

## Audit Highlights

### Background:

The Tempe Center for the Arts (TCA) is a section of the City's Community Services Department - Arts and Cultural Division. A Facilities Manager oversees administration of the TCA. The majority of current staffing is comprised of temporary employees, with a heavy complement of volunteers.

### Objectives:

Determine whether :

- The TCA has a clear mission and strategic plan that establish a path to financial and operational sustainability.
- The roles and responsibilities of related Boards/ Commissions are conducive to effective, efficient, and sustainable operations of the TCA.
- Adequate systems and internal controls are in place to ensure the accuracy and completeness of revenue and disbursement flows to and from the TCA.
- There are adequate controls in place to safeguard assets owned by and entrusted in the care of the TCA.
- Terms of contractual agreements are adequate and complied with.
- Opportunities exist to enhance operating effectiveness and efficiencies.

City of Tempe Internal Audit Office



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## City of Tempe Internal Audit Office

# Audit of Tempe Center for the Arts

**Conclusion: Internal Audit found that the TCA does not have a clear mission, vision, or strategic plan that supports financial and operational sustainability. In addition, we identified many opportunities to bolster the internal control environment that will serve to provide assurance as to the accuracy and completeness of revenues, the safeguarding of assets, and reduce overall risk. We also found opportunities to strengthen and clarify relationships with key partners and support groups and enhance operating effectiveness and efficiency.**

**Internal Audit truly appreciates the collaborative effort that management and staff provided us throughout the course of the audit process. Significant progress has been made towards bolstering the internal control environment, enhancing services and moving the TCA towards operational and financial sustainability.**

## Relevant Facts

1. In May 2000, Tempe residents voted yes to Proposition 400 to approve a one-tenth (1/10) of a cent sales tax to pay for an arts center. The tax extends through FY2020/21.
2. The City initially expected to raise in excess of \$60 million from the dedicated sales tax; current projections approximate a total of \$130.9 million will be collected.
3. The TCA cost \$65.5 million to complete.
4. Bonds totaling \$61,740,000 were issued to finance the TCA.
5. All totaled, including interest payment obligations to repay funding for the actual building of the TCA, total financing costs approximate \$84,548,281 (\$61,740,000 plus interest of \$22,808,281).
6. The 84,831 square foot structure, located on Tempe Town Lake's south bank, was built to house a 600-seat main theater, a 200-seat studio, and a 3,500 square-foot gallery.
7. The projected \$20 million reserve in the Performing Arts Fund, upon expiration of the tax in FY 2020/21, is not expected to be realized. Current projections are at \$7.5 million, approximately 147% of projected annual facility revenues, given the present operating structure and activity. By FY2023/24, three years after the tax expires, the fund is expected to be in a deficit.
8. When the TCA finally opened in the fall of 2007, the following organizations were considered key partners, instrumental in the formation of the TCA:  
  
Childsplay, A Ludwig Dance Theatre, Tempe Community Chorus, Arizona Wind Symphony, Tempe Symphonic Wind Ensemble, Desert Dance Theater, Tempe Little Theatre, Arizona Academy of the Performing Arts, and ASU Public Events.

## SUMMARY OF AUDIT OBSERVATIONS

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| <p><b><i>Section 1: Arts Organizational Practices and Patron Feedback</i></b></p> | <ol style="list-style-type: none"> <li>1. A Glance at Other Arts Centers.</li> <li>2. Patron Surveys.</li> </ol>  |
| <p><b><i>Section 2: Operational &amp; Financial Sustainability</i></b></p>        | <ol style="list-style-type: none"> <li>3. Identification of a Niche Market is Essential to Securing a Clear Mission and Vision for the TCA.</li> <li>4. The Organizational Structure of the TCA Calls for Reassessment.</li> <li>5. A Plan is Needed to Address the Expiration of the Performing Arts Tax.</li> <li>6. The TCA should be Celebrated Through Marketing Efforts.</li> <li>7. TCA Has Many Opportunities to Enhance Revenues.</li> </ol> |
| <p><b><i>Section 3: Assets and the Internal Control Environment</i></b></p>       | <ol style="list-style-type: none"> <li>8. Effective Asset Management Will Reduce Associated Risks.</li> <li>9. Implementation of Effective Access Controls, Segregation of Duty and Management Oversight Will Enhance Security over Critical Operating Systems.</li> </ol>  |
| <p><b><i>Section 4: Existing Revenues and Expenditures</i></b></p>                | <ol style="list-style-type: none"> <li>10. Effective Internal Controls Over Operating Revenues will Provide Assurance that Revenues are Accurate and Complete.</li> <li>11. Opportunities for More Effective Management of Operating Expenses Were Identified.</li> </ol>   |
| <p><b><i>Section 5: Managing Relationships</i></b></p>                            | <ol style="list-style-type: none"> <li>12. TCA Can Reduce Risk and Benefit From More Effective Management of Key Relationships.</li> </ol>  |

## SUMMARY OF AUDIT RECOMMENDATIONS

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| <p>1.1 It would be beneficial for the TCA to further strengthen alliances and working relationships with other arts organizations, especially within the region to keep connected with current trends, emerging challenges and opportunities, complement each other and work together to celebrate and engage the Valley in the Arts.</p>  | <p>6.2 TCA should identify where patrons of the TCA reside geographically utilizing existing resources to target specific areas. This serves two purposes: 1. Determination of what areas most frequent the TCA, and 2. Determination of what markets are potentially untapped. This information can serve as a guide for more effective targeted marketing by geographic area.</p>  |
| <p>2.1 The TCA should review the survey responses in detail to expand on what they are successful doing and develop a plan to address areas where patrons report shortcomings, wherever possible.</p>  | <p>6.3 Suggestions to evolve the marketing program and increase institutional visibility of the TCA are provided (see report for detailed listing).</p>  |
| <p>2.2 The TCA should develop and implement a process to periodically survey ticketed patrons and rental clients. Survey results can then be used by the TCA facility management as a tool for addressing training opportunities for staff and customer concerns, enhancing operations, developing new streams of revenue, and/or increasing current operating revenue.</p>  | <p>7.1 TCA facility management should consider raising their facility rental rates towards the prevailing market, but still remain competitive. In addition, management should develop a process to routinely perform a comparable analysis of other arts centers in the Valley to ensure they are competitive and within prevailing market venue rates and adjust their rates accordingly.</p>  |
| <p>3.1 A niche market should be developed for the TCA. The process involves: identification of an underserved market, development of programming/product to serve that market, and then make it available and desirable to the public.</p>   | <p>7.2 The TCA should assess whether or not continuing these performances fits within their mission and vision. Options can include expanding upon TCA-managed events, co-productions with partners, or only bringing in externally-produced programming.</p>  |
| <p>3.2 Once a niche market has been identified, the next step is for the TCA to establish a clear mission and vision – something that uniquely identifies the Center and its niche in the market. The TCA’s vision should be for the future that it wants to create for the community it wants to impact. Goals should then be aligned with the mission and vision. The TCA should stay the course with its vision and mission in order for it to be realized. It can take years to grow into a successful center. Constant changes to vision/mission or the absence of a strong direction and development of its niche will likely keep the TCA floundering; continuously searching for its identity.</p> | <p>7.3 Should TCA maintain these events, facility management should explore ways to turn these events to a break-even point or even turn a profit (including overhead costs) and look to best practices at other similar centers. For large scale events, TCA facility management needs to consider the following in its cost analysis: Price negotiation, Partnering with other groups/organizations for touring artists, Corporate and other sponsorships to reduce costs, and Tiered pricing -VIP levels could help with profitability.</p>         |
| <p>3.3 Once a clear mission and vision have been established for the TCA, share it with employees, the community and the public at large. Celebrate with enthusiasm. A periodic review will also help ensure the mission and vision remain relevant and that goals are effectively facilitating their realization as the TCA evolves.</p>  | <p>7.4 TCA should seek the assistance of an in-house or contracted marketing and fundraising professional to increase donations and seek corporate sponsorships. In addition, a properly structured and robust foundation could assist in soliciting sponsorships and donations. In order to increase the sustainability of the Center, the TCA, in conjunction with a foundation, using its 501(c)(3) status, should pursue larger grant opportunities.</p>   |
| <p>4.1 A determination should be made as to the optimal organizational structure for the TCA to fulfill a newly established mission and vision for the entity. The question of whether or not the City is the best choice and has adequate expertise to develop and manage a successful arts center should be addressed. A determination of sourcing for the production of performances also needs to be considered: in-house, co-productions, reliance on outside productions or a combination of the above.</p>  | <p>7.5 TCA facility management should consider shifting the cost and risk of comp tickets to clients (production companies) through charging a higher convenience fee to the production company for each comp ticket processed to recover costs associated with these ticket sales.</p>  |
| <p>5.1 Once the TCA’s niche market, mission, vision, and organizational structure have been determined, a needs assessment and strategic plan is essential to ascertain how gaps between revenues and expenditures will be filled. A formal plan should be developed that includes options without the tax, or possibly going to voters for a full or partial tax extension.</p>   | <p>7.6 Convenience fee rates should be reviewed by TCA facility management and consideration given to increasing rates to align with other cities and cover the full cost of producing a ticket.</p>   |
| <p>6.1 The TCA should develop a creative and systematic marketing program focused on both programmatic and institutional perspectives. The marketing program should support the mission and vision of the TCA. The return on investment (ROI) should also be measured for all significant advertising and marketing efforts.</p>   | <p>7.7 The following considerations should be assessed by TCA prior to the next extension of the Childsplay agreement: Passing on to Childsplay the costs of front of house staff that facilitate their performances and clear language to explicitly address the City’s ability to use the Main Theater and Studio stages used by Childsplay during the day for evening performances and events when Childsplay is not performing whenever moving Childsplay’s set is feasible. This could open up new revenue producing spots in TCA’s schedule.</p> |

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| <p>7.8 TCA facility management should track expenses (direct and over-head) related to Childsplay (and other) performances to determine the extent that related costs are recovered. If revenues are insufficient to cover costs, management should work with Childsplay to facilitate a more equitable agreement and at minimum break even.</p>   | <p>8.10 Art on Loan agreements should include an insurance requirement and specify the need for the artist/owner to name the City as an additional insured on the policy for the period of the loan. A certificate of insurance should be provided the City and the TCA prior to display of artists' works.</p>  |
| <p>8.1 TCA should work with the City's Finance Division to reconcile the significant variance between TCA's physical asset listing and the City's recorded asset listing.</p>  | <p>8.11 The TCA should develop a comprehensive policy and procedure manual to guide operations and ensure elements of effective internal controls are incorporated within.</p>   |
| <p>8.2 TCA should continue to document assets with enough detail so the asset is identifiable by location and revenue produced from usage. The listing requires regular updating with new assets and removal of items taken out of service or sold for salvage. TCA should establish a tracking and transfer process for assets moved from one venue to another venue for use. A process of tracking and transfer helps to safeguard assets and revenue by reducing the risk of exposure to both assets and revenue generation from their use. The frequency of use information will further help the TCA to construct an equipment replacement plan based on usage and expected lifecycle. A capital asset custodian should be identified to manage this process.</p> | <p>9.1 TCA should establish a formal policy that addresses adding, modifying and terminating user privileges. The policy should also include provision for periodic management review of user logs for any irregularities or discrepancies.</p>  |
| <p>8.3 TCA should explore implementing a ticket service charge and establishing a fund for future capital asset replacement.</p>   | <p>9.2 TCA should establish a process to grant third parties access as needed as opposed to leaving their credentials open at all times.</p>   |
| <p>8.4 TCA capital asset policies and procedures should be clearly documented and communicated to TCA facility management and staff.</p>   | <p>9.3 TCA should routinely review users, including customers that set up accounts on TicketForce, to identify and address any potential security or data integrity concerns.</p>  |
| <p>8.5 The TCA should review the function of accounts receivable and system access rights and evaluate for separation of duty. Management approval should be obtained prior to posting any adjustments, voids or cancellations that directly affect the TCA's revenue. Alternatively, a report could be generated routinely and reviewed by management that details voids, adjustments and cancellations to confirm that approvals support the transactions posted.</p>  | <p>9.4 Functional access controls should be incorporated within both systems to ensure adequate segregation of incompatible functions. One individual should not have the ability to create events, post charges, post payments, void transactions (both charges and payments), void invoices and cancel events.</p>   |
| <p>8.6 When payments on account are received, someone independent of accounting functions (especially accounts receivable) should open all mail, separate out checks and prepare a check log. The person preparing the check log should prepare a deposit and store it in the main safe for pickup by armored courier along with other bank deposits. After accounts receivable posts the payment, the deposit should be compared to the postings to confirm they match.</p>   | <p>9.5 TCA facility management should periodically review and evaluate system logs for irregularities as part of the system control process.</p>   |
| <p>8.7 TCA should expand and utilize the capacity of EventPro to administer customer accounts receivable (invoicing) and mapping to PeopleSoft. This will serve to streamline the accounts receivable process and serve to enhance overall efficiency and effectiveness. The EventPro system has capabilities to record payment type, cost center, account code and department code along with exporting the data to potentially interface with PeopleSoft. This will require additional training of TCA staff to use the financial module of EventPro including proper setup for this process.</p>  | <p>9.6 The City should also consider expanding the existing policy of required disclosure to include temporary employees so that any potential conflict of interest can be addressed and appropriate job roles and system access is limited to avoid any improper disclosure of TCA competitive data.</p>  |
| <p>8.8 Finance should further review the original recording of actual costs and payments for fixed art from all sources for accuracy and completeness. The reconciliation should include detailed transactions, reference to supporting information that clearly establishes an audit trail, and a sub-ledger that supports the fixed art assets allocated to the TCA matched to funding sources. Adjustments or transfers to the capital asset ledger should be made as determined appropriate.</p>   | <p>10.1 TCA facility management should ensure all catered events are accounted for each month including accurate and complete entry of events into the EventPro system. Invoices and subsequent commission payments should be reconciled to a report generated from EventPro of all catered events for the period. This will ensure the completeness of catering commission revenue.</p>   |
| <p>8.9 TCA should restrict access to supplies inventories to only those employees that need them in the course of their responsibilities. A well-maintained perpetual inventory system, managed by an individual that does not have or need access these inventories should be established for better control.</p>   | <p>10.2 If and when another RFP for catering services is issued, or if existing contracts are renewed, a due date for the annual listing fee should be included in the contracts. In the meantime, TCA facility management should work with Procurement to establish a mutually agreed upon annual due date with current vendors. Consideration should be given to inserting penalties for late payments into any new catering RFP/agreements.</p> |

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| <p>10.3 TCA facility management should address the lateness of catering commission payments with the appropriate vendors. Any subsequent catering contracts should include a provision for late charges.</p>  | <p>10.12 TCA facility management should take the following steps to strengthen internal controls over cash handling including: Review and update TCA Cash Handling Procures to include adequate segregation of duties and responsibilities, Prohibit access to funds by the same person that is generating, modifying and voiding invoices and initiating collections actions, Restrictively endorse checks upon receipt, Store undeposited funds in a secure location and limit the number of individuals with access to the funds, Increasing the frequency of deposits, Identifying a single point of receipt for all deposits, and Train and effectively communicate updated cash handling procedures to TCA staff.</p>                   |
| <p>10.4 To ensure the correct commission calculations, food and beverage amounts need to be detailed on the vendors' invoices and not lumped with other services. TCA facility management should contact each vendor to request that detailed charges be included rather than package pricing totals. This issue should be addressed in any future contracts.</p>   | <p>10.13 The TCA's Operating Policy related to the 25% deposit for events should be reviewed and updated, as applicable. The policy should identify who and when an exception to the deposit policy maybe be granted. Any delegation of duties should be documented, properly approved by facility management and a copy of the authorization document should be maintained by TCA.</p>   |
| <p>10.5 Should the current contracts be renewed or a new RFP be issued, TCA facility management should work with Procurement to address complimentary services and develop guidelines to address the issue of the TCA not receiving commissions on these services.</p>  | <p>10.14 TCA should consider documenting a change order for all amendments to services and prices after initial agreements are signed. The customer's signature should be required for all change orders related to an executed facility rental agreement.</p>  |
| <p>10.6 TCA facility management should explore the capacity of the EventPro system to determine whether events with merchandise sales can be specifically identified. This would assist staff in reconciling merchandise sales to ensure all commissions are received.</p>  | <p>10.15 TCA facility management should consult with the City Attorney's Office to determine what authority, if any, they have to offer discounts off of Council-approved published rental rates. A cost benefit analysis should be performed prior to offering discounted rates to determine the viability of the business transaction before any agreements with rental clients are finalized.</p>  |
| <p>10.7 TCA facility management should consider equal application of merchandise sales commission rates across all groups. Although the increase in commissions received would result in a small revenue increase, this practice would provide consistency of treatment.</p>  | <p>11.1 Overall operating costs for the TCA need a thorough review by TCA facility management. A focus on a business perspective of operating costs and not on reliance of the performing arts tax should be undertaken.</p>  |
| <p>10.8 TCA should develop a policy to periodically change the safe access code. Annual code revision should be a minimum standard with more frequent changes to be made depending on staff turnover/reassignment. Only those with a need should have access to the safe. The safe should be closed and locked when not in use.</p>   | <p>11.2 TCA facility management should continue to work with the City's Energy Management Coordinator to search for solutions to reduce the electricity costs. Electricity charges need to be evaluated and solutions to reduce costs should be pursued. Management should also pursue other solutions such as an energy evaluation and possible solar shade panels for the TCA parking lot.</p>  |
| <p>10.9 TCA should immediately cease the practice of charging back organizations producing events to recoup credit card fees. If TCA chooses not to charge the credit card fee upfront to the cardholder, TCA facility management should request the assistance of the Procurement Office to review options to recoup the processing fee by other means such as an "administrative fee" charged to production clients that would include box office set up, administrative processing, bank fees, paperwork, etc.</p> | <p>11.3 The purpose of the MAF needs to be revisited as the current language may not be clear and is subject to interpretation. Additionally, the fund balance should be monitored by Community Services management to determine if there are recommended changes to the contribution percentages from the various CIP funds. This should be performed in unison with the Municipal Arts Commission. Additionally, Mayor and Council's direction may need to be revisited and policies drafted as to the purpose of the fund with a clearly-defined list of allowable expenditures. Any revised percentage contributions should be approved by Mayor and Council, in addition to consideration of future uses of the excess fund balance.</p> |
| <p>10.10 Financial Services should provide formal training citywide to areas with credit card processing to ensure all areas are knowledgeable about credit card rules and the requirements contained in the City's credit card processing contract with our financial institution.</p>   | <p>11.4 The staff member responsible for the budget in each department/division should perform a monthly review of PeopleSoft reports to ensure that all transactions are recorded properly. The staff member responsible for the grant fund cost center took the initiative to meet with Accounting staff in Financial Services and devised a plan to properly track grant expenses. Municipal Art Fund grant expenses should be properly tracked and reconciled going forward.</p>  |
| <p>10.11 TCA facility management should review the revenue by venue and day of week and develop a strategy to capitalize on opportunities to increase facility revenue on low-use days.</p>   |   |

12.1 Should the Foundation remain in its current state and role as a support group for TCA, a robust policy should be developed requiring an annual conflict of interest discussion by Board members and written declarations by each member of the presence and/or absence of conflicts of interest. In addition, all meeting minutes should reflect whether or not these members with conflicts are voting on sensitive related issues pertaining to entities that they are involved with. The City should consider placing these requirements in any new MOU with the Foundation. Any changes to the MOU should be made only after considering whether the City should continue the relationship with the current Foundation or look at other models as mentioned earlier in this report (Organizational Structure). Any MOU should also clearly specify the role and purpose of the Foundation.

12.2 Provided that the relationship with the Foundation remain in its current form, the MOU should be revised to require statements be audited within a certain timeframe after the end of the FY (perhaps six to nine months).

12.3 The TCA Partner Program criteria, eligibility, and application process should be reviewed and updated as needed. Adherence to the updated eligibility criteria should be routinely monitored as well as a review of the costs/benefits of continuing partnership agreements with companies. Opportunities for mutually beneficial partnerships should be pursued.

