

Scope Promotions

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OFFICE OF THE CITY AUDITOR

REPORT NO. 23-02

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Audit Objective FY2022

**To determine whether
management controls
are in place and
effective in
safeguarding funds
collected and disbursed
through Scope
Promotions**





**Major Performing Arts Organizations
that use CFAE facilities:**

- Virginia Arts Festival
- Virginia Opera Association
- Virginia Stage Company
- Virginia Symphony

**Scope Promotions was created to
facilitate the independent
management and operations of City of
Norfolk entertainment venues**

- Operational management
- Contractual authority
- Financial operations

Seven Venues

- Scope
- Chrysler Hall
- Harrison Opera House
- Attucks Theatre
- Wells Theatre
- Harbor Park
- Open Air Events

Scope Promotions



Strengths

Experienced personnel

*Accounting system
adequate and in good
order*



Weaknesses

*Limited number of
accounting personnel
to handle \$20 M
of annual financial
transactions*

*Lack of external
monitoring and review*



Opportunity

*Change in department
leadership presents
opportunity to explore
more efficient
operational methods
and processes,
including updating
rental and utility rates*

CHALLENGES



Rebounding from recent experience with COVID which completely stopped entertainment operations – FY2022 was first full year of post-COVID activity



Aging facilities - Maintenance and need for updating and refurbishment

Scope - built in 1971

Chrysler Hall - 1972

Attucks Theatre - 1919

Wells Theatre – 1912 – currently undergoing renovation



Personnel requirements – late hours, weekends and holidays



Additional accounting staff needed

Improved separation of duties

Facilitate senior accounting staff efforts on policies, procedures, and processes

Provide for succession planning

Financial Results

FY2022 best fiscal year-to-date

- \$20.6 M in deposits
- **\$3.4 M event net proceeds transferred to the City (\$5.3 M for FY2023)**
 - **Includes \$1.2 M of Admission Taxes (\$2.2 M for FY2023)**
- \$4.7 M total FY2022 expenses for Seven Venues facilities and operations

Finding

- 1 Collection/write-off of old accounts receivable and collection efforts in the future
- 2 Challenges related to supporting activities of outside agencies - CFAE is shouldering an imposed maintenance and operational burden to maintain facility availability
- 3 Need for additional accounting staff
- 4 Need for detailed policies and procedures
- 5 Need for QuickBooks financial results to be reflected in AFMS
- 6 Independent operations – Accountability and reporting
- 7 Remittance of net event proceeds

Observation

- 1 Rate charged for electricity usage
- 2 Norfolk City Code venue rental rates outdated

What we found



**Finding #1:
Accounts
Receivable**

CONDITION:

1) Accounts receivable – unpaid amounts as far back as 2006 with negligible collection efforts – unpaid balance at 6/30/22 \$254,250 (see table on next slide)

2) The need to coordinate with Finance Collections Division to establish a collections process both for past due and current receivables was mentioned in the 2014 Audit City Auditor's report.

RECOMMENDATION:

We recommend implementation of the documentation procedures suggested by Finance Collections Division, together with the active support of the Collections Division, to ensure effectiveness of the debt collection and write-off processes.

**MANAGEMENT
RESPONSE:**

CFAE management is working with Finance to implement the accounts receivable documentation process and address past due accounts receivable.

Finding 1 – Accounts Receivable at June 30, 2022

Receivable Incurred	Outstanding Amount
FY2006 - FY2010	\$ 12,043
FY2011 - FY2015	55,155
FY2016 - FY2020	47,331
FY2021	18,519
FY2022	<u>121,202</u>
Total	\$ 254,250

**Finding #2:
Outside
Agencies**

CONDITION:

1) City Council has made multiple financial accommodations to performing arts organizations over the past two decades prior to COVID (\$1.7 M (a)) in addition to providing annual funding support provided through Outside Agency appropriations.

These accommodations have taken the form of

- reduced rental rates
- omission of rental charges
- forgiveness of outstanding amounts owed to the City

2) Contractual arrangements require the disclosure of audited entity financial results however these have not been provided to the City

(a) Per CFAE documentation

RECOMMENDATION:

We recommend City management review these accommodations and develop a comprehensive and equitable approach to annual support funding and charging of costs which can be applied to these organizations

Receiving and reviewing the required financial documentation from these entities is a crucial part of the recommended perform review and financial sustainability analysis.

**MANAGEMENT
RESPONSE:**

CFAE management is working with City management to develop an appropriate equitable approach to Outside Agency support.

**Finding #3:
Insufficient
Staffing**

CONDITION:

Based on \$20.6 M in deposits for FY 2022 and associated transaction volume, the accounting staff level (currently only two filled full-time accounting positions) is insufficient. Internal control is enhanced with sufficient staffing and would provide:

- Adequate segregation of duties over financial transactions including cash
- Adequate oversight and monitoring of financial statements
- Increased transparency and accountability in the reporting of financial information
- Adequate backup to ensure operational sustainability in the event of unforeseen circumstances

RECOMMENDATION:

We recommend Cultural Facilities request to add an additional accounting staff position to help ensure sufficient internal controls are in place.

**MANAGEMENT
RESPONSE:**

We concur and will include a position in the upcoming budget request.

**Finding #4:
Policies &
Procedures**

CONDITION:

Scope Promotions does not have a comprehensive set of Policies and Procedures for accounting operations

A Policies and procedures manual should include:

- Job descriptions and responsibilities
- Organizational chart
- Administrative procedures and processes for completing financial transactions
- Monitoring procedures of work performed

RECOMMENDATION:

We recommend department management develop a comprehensive set of policies and procedures for accounting operations to ensure understanding and consistency in process implementation.

**MANAGEMENT
RESPONSE:**

CFAE Accounting Manager is currently working to finalize a new accounting manual for current processes with implementation by December 31, 2023.

**Finding #5:
Revenue**

CONDITION:

Revenue by venue in AFMS did not match QuickBooks amounts (see table of next slide)

RECOMMENDATION:

We recommend department management revise the process for making deposit entries in AFMS so that the City's financial system matches Scope Promotions.

**MANAGEMENT
RESPONSE:**

We concur and we will begin posting revenue or loss for the month to the appropriate revenue account. In the past we had been told that we could not have a negative revenue account and this is the reason that we would net a venue with a loss with one that had revenue.

Finding 5, con't - Revenue

- Revenue by venue in AFMS did not match QuickBooks amounts (though in total they agree within \$140)

Venue	QuickBooks Amounts	Amounts per AFMS AF00203A
Attucks Theater	\$ 13,021	\$ -
Box Office	1,126,202	865,726
Chrysler Hall	460,350	407,165
Harbor Park	170,894	191,259
Harrison Opera House	87,696	79,914
Little Hall	4,350	-
Scope Arena	305,494	624,083
Special Events	31,313	30,913
Permits - Foot/Bicycle Race	-	400
Total	\$ 2,199,320	\$ 2,199,460

**Finding #6:
Independent
Operation**

CONDITION:

Monitoring and oversight from outside the department are minimal

Finance previously had direct access to the Scope Promotions accounting system

Currently Scope Promotions simply forwards bank reconciliations to Finance

Financial reporting to Civic Facilities Commission is not done regularly – Code specifies monthly meetings

Opportunity to consider integration of Scope Promotions accounting system with the City's AFMS system through automated interface

RECOMMENDATION:

We recommend Cultural Facilities and the Department of Finance review operational and monitoring aspects including the current operating system of Scope Promotions and its relationship to the City's financial system.

Additionally, we recommend that the Civic Facilities Commission meet monthly to actively engage in its advisory capacity.

**MANAGEMENT
RESPONSE:**

We will work with Finance to provide them with access to Quickbooks or send them information in addition to the monthly bank reconciliation. We would also be glad to work with Finance and IT to determine if we could create an interface from Quickbooks to AFMS. We would be happy to automate as many processes as possible. The Civic Facilities Commission typically meets monthly, but there are certain times during the year that they have historically skipped a meeting at the request of the chairperson. This would be November – December and July – August. The CFAE accounting team will email the Commission the financial reporting during these months in the future.

**Finding #7:
Remittance of
net event
proceeds**

CONDITION:

**Ordinance 35,642(1989)
established \$100, 000 Scope
Promotions revolving fund**

**At June 30, 2022, there was
\$297,859 in Scope Promotions
Account 3201**

RECOMMENDATION:

We recommend CFAE ensure timely remittance of funds more than \$100,000 to the City and assess the need for the revolving fund in light of the current sufficiency of operational cash flows.

**MANAGEMENT
RESPONSE:**

Management concurs. During FY2022 additional monies were held back to cover potential event advance costs. Management has remitted excess funds to the City and will continue in the future and will evaluate the future need for the revolving fund.



OBSERVATIONS

1

Charging electricity usage to Scope Promotions events was directed by the Budget Office to relieve burden on General Fund. However, the rates used to charge electricity usage to events has not been updated since 2017. Management will update the usage rate at the end of September 2023.

2

Norfolk City Code currently specifies venue rental rates, however, these have not been updated since 2004 and, as they are no longer current, are not used.

Scope Promotions is following industry trend of providing "All-in" rental rates which include all costs in the rental rate with the exception of catering, stagehands and additional requested security .

Methodology

Met with Scope Promotions (CFAE) personnel

Obtained available process documentation

Reviewed QuickBooks general ledger, bank statement activity and supporting data

Reviewed event contract documentation

Reviewed event settlement documentation and traced activity to contracts and general ledger

Observed an event settlement

Reviewed debit card activity and supporting documentation

Government Auditing Standards

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

Data Reliability: We relied on data generated from the INTUIT QuickBooks accounting system, the City's Advantage Financial Management System (AFMS) and external reporting systems for Ticketmaster for this audit. The extent of our evaluation was dependent upon the expected importance of the data to the final report, strengths or weaknesses of any corroborating evidence, and anticipated level of risk in using the data.

We determined the financial information from AFMS which was used as the basis for the external audited financial statements, data from QuickBooks and from the ticket sales management systems and processes to be reliable and, therefore, the level of risk from using this information to be low.

Government Auditing Standards

Internal Control: We assessed internal controls as required by GAGAS and determined the significance of internal controls to the audit objectives. Internal control deficiencies are addressed in our review.

Statement of Independence: Norfolk City Code Chapter 11 states the City Auditor is appointed by City Council and employees under the City Auditor serve exclusively at-the-will of the City Auditor. Accordingly, members of the Office of the City Auditor are independent of City Management and thus independent per the GAGAS requirements.



***We thank the members of the Department
of
Cultural Facilities Arts and Entertainment
for their cooperation and responsiveness to
requests during the audit.***



If you have any questions, please contact
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