



City of Norfolk

TO: Honorable Council Members FROM: John H. Sanderlin, Jr., City Auditor *JHS*
DATE: March 11, 2014 SUBJECT: Cultural Facilities, Arts and Entertainment

Please find attached our final audit report on Cultural Facilities, Arts and Entertainment.
Should you have any questions please feel free to contact me at 664-4045.

cc: Marcus Jones, City Manager
Wynter Benda, Assistant City Manager
John Rhamstine, Director of Cultural Facilities, Arts and Entertainment
Alice Kelly, Director of Finance
Timothy Haycox, Assistant City Auditor

Audit of Cultural Facilities, Arts and Entertainment

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Audit Report No. 14-3R



March 11, 2014

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Executive Summary

The Cultural Facilities, Arts and Entertainment (CFAE) department provides needed entertainment venue services to both the City of Norfolk and the entire Hampton Roads region. These services are provided to many thousands of persons each year across a wide spectrum of events through the efforts of a dedicated and conscientious staff at a number of buildings and facilities. CFAE conducts its operations using both fund appropriations of the City and events-generated funding. The City general fund appropriations for FY13 totaled \$6.3 million.

Having adequate controls in place helps to promote strong daily operations, transparency, and accountability; and ensures that operational costs are within budget and consistent with established policies, departmental goals and objectives, and overall city priorities. Therefore, we conducted an audit of CFAE to determine the adequacy of controls over and monitoring of expenditures and revenues. This audit was a part of the City Auditor’s FY13 Audit Work Plan and carried over into FY14. We focused on these specific areas: financial management controls, financial reporting, and asset management in regards to the expenditures and operations of the Entertainment Bureau, Cultural Affairs,

Special Events, and the MacArthur Memorial. Our review of expenditures chiefly concerned expenditures of city-provided funding appropriations as recorded in the City’s financial accounting system and not events-related expenditures¹. Events-related expenditures along with events-generated revenues are accounted for within several promotion bank accounts using a personal computer-based accounting program independent of the City’s financial accounting system.²

While we found general compliance with City policies and procedures for expenditures, during the course of the audit, certain internal control weaknesses and accountability concerns became evident including:

- Timeliness and adequacy of management’s monitoring of tasks, assurance of task completion, and reporting of financial results.
- Timeliness of accounting tasks performed by administrative personnel.
- Emphasis placed by accounting personnel on operational tasks.
- Compliance with prescribed internal departmental policies and procedures.

Our findings in the results section of this report provides more details of these overall concerns.

Regarding events-generated revenues and expenditures; we limited our review to an overview of the revenue process and payments of residual revenue made to the City.³ However, from our limited review, we made certain observations regarding

¹ Events-generated revenues and expenditures are those of shows and other entertainment events as well as conferences and non-entertainment events held at various venues.

² Events-generated revenues and related expenditures will be the subject of a separate audit.

³ See footnote 1.



promotion account items and processes for which we present in this report.

We acknowledge the City's commitment to provide opportunities for public entertainment and promotion of the arts and the efforts of CFAE to furnish management oversight and financial disclosure regarding these activities. Such oversight and disclosure is a means of increasing the understanding and effectiveness of the City's support of these programs and events.

In our audit we noted that CFAE faces challenges presented by having to manage and operate two operational funding streams and two accounting systems. An exit meeting was held on November 19, 2013 with the Director to discuss the audit report and recommendations. During our exit, we discussed our results, conclusions, and recommendations with CFAE management and have included their responses in this report. In addition, a draft of this report and the department's responses were provided to City Management prior to its release.

Assistant City Auditors Timothy Haycox and Barbara Reeves conducted the audit under the direction of City Auditor John Sanderlin. We appreciate the cooperation of the department and the courtesies and assistance extended to us during this audit and we are available to discuss these matters in further detail. We look forward to the continued success of CFAE in its highly visible and active role in city government and the life of the City and the Hampton Roads community.

Background

The mission of the Department of Cultural Facilities, Arts and Entertainment is to provide inspiring live entertainment, diverse community events and vibrant public art to enrich and celebrate life in Norfolk and to promote collaboration, responsible management, economic and cultural vitality. The department fulfills its mission through its management of city-owned and leased facilities located primarily in the downtown area of the City of Norfolk. These facilities

include: Scope arena and adjoining exhibition hall, Chrysler Hall, Attucks Theater, Wells Theater (leased), Harrison Opera House, Little Hall, Prism Theater, Selden Arcade, MacArthur Memorial Museum, Harbor Park, and the Norfolk Police and Fire Museum. These buildings range in age from new construction to 100 years old and the entertainment venues have capacities up to 10,000 patrons. Events are scheduled year-round and include the performing and visual arts, sports, and commercial sales promotions and shows. Facilities are also available for rental for private events such as weddings, receptions and recitals. In addition, CFAE provides logistics support and permitting processes for outdoor activities such as neighborhood events and marathons and manages public arts projects. Solicitation, marketing, and production of events are supported by a department staff budgeted at 68 positions. To facilitate the accomplishment of CFAE's mission, many staff members, in addition to their primary job responsibilities, also serve as event duty managers on a rotating basis.

Objective, Scope and Methodology

Our audit objective was to determine the adequacy of internal controls over and monitoring of expenditures and revenues. Our planning and detailed audit steps included obtaining an understanding of the accounting processes used by the department and reviewing selected expenditures for compliance with prescribed departmental and citywide policies and procedures. We reviewed 15 transactions that total \$219,410 covering the period of July 1, 2012 through November 21, 2012.

We also distributed, reviewed, and discussed internal control questionnaires with department leadership and considered the impact of the results on the work of our audit. In addition, we gathered background information regarding the department, conducted a count of cash funds on hand, reviewed a test sample of expenditures, and conducted interviews of department



personnel with varying degrees of responsibility to enhance our understanding of the operations.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Audit Results and Recommendations

We found adequate management controls existed over expenditures within the Cultural Facilities Arts and Entertainment (CFAE) department. On the other hand, our audit disclosed some areas needing improvement to enhance the overall internal control system. Our observations are summarized below in three categories: financial management controls, financial reporting, and asset management. Details of each category follow in Sections I through III along with management responses.

Financial Management Controls

- Encumbrances are not managed timely.
- Sales taxes are paid in many instances.
- Employee reimbursements are not timely.
- In some cases, supporting documentation for expenditure is missing.
- Review of fuel charge card usage is not performed.

Financial Reporting

- Accounting Policy for independent QuickBooks accounting system for events-generated revenue and expenses has not been reviewed or approved by the Department of Finance.
- Internal statements regularly prepared for CFAE management and the Cultural Facilities Commission Board are not

provided to other departments or upper level city government.

Asset Management (Cash and Liquid Assets)

- Security measures are underutilized.
- Cash drawer control log entries are not consistently completed.
- Periodic cash counts are not performed.
- Petty cash and change fund policies are not followed.
- Prepaid credit card usage is not appropriately documented.
- Event merchandise losses continue to be experienced.
- Departmental accounting policy related to the collection for debt was not consistently adhered to.
- Unpaid accounts were not periodically forwarded to the City Attorney's office on a consistent basis.
- Inventory listing reports of equipment and tools contain errors and are not current or used to manage the inventory.
- Periodic inventory counts and reconciliations are not being performed.
- Listing of merchandise inventory is not maintained.
- Vehicle transfers are not properly recorded.
- Annual inventory of food service related equipment, fixtures, and furnishes is not conducted.
- Assets under vendor control not reported to CFAE.
- Inventory of fixtures, furniture, furnishings, and equipment at the Waterside Conference Center is not maintained.



Section I - Financial Management Controls

Encumbrances not managed timely

Accounts payable of CFAE as shown on the general fund Open Encumbrance Listing included a number of items open from fiscal years prior to FY13 (68) and the dollar total of these items was \$40,847. Many of these encumbrances (53) represented intended future purchases which were either replaced by other purchases or were otherwise no longer needed. A review of capital improvement project (CIP) encumbrances yielded similar results, however, it should be that noted some of the projects, while assigned to CFAE, are actually controlled by other departments. Our review noted one non-CIP expenditure, which although immaterial considering CFAE as a whole, was recorded against an encumbered amount for a CIP project. Retaining encumbrances which are no longer needed results in an overstatement of the City's committed funds and a resultant limitation on funding availability.

Sales taxes paid

We found examples of the lack of employee use of the City's Tax Exempt Status Number with vendors and resultant petty cash expenditures and reimbursement to an employee which included State Sales Tax costs. While not of a material amount, these costs should not be incurred by the City.

Timeliness of employee reimbursement

An employee reimbursement for supplies purchased in FY12 was not paid until FY13. The request and approvals were not completed in a timely manner resulting in the cost being recorded in the wrong fiscal year. While this expenditure was not material, this indicates a lack of timeliness in submission and processing and, additionally, a mismatch between the year the cost was incurred and the year it was paid.

Supporting expenditure documentation missing

Certain expenditures were not supported by the original vendor invoice. While copies were provided, the original document should be required to be used as the source document to reduce the potential for duplicate payments.

Another item in our test work was a payment to the Crispus Attucks Cultural Center (CACC) prior to the City's purchase of the property in December, 2012 for reimbursement for utility bills. This payment included reimbursement for a late payment fee. CFAE could not locate documentation supporting CFAE's liability for making such utility cost reimbursements. Effective December 2012, ownership of the Crispus Attucks Theater transferred to the City and such utility fees are now paid directly by CFAE to the service provider.

Review of fuel charge card usage not performed

The Fleet Management bureau of the General Services department provides monthly Fuel Transaction Detail Reports to client departments via intranet access. These are to be used to verify the fuel costs identified as charges to the city Fuel Charge Cards. These reports were not reviewed by CFAE. Our initial test work sample was the month of July, 2012. We expanded the test work to include six monthly reports of FY13.

We determined 51% of all fuel expenses were shown on the reports for CFAE to have been charged by an "Undefined" party – there was no Employee Name or ID Number shown on the report. These charges should have been detected by CFAE staff (the Operations Manager with the responsibility to perform as the fuel card liaison or the Accounting Manager) and brought immediately to the attention of Fleet Management for research and resolution. There should have been concern on the part of the CFAE staff as (based upon the details provided in the reports) they could not determine whether or not the fuel charge cards might have been



subjected to fraud, waste, or abuse. If research was to reveal the charges were neither appropriate CFAE activities nor allowable city purposes, the loss to the City for the six-month period would equal \$1,535.

We recommend the department:

1. Review the status and accuracy of the encumbrance listing, as requested by guidance from the Department of Finance, and monitor efforts made by CFAE accounting staff to keep it current.

Management Response: *We have worked with Purchasing and have cleared prior year encumbrances and in the future encumbrances will be reviewed weekly.*

2. Ensure that sales taxes are not charged on CFAE purchases.

Management Response: *We are working with all staff in our department to make sure that if they are making purchases they have the tax id number with them when they do so. We are also working with Purchasing to see about having a generic tax exempt letter that staff can have with them for vendors rather than the vendor specific form that Purchasing signs.*

3. Develop a policy to ensure timely presentation and processing of payments.

Management Response: *We have now begun deploying a monthly email to leadership and other pertinent staff as a reminder to get all expense reimbursement requests to accounting in a more timely manner.*

4. Require original documentation to support payments.

Management Response: *Whenever possible we receive original documents for the payment of invoices and bills. In*

the case of CACC, CACC paid all of the invoices and we then reimbursed them for the invoices, which is the main reason for the copies in our files. They maintained the originals for their files, since they paid the vendor directly.

5. Implement a review process for Fleet Management monthly reports and charges.

Management Response: *We have begun reviewing all fleet charges each month and have also worked with fleet to add employee names to gas cards that previously did not have an individual associated with them.*

Section II - Financial Reporting

Uniformity and consistency

The financial operations of CFAE use both the City's financial accounting system (for City-appropriated funding) and a separate and independent QuickBooks accounting system (for the activities of the promotion accounts). CFAE has an accounting policy which addresses processes for the QuickBooks system including financial reporting. We noted that the policy has not been reviewed or approved by the Department of Finance. Such direction and resulting compliance are essential in supporting effective oversight and management functionality.

We noted that internal statements are regularly prepared for CFAE management and the Cultural Facilities Commission Board. These statements are not provided to other departments or upper level city government. The annual CFAE Comparative Financial Statement is the department's effort to provide an overall financial presentation of the activity and impact of CFAE and includes amounts from both the City's financial accounting system and the separate QuickBooks accounting systems for the promotional accounts and additionally includes information from other city departments such as parking,



admission and meal taxes, and insurance costs.

While we commend CFAE for its efforts in providing such a comprehensive report (in terms of areas covered), the ability of the city to reflect this information in its CAFR is challenged in that the information is not presented in accordance with Generally Accepted Accounting Principles (GAAP). Examples include the netting of items of revenue and expense and the lack of recording of liability amounts (accruals) in the promotion accounts.

We recommend the department:

6. Perform and participate in a review of the independent processes to facilitate compliance with citywide goals for uniformity and consistency in financial reporting.

Management Response: *We are in the process of setting up a meeting with Department of Finance representatives to go over this process.*

7. Consider revising the formatting of its Comparative Financial Statement to conform with GAAP and the City’s financial presentations.

Management Response: *We are in the process of setting up a meeting with Finance representatives to go over these processes.*

8. Make periodic reporting of financial data to the Department of Finance.

Management Response: *We are in the process of setting up a meeting with Finance representatives to go over these processes.*

Section III - Asset Management

Cash and Liquid Assets

For its ticket selling operation, CFAE maintains a \$10,000 change fund from

which cashier tills of \$300 each are drawn. Our cash count indicated that funds were intact and we note the following administrative exceptions or conditions:

- Security measures underutilized.
- Cash drawer control log entries not consistently completed.
- Periodic cash counts not performed.
- Petty cash and change fund policies not followed.
- Prepaid credit card usage not appropriately documented.
- Event merchandise losses continue to be experienced.

➤ **Security measures underutilized**

The safe located at Scope containing the box office change funds has both a combination and a key lock. We found that, while the key lock is used on a regular basis, the combination lock is not used. Having both forms of security is an important asset-safeguarding control which should be used.

➤ **Cash drawer control log entries not consistently completed**

Our count of the box office change fund indicated a lack of consistency in the documentation of the acceptance and return of cashier funds by the cashiers. This control process of acceptance and acknowledgement should be supported by regular entries in a log or other recordkeeping document.

➤ **Periodic cash counts not performed**

Our review of CFAE change fund cash count logs indicated that verification counts have not been performed on a regular basis by CFAE. These logs indicated counts at the month-ends of June through September 2012 with none in FY13 since September. Counts previously were performed in January 2011, June 2009, and May 2009. CFAE should make regular and consistent application of this important control process. This was a recommendation of a prior audit.



➤ **Petty cash and change fund policies not followed**

Prescribed procedures for the operation and management of petty cash and change funds are provided on the City’s intranet site. We found that not all CFAE custodians had copies of the procedures nor were they familiar or in compliance with certain aspects of them. Examples of noncompliance included vouchers not being approved by supervisors and not maintaining a log indicating expenditures and the remaining cash balance.

Additionally, custodian forms for the change fund and petty cash funds had not been prepared for the year ending June 30, 2012 (with the exception of MacArthur Memorial) as requested by the Department of Finance. The Department of Finance listing of such funds indicated \$750 in change funds for Selden Arcade which had been previously remitted to the City Treasurer’s office. If the June 30, 2012 custodian forms had been prepared and submitted, this would have been reflected in the June 30, 2012 listing of funds by Finance.

➤ **Prepaid credit card usage not appropriately documented**

Eight prepaid Visa gift cards, which we were told were for \$100 each, were found in the safe during our cash count. We understand that they were the remainder of 35 cards which were purchased in support of promoting Scope as the site for the Mid-Eastern Athletic Conference (MEAC) tournament and that they were purchased using promotional account funds. We understand that the remaining cards are to be used for subsequent events and that such costs will be transferred from the posting to MEAC to the appropriate event.

Prepaid debit cards, in terms of portability and usage, are cash equivalents and as such require a high degree of usage monitoring and accountability. With these cards having been purchased from the promotions account and being a part of the CFAE event management process, we determined that further review of them will be performed in

the course of an upcoming audit engagement focused upon the promotions accounts.

➤ **Event merchandise losses continue to be experienced**

Missing, Lost or Stolen Property Reports are required to be filed with the City Auditor for each such city asset loss event. The CFAE events operation handles significant amounts of cash chiefly through its ticket seller and event merchandise sales activities. The table below indicates amounts of cash and merchandise reported as missing, lost or stolen for fiscal years FY10 – FY12.

FY10	\$1,766
FY11	4,600
FY12	2,494

For FY13 to the date of our audit there were three reports submitted reporting a total of \$2,228 in cash and merchandise. One of these reports was for \$1,715 in missing merchandise. CFAE management states that the causes of such losses include the hectic pace of event sales activity and the environment of public access to merchandise in the venue. Sales of merchandise at events can, depending on the arrangement made with the promoter, be managed by CFAE or solely by the promoter with CFAE’s share of the profits being dependent on the extent of its involvement in the sales activity (for example, extent of CFAE’s provision of sales personnel). Due to its current personnel availability constraints, CFAE is considering changing to only having outside vendor-managed merchandise sales at events.

Accounts receivable are not effectively managed

CFAE receives rental payments for use of its facilities. Such events include single (one-time) events, events held over several days or weeks, and events held over the course of a year or longer. Fees charged for events may require a one-time payment or periodic payments. Amounts due and paid for such events are entered in the promotion



accounts. We were presented with three reports from the QuickBooks system of amounts due and receivable from multiple individuals and organizations which totaled \$393,937 at March 31, 2013.

Of that total amount \$252,604 was past due by at least 90 days. The reports are summarized in the table below.

	Current	1-30 Days	31-60 Days	61-90 Days	Over 90 Days	Total
Scope Promotions	\$ 487	\$ 6,032	\$ 118,454	\$ 9,719	\$ 229,414	\$ 364,106
Attucks Promotions	-	2,555	(1,379)	4,626	16,561	22,363
Cultural Affairs	298	274	267	-	6,629	7,468
Total	\$ 785	\$ 8,861	\$ 117,342	\$ 14,345	\$ 252,604	\$ 393,937

Some of the unpaid accounts go back as far as 2002. One current tenant had a balance of \$138,881. Additionally, our review indicated that one tenant’s status as a legal entity has been terminated by the State Corporation Commission and it has had its tax exempt status revoked by the Internal Revenue Service. The receivable account details are maintained by CFAE and are not recorded in the City’s financial accounting system. CFAE accounting policy (July 30, 2008) states that:

- the collection process is to begin after the invoice is unpaid for thirty days,
- a past due statement is to be sent out,
- followed by another statement and phone call if payment is not received within sixty days,
- at ninety days a payment plan is to be set up, and
- if unable to set up a payment plan, a judgment is to be filed against the debtor.

Our audit did not find compliance with this CFAE policy. We understand that periodically unpaid accounts are forwarded to the City Attorney’s office for collection, however; we could find no regularity or uniformity with this procedure. Concerns were expressed to us by CFAE management as to limitations on collection efforts due to the perceived special status of certain clients.

The mission statement of CFAE declares the department’s goal of promoting arts and entertainment in the City of Norfolk and the extent, form and method of this support have evolved over time. Periodically, certain amounts owed for rent from tenants have been forgiven based on contractual arrangements in efforts to assure the continued availability of high quality performing arts events. The accounts receivable and collection processes of the city will be reported on in the City Auditor’s audit of Citywide Collections Processes. Our findings in this CFAE audit confirm the need for more effective management of this function.

Inadequate inventory accounting management processes

➤ **Maintenance Operations**

The CFAE department is responsible for the maintenance and repairs of its assigned facilities and uses the COGZ work management program to schedule, assign, and track such work tasks. To facilitate this service work, an inventory of parts and supplies is maintained. Such items include filters, light bulbs and plumbing, electrical and mechanical parts and this inventory is kept in the maintenance storeroom underneath the Scope Complex.

We were provided a copy of the inventory listing and, while we did not examine or count individual items, our review of the listing and subsequent inquiry indicated certain apparent errors existed in the report (i.e. unit pricing is not kept current nor monitored - one item with a cost of \$3.21 was entered at a cost of \$3,212 - and non-part items such as completed work orders and equipment items were included in the listing). The original report indicated a total value of \$1,949,095. Our review and recalculated estimate, after revisions to exclude non-supplies and parts items, resulted in an estimated total of \$163,738. We found that the report is not used to manage the inventory and that periodic test



counts and reconciliations are not being performed.

Without corrections and management audits of the storeroom contents, misuse and/or loss of parts could occur and not be detected. We understand that CFAE is reviewing the report and is making appropriate corrections to the database information in addition to making efforts to better implement the inventory management features of COGZ. We understand that CFAE staff is developing additional policies regarding inventory controls and processes and we recommend that their efforts include review and coordination with other operational city departments and the City Attorney to ensure the policies are effective, consistent and in compliance with legal requirements. Effective use of COGZ inventory features can provide valuable parts and supplies management and control.

➤ **Selden Gift Shop**

The gift shop at the Selden Arcade was closed effective June 30, 2011. The bulk of inventory items were transferred to the Nauticus Gift Shop for sale with the intent that the remaining items would be provided at future city events as promotional “give-aways.” We inquired as to the remaining items and requested a listing of them. This listing was not available. The inventory was subsequently counted and the listing provided to us. We understand that the dollar amount is not material to CFAE as a whole.

➤ **Vehicle transfers not recorded**

Effective July 1, 2011, the operation of the Special Events Bureau of the Department of Recreation Parks and Open Space (RPOS) was transferred to CFAE. Annually, the Department of Finance requests each city department review and provide updates for the listing of assigned assets in the City’s financial accounting system. Our review indicated that the vehicles assigned were not transferred in City’s financial accounting system, neither were they transferred in the FASTER management system of the City’s

Fleet Management Bureau. This resulted in these assets (costing \$130,650) continuing to appear in fuel and maintenance billing reports as assigned to RPOS and thus not permitting effective review and management of the costs associated with these assets by CFAE.

➤ **Assets under vendor control not reported to CFAE**

The current food service contract requires the city to provide certain items of equipment, fixtures, and furnishings and that annually the inventory listing of such items is to be reviewed, updated and signed by both the vendor and the CFAE director. Our audit indicated that such a review and updating process is not being performed and indicates a weakness in internal control and the safeguarding of assets.

CFAE contracts with an outside facility manager for management of the Waterside Conference Center (WCC). This contract requires the management company to provide required replacements, renewals to, and refurbishment of the fixtures, furniture, furnishings, and equipment at the conference center. Such costs are to be paid from the annual funding provided by the city under the contract. As a part of this process, the management company is to maintain inventories and records of such inventories. Our review indicated that such processes and inventory listing are not maintained. While we understand that CFAE management does review expenditures made by the management company from the city-funded account, physical inventories and regular monitoring of the assets do not occur.

We recommend the department:

- 9. Make use of the safe combination lock in addition to the key lock.

Management Response: *We have repaired the tumble lock and have had the combination changed. New policies will be set forth that the safe is to be tumbled and locked every night upon close-up. Key locking of the safe will*



continue once the box office is open for sales during the day but at close of business it is to be key locked and tumble locked.

10. Strictly adhere to the procedure of box office personnel documenting the acceptance and return of cashier funds by the cashiers and management monitoring accordingly.

Management Response: *We have conducted an all staff meeting with the box office sellers and supervisors and adjusted policies and procedures will be distributed that emphasize that seller tills are to be counted and signed out prior to their shift, counted in front of a supervisor and verified by a supervisor and then signed back in upon completion of their shift. Non-compliance with this policy will result in disciplinary action for both sellers and supervisors. All cash moved in and out of the safe is being logged.*

11. Conduct regular and consistent cash counts as was previously recommended in a prior audit.

Management Response: *We will be conducting monthly counts of the \$10,000 change fund and periodic counts of the petty cash throughout the department. We will email the CFAE Director and Assistant Director each month with the results of our count when the change fund count occurs and also when the counts occur for the petty cash.*

12. Adhere to city policy regarding documentation of custody and usage of petty cash and change funds.

Management Response: *All custodian forms have been updated for all petty cash and change funds. They have been forwarded to Finance. We will make sure that each reimbursement is approved by the appropriate parties and that a log is kept at all sites for the petty cash and change funds.*

13. Conduct an analysis to determine the economic impact of making a change to only having outside vendor-managed merchandise sales at events.

Management Response: *We have contracted with an outside vendor-managed company to handle all merchandise sales. While we will make less revenue, the contractor will now be responsible for any over and short cash situations.*

14. Implement and make regular use of COGZ inventory process features.

Management Response: *We have reviewed our COGZ inventory and made adjustments including price adjustments, quantity updates, and removal of non-part items. Work orders are no longer found in our inventory listing and our physical equipment is currently being moved to the Equipment tab. In addition to this we have altered our storeroom procedures for requesting parts and checking out fixed assets (tools). Beginning in FY14 a work order is required in order for any parts to be ordered or distributed. Each employee had to sign a tool loan agreement in order to continue signing out and using tools kept in our storeroom tool cage. Inventory quantities are now adjusted within COGZ no later than the close of business on the following day allowing for second shift productivity to continue in the absence of a storekeeper. Upon arrival each morning, our storekeeper now pulls several items for test counts. We plan to begin producing monthly storeroom reports which will outline our monthly findings and provide data to make further improvements or changes as needed.*

15. Maintain an inventory listing of non-events related merchandise and promotional give-away items.

Management Response: *We now have this list in place and as we deplete the*



inventory we will certainly make sure that the Director of the department is aware of what we are using as promotional give-aways and make any adjustments to the inventory listing.

16. Work with the Department of Finance and Fleet Management regarding the transfer of vehicles to the Department of Recreation Parks and Open Space.

Management Response: *We have sent the request to Finance for the vehicles to be moved from the RPOS inventory listing to the CFAE listing. We will follow up to verify that this move has been made.*

17. Coordinate with the food service vendor to review annually a listing of city-owned inventory items.

Management Response: *We are currently working with the Ovations group to conduct an inventory count and make any necessary changes to the inventory. We will be doing this on an annual basis.*

18. Coordinate with the property manager of the Waterside Conference Center to perform physical inventory of fixtures, furniture, and furnishings.

Management Response: *We are currently working with the group at the Waterside Conference Center to conduct an inventory count and make any necessary changes to the inventory. We will be doing this on an annual basis.*

authorizes municipalities to appropriate funds to a special or revolving account. More specifically, the funds are to be used to engage, advertise, and promote any such entertainment and to operate such facilities. In performing these functions, promotion accounts are used to hold revenues for upcoming events pending event occurrence and the payment of related expenses. For this purpose, a promotion account was opened by CFAE and, at a later date, the city provided \$100,000 in funding. We understand that CFAE management is responsible for transferring to the city all funds in excess of a standing balance of \$100,000 plus an amount reserved for the potential liability for costs for upcoming events, though CFAE could not provide documentary support for this arrangement. In addition, over the course of a number of years CFAE has opened additional promotion accounts which it said was to better accommodate the accounting of the separate venues. These accounts are managed by CFAE, independent of control by the Department of Finance and the City Treasurer.

During this audit, we obtained some information on the operations of these accounts, including certain policies and procedures, however, these accounts were not the focus of the audit and thus were not reviewed in depth. Bank statements and reconciliations for the end of fiscal year 2012 for eight promotion accounts controlled by CFAE indicated a total amount of \$1,364,590. The CFAE accounting policy indicates that after the monthly financial statements have been completed, the net income taken directly from the income statement is remitted to the city. For the period July 2012 – January 2013 only four payments were made through May 15, 2013 (three for the Scope promotions account and one for Special Events). To facilitate financial accountability and city cash management, the periodic remittance of revenue should be forwarded to the City Treasurer on a regular, defined schedule.

Other Observations

We observed other matters that we wish to bring to management attention concerning: promotion accounts, payroll, Waterside Conference Center, and Attucks Theater. Our observations are below.

Promotion Accounts

To facilitate the work of localities in soliciting and producing public events using public facilities, state code (Sec.15.2-1129)



Our review of revenue also indicated that a combination of accounting practices is used wherein remittances for some events (chiefly the large ones using the settlement process) are made after the settlement of the accounting (in effect a cash process) and, generally for smaller events, the remittance is made to the city prior to the receipt of the cash (an accrual process recognizing accounts receivable as revenue). We understand that payments that are received on these accounts receivable are not included in subsequent transmittals to the city because they were included at the time the accounts receivable was booked.

Payroll

We observed that IRS Forms 1099 Miscellaneous Income Statements for 2012 were issued covering payments for support services performed for CFAE (primarily to off-duty police officers for security of events and to non-city employees for services as “runners” assisting events). We noted that the forms were issued indicating the employer names as “Scope Promotions” and “Cultural Affairs” with each set using the employer tax identification number of the City of Norfolk. Internal Revenue Service requirements state that amounts paid to employees should be included in their Forms W-2 and not reported separately on Form 1099. Additionally, the filing of Forms 1099 for the city is only to be performed by the Department of Finance. There is also a concern that the compensation paid by CFAE for these hours worked beyond the employee’s regular city work schedule may not be compliant with the Fair Labor Standards Act.

Waterside Conference Center

CFAE is tasked with responsibility for the maintenance of the Waterside Conference Center. This work is performed through a multi-year contract with an outside property manager. The terms include the following:

- The city is to provide annual funding in the amount of \$195,000 (known as the Reserve).

- The funds are to be maintained in an interest bearing account.
- All amounts in the account (including interest) are to be the property of the city.
- Amounts will not be spent in excess of the balance of the Reserve.
- Amounts not spent in a given year will be carried over to the following year.

In addition to our observations noted above in the Fixed Assets section of this report, we found that the funds have been maintained in three different accounts since 2011 and that currently, while the funds are in a single interest-bearing account, we found no interest posted to it. Account service charges for the month for which we received the account analysis statement (April 2013) were in excess of the interest earned, however, there was also no posting for the service charges or the net of the interest earnings and the service charges. The account analysis statement indicated that it is a grouped money market account. We noted that the balance on the account at April 30, 2013 was \$646,491 which represents in excess of the sum of three years of annual funding amounts. We are aware that the current contract expired June 30, 2013 and, at the time of our audit, was in the process of being renegotiated by CFAE in coordination with the City Attorney.

Attucks Theater

Based upon our research and management’s statements, the Crispus Attucks Cultural Center (CACC) is operating as the sole tenant of the Attucks Theater. The most recent agreement between the City and the CACC expired in December, 2012. Consequently, the legal relationship between the City, CFAE, and CACC is not currently defined.

We recommend the department:

19. Adhere to CFAE policy requiring monthly remittances.

Management Response: *We will work to make changes to how we remit revenue in order to make monthly remittances to the city. This will include*



making sure that we are not remitting revenue for any unpaid events. This will allow us to manage our cash flow better and make more regular remittances.

Management Response: *There is now a current agreement in place with the CACC defining the relationship between the City, CFAE and the CACC.*

- 20.** Work with the Department of Finance to develop a uniform and consistent process that is in keeping with the general processes of the city for revenue recognition and payment transmittals.

Management Response: *In the future we will make sure that any outstanding receivables are not remitted to the city as revenue until we have received payment for the event.*

- 21.** Work with the Department of Finance regarding payments to individuals for the performance of support services such as security and “runners” assisting events to facilitate compliance with IRS rules, the Fair Labor Standards Act, and city policy.

Management Response: *We will set up a meeting with the Department of Finance to discuss how we might be able to facilitate the use of off duty Norfolk Police Officers during events and maintain compliance with the Fair Labor Standards Act.*

- 22.** Review the funding and banking arrangements for compliance with the terms of the property management contract for the Waterside Conference Center.

Management Response: *We will set up a meeting with WCC to discuss the current banking arrangements and how we might be able to make changes to bring us into compliance with the agreement.*

- 23.** Work with the appropriate city departments to address the expired agreement with the Crispus Attucks Cultural Center (CACC) as soon as possible.