



# AUDIT OF THE MESA TENNIS & PICKLEBALL CENTER REVENUES

Parks, Recreation and Community Facilities



## OBJECTIVES

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This audit was conducted to determine whether effective controls are in place to ensure all due fees and charges are accurately calculated, recorded, and collected.

## BACKGROUND

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The Mesa Tennis & Pickleball Center, located at Gene Autry Park, is managed by the Parks, Recreation and Community Facilities (PRCF) department. The tennis center features 16 lighted courts, 13 lighted pickleball courts, and 4 sand volleyball courts, which are available to the public for rent. It offers year-round tennis and pickleball lessons for players of all ages and skill levels. The tennis center also offers adult leagues and hosts junior and adult tournaments, including national championships.

Revenue generated from the tennis center are payments received for tennis and pickleball court and machine rentals, programs, and merchandise sales from the facility's pro shop. During calendar year 2021, total revenue generated from fees and charges at the Mesa Tennis Center was \$391,245.

## SUMMARY OF OBSERVATION

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1. Revenue generated from fees and charges are not always applied the proper tax rates.

## CONCLUSION

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In our opinion, the Mesa Tennis & Pickleball Center has effective controls in place to ensure fees and charges are accurately calculated, recorded, and collected. However, the PRCF department should develop and implement a process to ensure revenue generated from its fees and charges are applied the proper tax rates in its internal system. For additional details, please see the attached Issue and Action Plan.

## ISSUE AND ACTION PLAN #1

The PRCF department does not have a process in place to ensure revenues are applied the proper tax rates in its internal system

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### What We Found

Revenue generated from fees and charges for services provided by PRCF facilities, such as the Mesa Tennis & Pickleball Center, are recorded in the department's internal system, ActiveNet. Each type of service provided by the tennis center is identified in ActiveNet with a unique activity code. PRCF staff are responsible for assigning and applying the proper tax rates to each activity code. However, PRCF staff are not always aware of what tax rates to apply to the services and new activity codes created in ActiveNet are not always reviewed to ensure tax rates were applied correctly.

As a result, the amount of tax calculated and recorded in ActiveNet was not always accurate. For example, there were instances where the City tax rate was not applied to revenue generated from court rentals or merchandise purchased at the tennis center. In addition, there were also instances where the amount of tax was not properly calculated at the applicable State, County, and City tax rates based on the type of service provided.

### What It Should Be

According to the Arizona Department of Revenue's (ADOR) website, tax rates vary depending on the type of business activity and the city and county the business operates. Specifically, business activities identified as amusements are taxed at 8.3%, which consists of admissions, pro-shop items, concessions, and equipment; rentals of real property are taxed at 2.5%, which consists of facilities, ramadas, and court rentals; and revenue generated from activities such as tennis leagues or programs are considered non-taxable.

Each month, the Accounting department is responsible for preparing the City's transaction privilege tax (TPT) tax return, which reports the City's total taxable revenue and total State, County and City tax due by business activity. As they do not rely on the tax amounts that are recorded in ActiveNet to prepare the TPT tax returns, this issue does not affect the tax withholdings that are reported and remitted to ADOR. However, the amount of tax calculated and recorded in ActiveNet should still accurately reflect what is actually being reported and remitted each month.

### Why Does It Matter

Without an effective process in place, PRCF staff may be unaware of the proper tax rates to

apply to the services provided by the department and mistakenly apply the incorrect tax rates when creating activity codes in ActiveNet. This could result in an increased risk that the amount of tax may not be properly calculated and recorded in ActiveNet.

## What We Recommend and Management's Action Plans

**Recommendation #1-1:** To ensure revenue generated from fees and charges are applied the proper tax rates, the PRCF department should develop and implement written policies and procedures, which include the following:

- Requiring a supervisory review of all activity codes created in the department's internal system.
- Guidance on the proper tax rates to apply to the services provided by the department.
- Periodically reviewing the amount of taxes withheld for reasonableness and to ensure the tax rates were properly applied.

**Action Plan #1-1:** PRCF will develop and implement written policies and procedures to ensure the proper taxes and tax rates are being applied. These procedures will include supervisory review of all activities, registrations, reservations and POS items in ActiveNet for appropriate taxation. Guidance will be provided by PRCF Finance and COM Finance as to the appropriate tax rates to apply to the various types of items being offered. Supervisory staff will periodically and annually review for accuracy in applying tax rates.

**Individual or Position Responsible:** Matt Barber, PRCF Office Supervisor

**Estimated Completion Date:** December 31, 2022

## SCOPE

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The scope of the audit was Mesa Tennis & Pickleball Center revenue received during the period January 1, 2021, through December 31, 2021.

## METHODOLOGY

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To accomplish our objective, we performed the following:

- Interviewed personnel from the Mesa Tennis & Pickleball Center, PRCF department, and the Accounting department.
- Reviewed policies and procedures and observed processes to gain an understanding of the tennis center's reservation and cash handling operations.
- Tested a sample of fees and charges and reservations.

## AUDIT STANDARDS

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We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



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