

A REPORT
TO THE CITIZENS OF SALT LAKE COUNTY
BEN McADAMS, MAYOR



An Audit of
Center for the Arts

April 22, 2014

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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April 22, 2014

Ben McAdams, Mayor
Salt Lake County
2001 S State St #N2100
Salt Lake City, UT 84114-4575

Re: An Audit of Center for the Arts

Dear Mayor McAdams:

We recently completed an analysis of Center for the Arts pursuant to Utah Code Ann. § 17-19a-204. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with certain internal controls. A report of our findings and recommendations is attached.

Our work was designed to provide reasonable but not absolute assurance that records were accurate and complete and that the system of internal controls was adequate. There may be inaccurate or incomplete financial records that were not selected for review. Further, there may also be instances of noncompliance in areas not examined.

We appreciate the time spent by the staff at Center for the Arts and the cooperation from Phil Jordan, Blair Fuller, Brian Fast, Melinda Cavallaro, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Center for the Arts during our audit. The staff was friendly, courteous, and very helpful. We trust that the implementation of the recommendations will provide for more efficient operations and better safeguarded County assets. Please feel free to contact me with any questions.

Sincerely,

Gregory P. Hawkins
Salt Lake County Auditor

By Larry Decker CPA, CIA
Sr. Deputy Auditor

cc: Phil Jordan, Director
Blair Fuller, Fiscal Manager

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Salt Lake County Auditor

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Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Center for the Arts. Our purpose was to examine cash receipting and depositing, verify the accuracy of change funds, search for controlled assets, review the accuracy of settlements with resident organizations and outside promoters, and account for County artwork.

Conclusion

At Center for the Arts, we found inconsistency between reports of individual ticket sales and ticket sales summary reports used in settling events with outside event promoters. Also, tickets pulled out of inventory by outside event promoters for their use were not reconciled to contract terms. In the area of cash handling we found lack of a supervisor's signature as evidence of review on some of the deposit documentation and refund forms. Accounts receivable reconciliations were not performed, aging reports were not signed, and documentation of collection efforts was not on file. We could not locate 5 out of 30 controlled assets sampled. Our last audit of Center for the Arts was released to the public in March 2013. In this audit, we found four capital assets whose tags were missing. Our revisit of these assets revealed that one of these items could not be located.

Findings and Recommendations

Finding # 1 - Accountability for controlled assets was not properly established.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.2.2 states one of the property manager's duties as follows:

"Accounting for all controlled assets within the organization's operational and/or physical custody..."

We were unable to locate 5 out of 30 controlled assets that we reviewed.

Management stated that tracking over 1,400 controlled assets in three different buildings can be difficult to achieve at times. The property manager relies on employees in those buildings to account for and report on these assets.

When accountability for assets is not fully established, assets are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that all controlled assets be tracked for existence and location at Center for the Arts.

Finding # 2 - The "Controlled Assets Inventory Form - Employee" was not used.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property/Assets," Sections 4.3 and 4.31 state:

"The Property Manager shall maintain records to manage controlled assets using the following forms (or forms that contain substantially the same information) and procedures. ... [the] 'Controlled Assets Inventory Form-Employee' is used for those assets that due to their nature, are used by and therefore readily assignable to an individual."

The "Controlled Assets Inventory Form-Employee" was not used to manage controlled assets that were assigned to employees.

Management stated that they were not aware of this form or its usage.

When accountability for assets is not fully established, assets are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that Center for the Arts use the "Controlled Asset Inventory Form-Employee" to manage controlled assets readily assignable to an individual.

Finding # 3 - An SAQ representing Center for the Arts' compliance with PCI-DSS had not been completed and was not on file.

Risk Level: Low

Countywide Policy #1400-7, "Payment Card Industry Data Security Standard Policy," Section 3.0 states in the Policy Statement that:

"Any County agency that accepts, processes, transmits or stores cardholder data using any County IT Resource or system shall comply with the Payment Card Industry Data Security Standard (PCI-DSS) in its entirety."

An SAQ representing Center for the Arts' compliance with PCI-DSS had not been completed and was not on file.

Management stated that lack of sufficient resources has hampered their efforts in achieving compliance and completing the SAQ.

When an agency is not compliant with PCI-DSS, there is an increased risk of cardholder data breaches, fines, and the inability to accept credit cards as payments.

Recommendation

We recommend that Center for the Arts management complete and sign an annual SAQ, and that Center for the Arts keep a copy of the SAQ on file to show they are aware of and compliant with PCI requirements.

Finding # 4 - The Supervisor did not sign the deposit documentation as evidence of review.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 4.2.2 states,

"The 'master' balance sheet shall be reviewed and reconciled to the bank deposit slip, and signed by another employee designated by Agency Management; and if possible, by an individual with equal or higher authority than the individual who prepared the deposit."

We reviewed 30 deposits made between February 2013 and January 2014. Supervisor signatures were missing on 14 out of the 30 deposits.

Management stated that they had implemented a procedure for supervisors to review and sign deposit documentation, but in some cases the procedure had been overlooked.

When deposit records are not verified by a supervisor, or other employee designated by management, there is an increased risk of error, misstatement, and misappropriation of funds.

Recommendation

We recommend that a supervisor, or other employee designated by management, sign the master balance sheet (posting report) as verification of funds deposited.

Finding # 5 - Supervisors did not sign off on all refunds.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 6.1.1 states,

"The void slip, or other documentation used in the refund transaction, shall be signed by the Cashier and an Agency Supervisor ... and retained on file at the County Agency."

We reviewed 32 refunds that were issued between February 2013 and January 2014. Supervisor signatures were missing on 4 of the 32 refunds.

Management stated that they work to ensure that the refund form is reviewed and signed by the ticket office manager, but in the cases just mentioned the process had been overlooked.

Without a supervisor signature on the refund form, the opportunity for misappropriation of funds is increased..

Recommendation

We recommend that refund forms be signed by a supervisor as well as the cashier who performed the refund.

Finding # 6 - Documentation of collection efforts were not on file.

Risk Level: Low

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection," Sections 4.14 and 4.5.2 states:

"All administrative collection efforts must be completed and documented before referral of an account to the District Attorney's Office. ... Accurate records of correspondence, telephone calls, and personal contacts with debtors shall be maintained."

Copies of dunning letters and documented notes of collection efforts were not on file.

Without accurate records of collection efforts, it is not possible to verify adherence to the Fair Debt Collection Practices Act, which prohibits use of false or misleading representations, unfair practices, and other unprofessional conduct.

Recommendation

We recommend that copies of dunning letters and notes of activities be retained on file for all collection efforts for past-due accounts.

Finding # 7 - Accounts receivable reconciliations were not documented and signed by the preparer.

Risk Level: Low

Salt Lake County Policy #1220, "Management of Accounts Receivable and Bad Debt," Section 5.3.2 states:

"The ledger of accounts receivable shall be reconciled to invoices and payments at least monthly, and the reconciliation shall be documented and signed by the employee who performed this step."

During the period of our examination, from February 2013 through January 2014, monthly accounts receivable reconciliations were not documented or signed by the employee.

When accounts receivable are not reconciled and reviewed on a monthly basis, misappropriation and errors are more likely to occur and remain undetected.

Recommendation

We recommend that a monthly reconciliation of accounts receivable be prepared and signed by the employee who prepared it.

Finding # 8 - Aging reports were not signed as evidence of management's review.

Risk Level: Low

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt," Section 5.6 states:

"The aged listing of individual receivable balances will reflect the results of billing and collection follow-up activity. Management above the level responsible for supervising the billing and collection follow-up function will review old dated balances."

We reviewed 12 accounts receivable aging reports for the period January 2013 to December 2013. Management did not review or sign the aging reports for January and August.

Without management's review and signature, follow-up on outstanding accounts may not be as likely to occur. The longer an account remains outstanding, the less likely it will be collected.

Recommendation

We recommend that the monthly aged listing be signed and dated as evidence of management's review.

Finding # 9 - Ticket sale totals from event settlements were not verified against detailed sales data.

Risk Level: Low

Generally Accepted Accounting Principles (GAAP) states:

"To be useful, financial information must be relevant, reliable, and prepared in a consistent manner ... Reliable information is verifiable and objective."

We examined documentation from four Center for the Arts events that occurred between February 1, 2013 and January 31, 2014. We compared both a summary report and a detailed report of ticket sales, and found that the two did not match. The "ArtTix Performance Ticket Sales Summary Report" is the source document for settling ticket sales with event promoters. To verify the reliability of this report we requested a separate ad hoc report from the ArtTix System listing all individual ticket sales. We found variances between the two reports ranging from \$700 to \$11,000.

Management stated that various factors, including processing fees retained on refunded tickets, might need to be considered when attempting to reconcile individual detail to sales summary totals.

When underlying data does not support summary sales totals for event settlements, the summary totals may not be reliable. Therefore, the County could be overpaying or underpaying event promoters.

Recommendation

We recommend that Center for the Arts management investigate differences between ArtTix Performance Ticket Sales Summary Reports and underlying individual ticket sales data to determine whether correct amounts were used in settlements and the need for any system adjustments.

Finding # 10 - A capital asset could not be located.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.2.1 states one of the property manager's duties as follows:

"Accounting for all capital assets within the organization's operational and/or physical custody as listed on the LGFS0801 'Salt Lake County Capital Asset Inventory by Organization' report."

A previous audit conducted in March 2013 found that a lighting system console on the capital asset list, property number 97224, was not tagged. During a retest of this finding, the item in question could not be found. On the capital asset list, this equipment is valued at \$5,300, and was purchased in 1999.

Management stated that advancing technology makes certain equipment obsolete. Some items may be transferred to a smaller venue when newer equipment is purchased, or their parts may be cannibalized for use in other equipment.

When a capital asset cannot be located the possibility exists that it was stolen.

Recommendation

We recommend that the lighting system console be found, or that it be reported as missing in a letter to the Mayor's Office Financial Administration.

Finding # 11 - Accounting for pre-pull and complimentary tickets was not documented in event files.

Risk Level: Low

The contract for one of the shows examined states:

"Salt Lake County reserves the right to limit the number of tickets pulled. Limits include: A maximum of 692 pre-pulls and 415 complimentary tickets for this performance. Any pre-pull tickets above the defined limit of 692 will incur a service fee of \$1.85 each in addition to the 4% producer fee and \$1.00 preservation fee. Any complimentary tickets taken above the defined limit of 415 will be at a cost of \$.50 each. If applicable, the above pre-pull, comp and preservation fund fees will be paid by the contractor upon settlement."

In two out of four events sampled, compliance with terms for pre-pull and complimentary tickets was not documented in the event file. Contracts with outside event promoters specify certain numbers of tickets the promoter can pull, or use, either to be sold (pre-pull) or given away as complimentary tickets. Above the defined limit, certain fees apply.

Center for the Arts management stated that documentation for calculation of any fees charged for pre-pull and complimentary tickets should have been in event files, but was overlooked in these cases.

Without documenting the number of pre-pull and complimentary tickets, and how this number relates to contract terms, the County could be losing revenues otherwise gained by fees incurred.

Recommendation

We recommend that the number of pre-pull and complimentary tickets to event promoters be documented in the event file and reconciled to contract terms for fees that may apply.

Additional Information

Background

The Center for the Arts comprises the Capitol Theater, built in 1913; Abravanel Hall, built in 1979; and the Rose Wagner Theater, built in 1997. Though not originally a County owned building, the Capitol Theater was acquired by the County in the 1970s, renovated as part of an American Bicentennial project, and opened as a newly remodeled and repurposed building in 1978. In 2012, the Capitol Theater underwent extensive remodeling, and was closed for several months during this process. A new addition currently under construction to the west of the building will house rehearsal facilities and office space for Ballet West, and will expand the Capitol Theater lobby. As a result of a significant patron contribution, the Capitol Theater is now named the Janet Quinney Lawson Capitol Theater. The County rents these buildings for performances by resident organizations, such as the Utah Symphony and Opera, and Ballet West, and by outside performing groups and touring companies. Also, many resident organizations rent office space within these buildings. As an additional function, the Center for the Arts recently assumed management of the County's extensive art collection.

Scope

Our work included a formal examination of financial records related to the following key internal controls, to the degree applicable:

- Cash receipting and Depositing
- Accounts Receivable
- Event Settlements
- Controlled Assets
- County Artwork
- Change Fund
- Credit/Debit Cards

Our examination period covered up to twelve months ending January 31, 2014. In addition to reviewing financial records, we reviewed and examined current practices through observation to assess compliance with Countywide policy and standard business and internal control practices.

Management response to findings in this report, when received, will be attached as Appendix A.



April 11, 2014

Dear Larry Decker:

Thank you for the time you spent with our organization during the audit and for the recommendations made and advice given to us to improve our operations.

Here are the responses to the audit findings:

BEN MCADAMS
Salt Lake County Mayor

ERIN LITVACK
Department Director
Community Services

MARTIN JENSEN
Associate Director
Community Services

PHILIP JORDAN
Division Director
Center for the Arts

MELINDA CAVALLARO
Associate Division Director
Center for the Arts

50 West 200 South
Salt Lake City, UT 84101

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Finding # 1 - Accountability for controlled assets was not properly established.

CFA Response

We have software that will be updated to facilitate our tracking of assets. This software allows us to print tags for each controlled asset and it utilizes hand scanners for taking a physical inventory. We will also work with building staff to find better ways to track movement of assets between buildings and assets that are not specifically assigned to an individual employee.

Finding # 2 - The "Controlled Assets Inventory Form - Employee" was not used.

CFA Response

We will begin using the "Controlled Asset Inventory Form-Employee" to manage controlled assets assigned to individual employees.

Finding # 3 - An SAQ representing Center for the Arts' compliance with PCI-DSS had not been completed and was not on file.

CFA Response

Our Division continues to work on PCI compliance with Brandon Streator, Mark Evans and the County IS team. In the last year our servers have moved to a Service Provider in Texas from Salt Lake County IS. This Service Provider is PCI compliant and has made it possible for us to now only be required to have compliance at an SAQ-C level rather than the much more complex SAQ-D level. Based on the SAQ-C guidelines we are at least 60% compliant (19 out of 31 items) and possibly higher.

During 2014 we will implement new credit card processing software as recommended by Tessitura. This software will also help us get closer to compliance. It is our goal to be fully PCI compliant by April 30, 2015.

Finding # 4 - The Supervisor did not sign the deposit documentation as evidence of review.



CFA Response

We will re-train our supervisors to sign each master balance sheet on a daily basis. Supervisors are reviewing daily sales for each cashier and verifying deposits before sending them to the bank but they are forgetting to sign each deposit as having been reviewed.

Finding # 5 - Supervisors did not sign off on all refunds.

CFA Response

By CFA policy cashiers don't process any refunds but rather they pass a refund request along to a supervisor who makes the decision on whether or not a refund is issued. The supervisor fills out a form and signs it and then that form is signed by either the ArtTix Manager or Assistant ArtTix Manager. We will review our process again to make certain that all refunds are reviewed and signed off on by at least two individuals.

Finding # 6 - Documentation of collection efforts were not on file.

CFA Response

We will begin to keep documentation of all correspondence in an Accounts Receivable file that can be readily accessed. We will also document phone calls and other customer contact.

Finding # 7 - Accounts receivable reconciliations were not documented and signed by the preparer.

CFA Response

We will prepare an accounts receivable reconciliation for each month and will have the preparer and reviewer sign the reconciliation.

Finding # 8 - Aging reports were not signed as evidence of management's review.

CFA Response

Management will continue to review and follow up on accounts receivable. We will make certain to sign and date the Accounts Receivable aging and reconciliation per County Policy.

Finding # 9 - Ticket sale totals from event settlements were not verified against detailed sales data.



CFA Response

We will review with Tessitura Software the possibility of obtaining a report that would enable reconciliation between detailed data and the Summary report currently used for settling events.

Finding # 10 - A capital asset could not be located.

CFA Response

We will find the asset and note its current location on our listing of assets. We will also send a picture of the item to Larry Decker.

Finding # 11 - Accounting for pre-pull and complimentary tickets was not documented in event files.

CFA Response

We will discuss current procedures for documenting pre-pull and complimentary tickets used for events to find an easier way to track these items in the event files.

