents should be kept in a secure location that is only accessible to Box Office staff who sell tickets. Also, the Box Office should obtain a safe that is more conducive to daily use.

Action Plan #4-1:

1. Purchase and install new safe with drop box, which is more conducive to daily transactions (completed 10/27/19)
2. Maintain daily cash/cash equivalents in locked drawer (completed)
3. Establish new Cash Handling Procedures to comply with COM Management Policy 210 which will address Accountability, Physical Security and monitoring.

Individual or Position Responsible:

Luis Ruiz (Venue Operations Supervisor)

Stacy Nupoff (Amphitheatre Booking and Sales Specialist)

Estimated Completion Date: 12/31/2019

Recommendation #4-2: Develop improved internal controls over cash receipts. Examples of improved internal controls include: secondary counts, review of payments and deposits, utilizing a system that dispenses uniquely numbered receipts that are reconciled to deposits, updating procedures to direct staff how and where to secure funds and how to record overages and shortages, etc. The processes related to parking revenues could also be improved to allow for more accurate reconciliation of this revenue.

Action Plan #4-2:

1. Establish new Cash Handling Procedures to comply with COM Management Policy 210 which will address Reconciliation of Accounts to include:
 - a. Secondary counting/Verification
 - b. Monitoring
 - c. Recording of overages and shortages

2. Parking – Utilize sequentially numbered parking passes, which are inspected pre- and post-event (and noted on Cash Form signed by Parking Attendee and Box Office Coordinator) and used to reconcile parking revenue. (completed)
3. Train appropriate staff on procedures.

Individual or Position Responsible:

Luis Ruiz (Venue Operations Supervisor)

Estimated Completion Date: 12/31/2019

Issue and Action Plan #5

Issue #5: Pricing and revenue sharing agreements were not in writing.

Observation:	Concert pricing and concession revenue sharing arrangements were not established in writing.
Criteria:	Management Policy 356 "Delegation of Signature Authority and Agreement Approval Process", Section II, states, <i>"Oral agreements that bind City resources, funding, or authority are strictly prohibited."</i>
Comments:	Misunderstandings can easily arise between parties when agreed upon terms are not documented. This can result in loss of revenue, due to inability to enforce the verbal agreement.
Recommendation and Management's Action Plan:	<p>Recommendation #5-1: Obtain all contract terms in writing, including ticket pricing and fee structures, and amend contracts whenever substantive changes are made to the terms. Also, all contracts and amendments should be signed by both parties.</p> <p>Action Plan #5-1: Create Amendment templates to be signed by both parties upon mutually agreeable price changes on ticket pricing and fee structures.</p> <p>Individual or Position Responsible: Luis Ruiz (Venue Operations Supervisor) Stacy Nupoff (Amphitheatre Booking and Sales Specialist)</p> <p>Estimated Completion Date: 12/31/2019</p>

Issue and Action Plan #6

Issue #6: Refunds did not have documented supervisor approval.

Observation:	Refunds were issued with no documented supervisor approval.
Criteria:	PRCF Guideline 2.4 Refund Policy, General Guidelines Section states, <i>"Refunds shall be documented and approved by the program supervisor."</i>
Comments:	Convention Center management stated that all refunds were approved for concerts but only refunds greater than \$1,000 were approved for events. This conflicts with PRCF policy and was not documented. Individuals processing refunds sometimes add a note indicating that the refund was approved, but that does not constitute evidence that a supervisor approved the refund. Without review and approval, improper refunds, theft, or loss could go undetected.
Recommendation and Management's Action Plan:	<p>Recommendation #6-1: Develop a more effective internal control to ensure all refunds are approved in writing by the program supervisor.</p> <p>Action Plan #6-1: Create a Refund Authorization Procedure to include a Refund Authorization Form which documents date, amount and reason for refund and is signed by appropriate party and Venue Operations Supervisor.</p> <ol style="list-style-type: none">1. Amphitheatre:<ol style="list-style-type: none">a. At Point of Sale (day of show, box office): Box Office Manager to provide daily refund report to Venue Operations Supervisor and place reports in event folder.b. Post-show refunds: Utilize Refund Authorization Form and place in folder.2. Convention Center: Utilize Refund Authorization Form and place in event folder and FastBook. <p>Individual or Position Responsible: Luis Ruiz (Venue Operations Supervisor)</p> <p>Estimated Completion Date: 12/31/2019</p>

Issue and Action Plan #7

Issue #7: Inaccurate performance data was reported.

Observation: The FY 2018 Direct Cost Recovery performance measurement was miscalculated and did not include all accounting periods.

Criteria: Staff is expected to report accurate information to decision makers.

Comments: The annual Direct Cost Recovery metric was miscalculated by averaging monthly and quarterly percentages; as a result, staff erroneously reported that the performance target was exceeded. Also, revenue recognized in period 13 was not included in the calculation. The performance target was 90% and the reported actual result was 95.04%. However, based on total actual revenue and expenses for the year, the reported result should have been 87.26%.

Managers are expected to make data-driven decisions; and inaccurate data may adversely impact those decisions.

**Recommendation
and Management's
Action Plan:**

Recommendation #7-1: Ensure all direct revenue and expenditures from all applicable periods are included when calculating Direct Cost Recovery percentages; and carefully review calculations for accuracy and completeness prior to reporting results to management.

Action Plan #7-1: Conduct additional training to ensure all direct revenue and expenditures from all applicable periods are included when calculating Direct Cost Recovery percentages. Add an additional level of review by Venue Operations Supervisor prior to submitting to Management. Verify information to be included on Performance Measure spreadsheet with PRCF Finance Staff to ensure consistent reporting.

Individual or Position Responsible:

Luis Ruiz (Venue Operations Supervisor)

Estimated Completion Date: 12/31/2019

Issue and Action Plan #8

Issue #8: Concert revenue was not recognized in a consistent and timely manner.

Observation: Unearned concert revenue received throughout FY 2019 was not recognized until period 13; and FY 2018 unearned concert revenue received in periods 1-9 was not recognized until period 10. Additionally, the accounting method used to recognize revenues varied from one event to the next.

Criteria: Generally Accepted Accounting Principles (GAAP) require that revenue be recognized when it is realized and earned, and that accounting methods be consistently applied.

Comments: When revenue recognition is delayed, business decisions may be based on incomplete data. When accounting procedures are applied inconsistently, comparisons between years can be misleading, and revenue and expenses can be over- or understated.

Recommendation and Management's Action Plan: **Recommendation #8-1:** PRCF Finance staff should implement a process which ensures that revenue is recognized within one accounting period after it is earned. This process should also ensure that accounting methods are applied consistently and accurately.

Action Plan #8-1: PRCF Finance Staff will complete settlements and recognize revenue, consistently and accurately, of the Amphitheatre Advance Ticket Sales Advantage BSA #2213 within the first applicable accounting period after it is earned as is appropriate and practical.

Individual or Position Responsible:
PRCF Sr Fiscal Analyst

Estimated Completion Date: 1/31/2020