

## AUDIT REPORT

CITY AUDITOR

<b>Report Date:</b>	<b>May 24, 2018</b>
<b>Department:</b>	<b>i.d.e.a. Museum</b>
<b>Subject:</b>	<b>Earned Revenue Internal Controls</b>
<b>Lead Auditor:</b>	<b>Kate Witek, Sr. Internal Auditor</b>

### **OBJECTIVE**

This audit was conducted to determine whether effective controls are in place to ensure earned revenues are received, accurately recorded, and safeguarded from loss.

### **SCOPE & METHODOLOGY**

To accomplish our objective, we reviewed applicable policies and procedures, interviewed department personnel, tested for compliance with applicable rules, procedures, and agreements, and tested transactions from FY 2017 and FY 2018 through December 31, 2017.

### **BACKGROUND & DISCUSSION**

The i.d.e.a. Museum earns revenue for admissions, special events, classes, rentals, and a small portion of gift shop sales. Additional revenue is contributed by the i.d.e.a. Museum Board of Directors, Inc. (formerly Arizona Museum for Youth Friends), a 501c3 non-profit foundation ("the Foundation"). Earned revenues in FY 2017 totaled \$276,011; and Foundation contributions totaled \$264,112. The remaining \$807,865 of FY 2017 expenditures were funded by the City.

The public-private partnership between the City and the Foundation originated with a "Support Agreement" signed in 1987, shortly after the Museum was acquired by the City. The agreement has never been updated and does not accurately reflect the relationship as it exists today. For example, the Foundation retains 90% of gift shop revenues, although they no longer operate the gift shop.

No other revenues are granted to the Foundation under the agreement, but the Museum has allowed the Foundation to retain rental revenue, as well as some admissions revenue collected through discount programs such as Groupon. Since the objective of this audit was revenue controls, it is important to note that there were no internal controls in place to prevent these revenue sharing practices. We attribute this, in part, to the lack of an updated agreement between the parties; therefore, we strongly encourage City management to make it a priority to negotiate a new support agreement.

## **CONCLUSION**

In our opinion, improved internal controls are needed, to ensure City revenues are received, recorded, and safeguarded from loss. Our observations and recommendations are briefly summarized below. For additional details and responses from management, please see the attached Issue & Action Plans (IAPs).

## **OBSERVATIONS & RECOMMENDATIONS (Summarized)**

1. **Observation:** The fee structure established by Museum staff for birthday party events was not applied accurately and consistently for all patrons.

**Recommendation:** Management should implement effective controls, such as policies, procedures, documentation, and training, to ensure birthday party charges are applied accurately and consistently for all patrons.

2. **Observation:** Some employees have not completed required credit card and cash-handling training or have not done so within required time-periods.

**Recommendation:** Management should develop a process to ensure employees complete this training within required time periods. City management should consider revising MP 210 and MP 212 to require employees to receive training prior to performing cash handling and/or credit card handling duties, or within a short time period thereafter.

3. **Observation:** The Museum does not have an adequate cash-handling procedures manual.

**Recommendation:** A detailed cash-handling procedures manual should be developed and implemented.

## **Issues and Action Plans (IAP)**

### **IAP #1: Event Fees & Charges**

<b>Observation:</b>	The fee structure established for birthday parties was not applied accurately and consistently to all patrons.
<b>Criteria:</b>	<p>The City of Mesa Schedule of Fees and Charges (July 2017) section applicable to the i.d.e.a. Museum includes the following statement:</p> <p><i>"The Museum Administrator is authorized to grant discounts or refunds, waive fees or negotiate special pricing."</i></p> <p>The schedule does not list specific fees (or ranges) for parties, special events, and/or facility rentals. Museum management has set the fees for these activities under the general authority cited above.</p>
<b>Comments:</b>	The fees for birthday parties vary based on the type and duration of event, as well as the number of guests. However, there are no effective internal controls in place to ensure this information is captured in a consistent, reliable way. Additionally, staff members have been permitted to determine the final amount to be charged on a case-by-case basis. As a result, the fees charged are not always consistent with any fixed schedule and may vary between patrons.
<b>Recommendations:</b>	<p><b>1-1.</b> Management should <u>either</u>:</p> <ul style="list-style-type: none"><li>A. Implement an effective way to ensure that staff accurately record the number of guests and the duration of an event, and accurately use that information to calculate fees; OR</li><li>B. Implement a different fee structure for parties and events.</li></ul> <p><b>1-2.</b> If staff is to be given the authority to vary from established pricing, for customer service reasons or other legitimate reasons, there should be an established process and criteria for doing so. Documentation and approval should be required.</p>

**Management  
Response:**

**Action Plan #1-1:**

Implemented - Guest list. Check mark boxes have been placed next to each line number for a clear and consistent way to check off what guests arrive. Also included a place for the permit number on the guests list to match them with the right party. In addition to implementing the guests lists, front line staff have been trained on how to properly check in party guests and close out a party permit.

One of the issues that was in the audit was the fact that we have not been reconciling the party total in Active Net. At the time of booking Chelsea Marsh will place an estimated number of guests expected in attendance in Active Net. The number had not been reconciled in Active Net afterward to reflect the party total which makes it appear that the incorrect amount was charged for many of the parties. We change this number to reflect the correct amount now.

Further Improvements Planned - We will have guest check-in with the party host to eliminate any confusion of checked in guests. Guest list will be managed by party host and reconciled with party family. Guests will receive sticker from party host when they arrive, and their name will be checked off/added to the guest list. This is to avoid discrepancies with number of attending party guests.

When party moves to the museum, the party host will accompany the party family to the front desk to complete payment. Party host will double check permit to be sure the total count matched the guest list. In addition, new Gallery Educator and Visitor Services staff will need to be trained on this process.

We plan to eliminate conflict of interest and possible loss of revenue by ensuring staff working are not related to party host, or friends or neighbors with them. This also protects the staff person from any appearance of unethical conduct if a mistake occurs.

**Individual or Position Responsible:** Chelsea Marsh, Museum Education Assistant, with oversight from her Supervisor, Dena Milliron, Director of Education

**Estimated Completion Date:** 12/28/2018

**Action Plan #1-2:** Staff is not given authority to vary pricing. This appeared so due to lack of reconciliation in ActiveNet.

Implemented – Reconciling attendance numbers in ActiveNet to avoid confusion on charges applied.

Consideration – Increase the number of adults included in party package.

**Individual or Position Responsible:** Chelsea Marsh, Museum Education Assistant, with oversight from her Supervisor, Dena Milliron, Director of Education

**Estimated Completion Date:** 4/23/2018

## IAP #2: Credit Card and Cash-Handling Training

**Observation:** Employees have not completed credit card and cash-handling training.

**Criteria:** Management Policy 212 (Credit Card Handling) states: "All personnel involved in the handling of Cardholder Data shall receive annual training on Credit Card Handling Procedures ...."

City of Mesa "Minimum Required Credit Card Handling Procedures" require employees to receive training within three months of assignment to a position that requires Cardholder Data handling duties, and annually thereafter. However, this document is not referenced in MP 212, and is only provided to employees as part of the training.

Management Policy 210 (Cash Handling) requires cash handling training at least every two years but does not specify this training is to be completed before an employee begins cash handling duties.

Arts and Culture Administrative Regulation 2.1 requires employees to be trained before handling cash but does not specify what training is required. Also, this policy had not been provided to i.d.e.a. Museum staff prior to the audit.

**Comments:** As of December 2017, one employee had been handling credit cards since June 2017, but had not completed the required training. Two employees had been performing cash-handling duties since November 2016 and had not completed cash-handling training.

**Recommendations:**

- 2-1.** Management should develop a process to ensure employees complete City of Mesa credit card and cash-handling training within required time periods.
- 2-2.** City management should consider revising MP 210 and MP 212 to require employees to receive training prior to performing cash handling and/or credit card handling duties, or within a short time period thereafter.

**Management  
Response:**

**Action Plan #2-1:**

**History:**

The Mesa Arts Center maintains record of individuals who handle cash and credit and the dates when training took place. The report is sent monthly. Staff only shows on the report once they have taken their initial training and are not included in the list prior to taking the test causing lapses in reporting and training.

**Plan for correction:**

As of 4/19/18, The Mesa Arts Center has been requesting individuals to be added to the cash and credit handling list at time of hire approval in NEO Gov.

We are also in progress of creating an i.d.e.a. Museum onboarding checklist which details this requirement and will need supervisor signature. We will also be reaching out to city personnel to see if there is the ability to set this up as a required class for specific positions that will show up on the Learning Center in the same way as Supervisor required courses, or Kronos Training.

In May of 2018, two new team members were required to complete this training within 1 week of hire and before being allowed to complete job responsibilities without supervision.

**Individual or Position Responsible:** Jessica Kuenne, Director of Visitor Services

**Estimated Completion Date:** 12/28/2018

**Action Plan #2-2:**

Accounting Services will work on determining the appropriate time frame within which employees who handle cash or credit cards must complete the required training; and will revise the policies to include this requirement.

**Individual or Position Responsible:** Irma Ashworth, Finance Director; Joe Scalmato, Assistant Finance Director

**Estimated Completion Date:** 12/31/2018

### IAP #3: Cash-Handling Procedures Manual

**Observation:** The i.d.e.a. Museum does not have an adequate cash-handling procedures manual.

**Criteria:** Management Policy 210-Cash Handling, Section V.A.2:  
*"Ensure that a cash-handling procedures manual and transaction documentation exists so that employees involved in the process of cash-handling can be held responsible in fulfilling their duties."*

**Comments:** As of December 2017, a procedures manual was in development, but remained incomplete, as the individual working on it was no longer employed by the Museum.

In high-turnover areas, such as front desk staff, internal controls are needed to mitigate the risks associated with employees being unfamiliar with policies and procedures. A detailed procedures manual would help new staff members perform their duties consistently, which reduces the risk of errors and improves customer service.

**Recommendation:** **3-1.** Management should ensure a detailed cash-handling procedures manual is implemented and maintained, and that all staff with cash-handling duties have access to the manual.

**Management Response:** **Action Plan #3-1:**

**History:**

In February of 2016 the Arts and Culture Revised a previous administrative Regulation regarding Financial Management Procedures. Due to staff turnover, i.d.e.a. Museum Staff did not have a copy of this document which was shared immediately following the results of this audit.

**Plan for correction:**

The current Financial Management Procedures document with the Arts and Culture department needs revision with AZMNH and i.d.e.a



moving to the Audience View platform in July of 2018. We will be reaching out to Teri Siggins to make appropriate changes with a goal of document completion by end of Q1 FY 18/19. The i.d.e.a Museum may need a separate policy should our operations differ than those of the other Arts and Culture facilities, this however is yet to be determined. The i.d.e.a Museum will also be working on an updated Policy and Procedures Manual to be completed by end of Q1 FY 18/19 which will be accessible on the i.d.e.a. Museum share drive as well as a hard copy at the front desk of the Museum. An updated training program is also in progress for visitor services staff which will include training modules on each section of the document. Completion goal for this project is end of Q1 FY 18/19.

**Individual or Position Responsible:** Jessica Kuenne, Director of Visitor Services, in conjunction with Tarjani Patel, Museum Accountant, and Sunnee O'Rork, Executive Director.

**Estimated Completion Date:** 7/31/2019