A Report to the Citizens of Salt Lake County, the County Mayor, the County Council, and the County District Attorney

June 2003

A Financial-related Audit of

The Salt Lake County Center for the Arts (Fine Arts)

Craig B. Sorensen

County Auditor

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on the

Financial-related Audit of

THE SALT LAKE COUNTY
CENTER FOR THE ARTS (FINE ARTS)

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Salt Lake County
Center for the Arts (Fine Arts)

I. Executive Summary

Background

We recently completed an extensive financial-related audit of the Salt Lake County Center for the Arts Division (Fine Arts). This audit was initiated at the request of the District Attorney's Office, after they were asked by the Mayor's Office to assist in determining the methodology for a review, which they anticipated being conducted under the guidance of the District Attorney's Office. Our Office's understanding of the focus of this review was that it was conducted to determine appropriate disciplinary actions with respect to certain Fine Arts employees.

According to subsequently issued disciplinary letters from the Community Services Department, this review was undertaken in response to allegations, made by a Fine Arts employee, of fiscal irregularities at Fine Arts. As the Mayor's review progressed, the District Attorney independently asked the Auditor to conduct a financial related audit.

A serious breakdown in the day-to-day fiscal and budgetary operations at Fine Arts occurred during the last three-and-a-half years.

In general, we found that there has been a serious breakdown in the effectiveness of the day-to-day fiscal and budgetary operations at Fine Arts during the last three-and-a-half years. This breakdown has led to an environment wherein there is a blatant lack of understanding of, and disregard for, essential County policies and procedures and sound internal control practices, as illustrated by the findings in our report.

It appears that many factors contributed to this breakdown including, but not limited to, the:

- Fine Arts Fiscal Manager's lack of technical skills, professionalism and initiative. – As noted throughout our report, the Fiscal Manager did not adhere to fundamental accounting principles and practices. For example, she failed to grasp the process for determining and reporting revenues, misapplied journal-entry procedures, made illogical adjustments on financial statements, and did not properly perform reconciliations.

  In addition, after identifying a shortage in a critical account that, unbeknownst to her was caused by her revenue reporting misclassifications, she failed to investigate the matter to determine the cause. She then took an unprofessional approach to attempt to correct the problem by knowingly preparing journal entries that consistently and arbitrarily misstated Fine Arts net operating revenue.

- Division Director's unfamiliarity with fiscal matters and lack of effective supervision. – The Division Director's job description clearly charged her with the full range of management duties and responsibilities at Fine Arts, including the fiscal and budgetary areas. However, she did not take an active role in assessing the Fiscal Manager's abilities or providing effective transitional training. Furthermore, she lacked the skill, and failed to demonstrate the necessary initiative to effectively oversee the budgetary and fiscal functions of the Division. In addition, the Division Director was personally involved in many of the questionable or inappropriate transactions and situations described in our report.

- Community and Support Services Fiscal Manager's limited technical oversight due to the organizational design and his focus on other priorities. – The job description for the Department Fiscal Manager merely required that he "coordinate with division directors to establish fiscal priorities, goals, and objectives; provide technical assistance to divisions as requested." Thus, he was not compelled by the provisions of his job description to be proactively involved in the day-to-day fiscal operations at Fine Arts. In addition, he stated to us that he focused a very large portion of his time on the priority projects of the then portfolio managing County Commissioner, such as project management and bonding issues related to the rapid expansion of County facilities.

- Inadequate planning for Y2K and the 2002 Winter Olympics. – The failure to effectively address the Y2K compatibility of the Fine Arts general ledger software and the time consumed to fix the problem, after January 1, 2000, put the accounting further behind. Additionally, a lack of planning for the hyper-activity associated with hosting the *Cultural Olympiad* for the Winter Games put pressure on controls of day-to-day functions like petty cash and purchasing management. Consequently, Countywide fiscal policies and procedures were further overlooked and circumvented.

- Mayor's Office initial, understandable assumption that incumbent division directors, including the Fine Arts Director, possessed adequate fiscal and supervisory skills. –The Mayor's Office relied on the merit system's presumption that incumbent division directors possessed fiscal and budgetary competency, until proven otherwise. Unfortunately, this initial, understandable presumption, contributed to the continuing breakdown of effective financial controls.

- Senior-level management's failure to exercise the proper level of "management control." – The Community and Support Services

Department (later the Community Services Department) had ample opportunity to note a series of warning events that could have alerted them to the progressive breakdown of fiscal and budgetary practices at Fine Arts. However, according to their respective job descriptions, the oversight duties of senior-level positions, with respect to the Fine Arts Division, are not clear. In the absence of clear direction from job descriptions, we relied on the reasonable expectation that senior-level management should be alert and react to warnings that problems are occurring, even though they do not have direct management responsibility.

The United States General Accounting Office's Government Auditing Standards provide guidance with respect to the exercise of management control in a government setting. It is our observation that the exercise of management control, as outlined in the GAO's standards, was found lacking in the Community and Support Services Department, prior to the change in the form of government, and in the Community Services Department since that time.

We note the fact that, in conducting their review, representatives of the Mayor's Office undertook an investigation of fiscal irregularities and had identified certain breakdowns of internal financial controls. Among their discoveries were noncompliance with petty cash policy and procedures, improper accounting for and reconciling of receivables, untimely submission of financial reports, inadequate separation of duties, inadequate budget disbursement controls, and lack of reconciliation between the in-house accounting system and the County's Advantage Financial (AFIN) system. We acknowledge their initiative, cooperation and assistance in our audit efforts.

However, except for a joint effort to resolve the complexities of the Fine Arts Depository account, related accounting system problems, and revenue reporting misclassifications, both parties performed their work independently. Our audit procedures, including tests of transactions, were carried out independently from the investigation undertaken by representatives of the Mayor's Office.

While we did engage in informal discussions with the Mayor's representatives to clarify issues, we were not furnished with, nor did we review, the initial findings of the Mayor's representatives prior to the undertaking of our audit procedures. Many of our findings parallel and validate initial discoveries made by the Mayor's Office representatives, of which we were not substantially aware until our fieldwork was completed. Our findings expand on their discoveries and we encountered additional fiscal irregularities. They, in turn, examined areas that our audit did not, such as proper authorization of event contracts and other areas.

Findings and Recommendations

In the Executive Summary, we have consolidated information from some findings that are spread throughout the report. The consolidated information relates to specific areas in which recurrent problems were identified as occurring throughout various Fine Arts accounts and processes. This consolidation was done to provide increased clarity on some issues and for the reader's convenience. These consolidated findings are identified as such in their heading. Cumulative dollar amounts shown in these findings relate to the time frames we reviewed, as described in the main body of the report.

The most critical findings in our report, including the consolidated findings, are:

A $1.155 million excess revenue transfer from the Treasurer's Depository account to the Fine Arts Fund balance occurred because of accounting errors and inadequate oversight. All Fine Arts cash and credit card collections from ticket sales are deposited into a Fine Arts bank account under the name of the Salt Lake County Treasurer. Fine Arts transfers money out of the Depository account to their Event Settlement account to cover necessary expenditures, and to the Fine Arts Fund balance when they recognize revenue.

An accumulation of accounting errors, committed over a three-year period, necessitates a correction that will reduce Fine Arts' fund balance by $1.155 million.

Double reporting, or otherwise inaccurately stating revenue, due to accounting errors that occurred between 1999 and 2002, has caused the Depository account to be short; and the transfer of revenues and the resulting Fine Arts fund balance to be overstated, by about $1.155 million. This is an accumulation of errors that were, unfortunately, committed over a three-year period. To correct these errors, a journal voucher that reduces the Fine Arts fund balance and increases the Depository account balance by $1.155 million has been prepared and will be the subject of a budget adjustment.

The Fine Arts Fiscal Manager knowingly prepared cash-revenue-transfer journal entries that consistently misstated Fine Arts net operating revenue. The Fiscal Manager apparently realized that the balance in the Depository account, as described above, was dangerously low, but apparently did not understand why this was the case. Consequently, she began to purposely understate the amount of the net revenue transfer from the Depository account to avoid "overdrawing" it. In addition, in some months, the Fiscal Manager would instead over-transfer revenue in an apparent attempt to make-up for at least some of the prior intentional understatements.

The Fine Arts Fiscal Manager's unprofessional actions may have violated the County's Standards of Conduct Policy.

This unprofessional practice continued throughout 2000, 2001, and up to July 2002 and may have exhibited one or more of the behaviors prohibited by Countywide Policy #5702, "Standards of Conduct." For example, Subsection 1.1 of this policy states that inappropriate actions include, *"Falsifying any documents to be received or used by County government including…work related records."*

Weaknesses in the process of reconciling the Fine Arts Depository account to the Treasurer's records of the Depository account contributed to these revenue related errors and misstatements going un-detected. Through a cooperative effort between our auditors and the Mayor's Office fiscal troubleshooter, reconciling items for almost all of these errors have been identified and the correcting entry, described above, has been prepared. In addition, Fine Arts is now performing much more accurate and thorough reconciliation procedures on a month-to-month basis.

Consolidated finding - Over $25,000 of purchases were made either before, or entirely without, appropriate independent approval. Reviewing and approving purchases before they take place is an essential internal control. Management must make certain that only necessary purchases are occurring and that funds are being used for their budgeted purposes.

Please refer to Findings and Recommendations Sections 2.1, 3.9, 6.18, 7.1, and 7.8 of the report for the details of findings related to these purchases.

Consolidated finding - We identified approximately $9,500 worth of food and/or meals that were purchased either without proper authorization or otherwise inappropriately. Over 80 percent of the $9,500 relates to food/meals purchased with the appropriate approval either completely missing or incomplete. This discovery includes the use of County funds that should have been deposited, but were instead used to purchase food, meals, and other items. In another instance, an Event Settlement Statement was altered to indicate that the County had been reimbursed for purchases of food when, in fact, no such reimbursement was made.

Some County funds that should have been deposited were instead used to purchase food, meals, and other items.

Another problem area we identified was excessive, per-person meal expenditures, which either directly exceeded County policy limits or seemed unreasonably high, also in violation of County policy. Fine Arts should improve controls over the purchase of food and meals and should consider submitting a special division policy on food and entertainment to the County Council for approval.

Please refer to Findings and Recommendations Sections 1.6, 2.1, 3.5, 6.3, 6.5, and 7.4 of the report for the details of findings related to the purchase of food and meals.

Large-dollar-amount event settlement checks, made payable to Fine Arts employees or to "cash," were used to pay cash settlements to entertainers or event promoters, without adequate controls in place. Although the issuance of large cash advances, $5,000 to $25,000, to touring company performers and promoters is apparently a common industry practice, doing so without proper controls creates significant risk. These include the risk of employee misuse of funds, fraud, and/or embezzlement; and the risk of an employee being accosted and having the funds stolen.

The issuance of large cash advances to touring companies without proper controls in place creates significant risks.

The practice of making checks, drawn on the Settlement account, payable to employees has been discontinued. However, a policy regarding payment of cash settlements to promoters, that outlines necessary controls, should still be developed and followed.

Consolidated finding – Fine Arts circumvented County policy and procedures to establish two checking accounts and increase their change funds without the knowledge or approval of the Treasurer's or Auditor's Office. The Department Director and the Mayor's office were also not informed. One of the checking accounts was opened with, and maintained through, tip money received by ushers. The other was established with grant checks that were received to fund the publication of a County Art Collection Catalogue. The increased change funds to facilitate coat check transactions were set-up by withholding some funds from a deposit and by writing a check on the Event Settlement Account.

These monies clearly meet the definition of public funds, as set forth in County Ordinance, and therefore are subject to the provisions of Countywide Policy #1062, "Management of Public Funds." Section 3.7.1 of this policy states that, *"The Treasurer will establish all depository accounts for use by county agencies."* Section 2.1 states that organizations that want to change a fund amount, *"shall complete an MPF Form 2, Request for Change… of petty cash or other imprest fund"* and forward that form to the Auditor's Office.

Setting up accounts and increasing imprest funds without approval from the Treasurer and Auditor is against County policy and creates a weak control environment.

Because these procedures were not followed in establishing these accounts and increasing the change funds, the Treasurer's and Auditor's offices were not aware of their existence/increase until our audit. Moreover, neither the Community Services Department nor the Mayor's Office was given notice of the establishment of the accounts or the imprest fund increase. Establishing accounts and increasing imprest funds in this way creates a situation in which inappropriate purchases could be made and/or funds could be easily diverted. Since the onset of our audit, the two checking accounts have been closed, and Fine Arts ushers no longer accept tips from patrons. Fine Arts should also submit a request for an increase to their change funds, as described above.

Please refer to Findings and Recommendations Sections 2.8, 3.1, and 4.1 of the report for the details of findings related to the establishment of these accounts and the increase of the change fund.

Several checks drawn on the Fine Arts Settlement account were inappropriately written for expenditures not related to the event, or expenses paid on behalf of the event promoter, in violation of the strict purpose of this account. Fine Arts' own policies and procedures stipulate that this account is to be used exclusively for payment of expenses that are reimbursable through event settlements. However, we found several checks drawn on the account that did not meet this criteria.

In addition to causing revenue recognition and budget classification problems, use of this account outside of its intended purpose establishes an environment wherein inappropriate or unauthorized purchases could be made. Fine Arts should use this account only for its stated purpose and should establish procedures for the consistent, independent review of issued settlement checks.

Consolidated finding - Twenty-five individuals were paid a total of almost $4,800 for services provided to Fine Arts from cash and checking accounts instead of the appropriate payroll or purchasing systems. These payments for event security, stage labor, equipment repair, meeting attendance, and box office work were predominantly made to Salt Lake County employees. Because of the payment methods used, payroll taxes were not withheld and hours worked did not count towards the calculation of overtime. Direct payments, which should only be made through the purchasing system, are acceptable only if made to independent contractors.

Fine Arts should use the payroll system to pay individuals for services provided by an employee, and should obtain specific approval from County Personnel and/or Purchasing before paying for services through the purchasing system.

Please refer to Findings and Recommendations Sections 1.10 and 6.7 of the report for the details of findings related to these payments.

The receipt of a significant number of recently purchased assets could not be verified, nor were the purchased items properly accounted for on the Fine Arts inventory of these assets. Because so many assets had not been tagged, were not included on the controlled asset lists, or the invoice copies lacked adequate identification, we could not verify that all controlled assets purchased during 2001 and 2002 were received and on-site. For example, various tools were purchased during that timeframe. While we were able to locate some tools, they were of such variety, not properly tagged, and at so many locations, that we could not determine which items were recently purchased.

As a result of our audit, Fine Arts' controls over the receipt of newly purchased assets have been improved. However, to our knowledge, controls ensuring that asset items are tagged, and added to an asset list, have not been addressed. These steps are required by County policy to help ensure that purchased property is appropriately accounted for.

The actual travel expenditures of some Fine Arts employees exceeded the GSA guidelines. The Patron Services Manager and Division Director spent a total of $958 more on hotel rooms than the published GSA rates on four trips they made during 2001, three by the Division Director and one by the Patron Services Manager. In addition, the Division Director requested and received one more day's worth of per diem for meals and other expenses than she should have for each of her three trips, resulting in $450 of overpayments.

Community Services Department management should closely monitor travel expenditures to ensure that they are reasonable, and appropriate. Although the GSA standard is the guideline for the amount of the travel advance, it should also act as a benchmark for determining the reasonableness of actual travel expenditures.

Consolidated finding - Approximately 45 individuals were paid a total of approximately $830 in incentive awards from cash and checking accounts instead of through the payroll system. These awards were given without proper approval and review and were not paid from budgeted funds, as is required by County policy. These payments also allow the recipient to avoid required payroll taxes. All future incentive awards should be processed and paid in accordance with Countywide Policy #5430, "Employee Incentive Procedure."

Please refer to Findings and Recommendations Sections 2.1, 3.3, and 6.1 of the report for the details of findings related to these incentive awards.

Large amounts of cash were sometimes secured in the box office to facilitate the issuance of refunds. With no written refund policy in place, Fine Arts has experimented with several approaches to handling patron refunds. In the case of cancelled shows, this has included cashing a check drawn on the Settlement account, keeping the resultant cash in the Ticket Office safe, and issuing refunds from this cash as tickets were turned in. When Show Boat was cancelled in 1998, this procedure was followed and event settlement checks were cashed in increments of $15,000 to $25,000 at a time.

Cashing settlement checks for this purpose and keeping large amounts of cash on hand for extended periods of time create an unacceptable level of risk. Fine Arts should develop an appropriate written refund policy and should consider establishing an imprest-checking account for the issuance of refunds.

Please refer to Sections IV and V of this report for more details about these and other findings.

A Financial-Related Audit of the

Salt Lake County Center for the Arts (Fine Arts)

II. Introduction

We have recently completed an extensive financial-related audit of the Salt Lake County Center for the Arts Division (Fine Arts). This audit was initiated in mid-November, at the request of the District Attorney, after they were informed of possible fiscal irregularities at Fine Arts. The District Attorney's Office became aware of this situation after they were asked by the Mayor's Office to assist in determining the methodology for a review. Our Office's understanding of the focus of this review was that it was conducted to determine appropriate disciplinary actions with respect to certain Fine Arts employees. The Mayor's Office anticipated that this review would be conducted under the guidance of the District Attorney's Office.

Prior to beginning the audit, we met with the Attorney assigned by the District Attorney to advise the Mayor's Office on the review. The representative of the District Attorney's Office confirmed that the Mayor's Office had initiated a review, in response to reports and allegations, made to the Mayor's Office by a Fine Arts employee on September 25, 2002. The employee alleged improper use of Fine Arts financial accounts and the failure of Fine Arts management to follow Countywide policy regarding employee business meals. The District Attorney's representative also confirmed that the review of these allegations had resulted in disciplinary actions against the Fine Arts Division Director and Fiscal Manager.

The Director of the Community Services Department (Department Director) addressed a demotion letter to the Division Director, dated November 7, 2002, which sets forth the timeline of these events. The Department Director stated in her letter, "*On Wednesday, September 25, 2002 a formal verbal complaint regarding inappropriate fiscal and administrative practices in the Center for Fine Arts Division was presented to [the County's Employee Assistance Program Coordinator]. An employee made a complaint after several unsuccessful attempts were made to notify you of the seriousness of the financial problems within the organization. Due to the nature of the complaint, [the Employee Assistance Program Coordinator] notified me and a meeting was scheduled for Friday, September 27th.* ***During this meeting it was decided that… [a member of the Mayor's Office fiscal and budgetary team], would conduct an internal review of the fiscal practices in the Center for Fine Arts Division*** *[Emphasis added].*"

We concluded from the timeline set forth above that the Mayor's Office acted with dispatch in commencing their formal investigation of these matters on September 27, 2002, as a result of a specific complaint received from the employee, as outlined above.

The Department Director's letter goes on to state, "*On October 2, 2002 I met with you [the Division Director] to discuss your performance evaluation. At that time, we discussed my sense that I was continuing to face challenges with the fiscal practices of the division. Although I was unaware of the depth of the fiscal management issues, at the time of your evaluation, it is reported that you had been in contact with employees and heard their complaints, but did not include these in our discussions.* ***As you are aware, over the last year I discussed with you on multiple occasions concerns with fiscal management****. As a director, it is your responsibility to oversee fiscal operations and ensure compliance with all relevant county policies. Time and again, I was informed that matters upon which I inquired were being handled according to policy. I informed you that [a member of the Mayor's Office fiscal and budgetary team]* ***would be conducting a review of the divisions fiscal practices*** *[Emphasis added].*"

Simultaneous with the Division Director's performance evaluation on October 2, 2002, a letter was delivered to the County's Chief Administrative Officer in which a formal "whistle-blower" complaint was set forth by the Ticketing Services Manager. The allegations in the letter, likewise, added a degree of priority to the Mayor's Office efforts.

We reviewed this time-line with the representatives of the District Attorney's Office that were assigned to advise on these matters, and they confirmed the following:

- The first contact with the District Attorney's Office by the Mayor's Office was on September 27, 2002, as a result of the Fine Arts employee's complaint to the Employee Assistance Program Coordinator of the County.
- The Mayor's Office action to contact the District Attorney's Office and begin an "internal review of fiscal practices" was caused by this employee complaint.
- The District Attorney's Office was enlisted by the Mayor's Office to provide legal advice in addressing the employee complaint and any subsequent, potential personnel actions.
- During the course of the District Attorney's advice to the Mayor's Office, the District Attorney's Office representative participated in an ad-hoc group with the Mayor's Office staff, gathered to address Fine Arts problems. The District Attorney's representative became progressively aware of the expanding scope of fiscal irregularities, i.e. improper use of petty cash, improper cash advances to promoters, etc.
- Personnel actions did, in fact, result from findings regarding serious fiscal irregularities.

- The District Attorney's Office representative also took independent action to inform her Division Director of concerns of potential criminal activity. Thereafter, the District Attorney personally contacted the Auditor, and formally requested an audit.
- The District Attorney's Office representative confirmed that the Mayor and her staff were concerned about issues at Fine Arts as early as May 2002, but no action was taken by the Mayor's Office to initiate a formal review until September 27, 2002.

It should be noted that the Mayor's Office did not directly report these financial irregularities to the Auditor's Office. However, the Mayor proceeded under Countywide Policy #1310, "Discovery and Reporting of Non-Criminal Wrongdoing," and thus was not compelled to report. It was from this context that we began our audit, with the primary objective of determining whether any fiscal irregularities had occurred and, if so, the nature and extent of those irregularities.

A confidential draft of our audit report was transmitted to the Mayor's Office on April 24, 2003, requesting their review and comment. A copy of their response, received on May 7, 2003, including the Auditor's comments, is in Appendix A of this report. During the period of the Mayor's Office review of our audit report, the Auditor's Office was contacted and a meeting took place at the request of the former Commissioner, who is referred to in our report.

It was clear from the former Commissioner's discussion with this office that the Commissioner had been briefed on the content of the confidential draft audit. The Commissioner asserted his view that certain of the characterizations of his role and influence on the findings of our report were inaccurate. He further assured us that the Mayor's Office, through their Chief Administrative Officer, would correct these inaccuracies. This, in fact, turned out to be the case and the changes in the characterization suggested by the Mayor's Office are evident in their response in Appendix A.

In the suggested corrections to our draft, the Chief Administrative Officer noted that he either misstated the Commissioner's role during our interviews, or we misinterpreted his characterizations. Nevertheless, the net effect was to cast a substantially different light on the autonomy and freedom of action of the current Chief Fiscal Officer (the Department Fiscal Manager during the Commissioner's term of office).

Substantial changes were made in our final report to accommodate the nature and importance of the Mayor's Office revised description of the Commissioner's role, and the resulting impact on the role and responsibility of senior-level management of the Department, particularly the Chief Fiscal Officer. The essence of the change was that, under the Chief Administrative Officer's initial characterization, the senior-level management's actions were substantially directed by the Commissioner and, on that basis, they had limited responsibility for the Fine Arts problem. However, as characterized in the Mayor's Office response to our report, the impact of the

Commissioner's role is substantially reduced. Thus, in this final report, the senior-level management of Community Services is more squarely charged with oversight responsibility.

The reader should be aware of the approach we took in addressing the Mayor's Office responses (Appendix A). A considerable number of the responses were incorporated into the text of the report, either completely or in part. In addition, we have included our comments in conjunction with each of the Mayor's Office responses in Appendix A. We have made a substantial effort to provide a fair and full treatment for their responses. It will be evident that, with respect to many of the Mayor's Office responses, we have chosen to extend the discussion presented in the original draft and to incorporate, where appropriate, additional facts and observations, to clarify our position with respect to such responses.

This report presents a summary of our findings and recommendations.

III. Scope and Objectives

As stated in the introduction, the primary objective of this audit was to determine the existence, nature, and extent of any fiscal irregularities at Fine Arts. Another objective was to assess the existence and adequacy of internal controls over fiscal operations at Fine Arts. We also endeavored to understand the current administrative and fiscal control environment and the factors that contributed to the development of that environment.

To accomplish these objectives, we conducted extensive interviews with Fine Arts managers and employees, members of the Community Services management team, and representatives of the Mayor's Office. In addition, we performed a detailed, independent review of the Fine Arts:

- Event Settlement account
- Depository account
- Imprest accounts
- Other identified accounts
- Accounting processes
- Accounts receivable and payable
- Purchasing practices
- Revenue recognition procedures
- Complimentary Ticket issuance
- Ticket refund procedures
- Fair Labor Standards Act compliance
- Fixed and controlled assets

As previously noted, representatives of the Mayor's Office undertook their own investigation of fiscal irregularities and had identified certain breakdowns of internal financial controls. Among their discoveries were *noncompliance with petty cash policy and procedures; inaccurate accounting for, and reconciling of receivables; untimely submission of* *financial reports; inadequate separation of duties; inadequate budget disbursement controls; and lack of reconciliation between the in-house accounting system and the County's Advantage Financial (AFIN) system.* We acknowledge their cooperation in our audit efforts. We also commend them on their diligent efforts to examine and correct control weaknesses as they were identified.

However, except for a joint effort to resolve the complexities of the Fine Arts Depository account, related accounting system problems, and revenue reporting misclassifications (see Section 8.0), both parties acted independently. Our audit procedures, including tests of transactions, were carried out independent of the investigation undertaken by representatives of the Mayor's Office. During the course of our audit work we did engage in informal discussions with the Mayor's Office representatives to clarify issues of mutual concern. However, we were not furnished with, nor did we review, the initial findings of the Mayor's Office representatives prior to the undertaking of our audit procedures.

Many of our findings parallel and validate initial discoveries made by the Mayor's Office representatives, of which we were not substantially aware until our fieldwork was completed. Our findings often expand on their discoveries and we encountered additional fiscal irregularities. They, in turn, examined areas that our audit did not, for example, proper authorization of event contracts. When requested by the Mayor's Office, in a letter dated December 10, 2002, to provide a formal progress report of our findings, we declined, in a further effort to maintain our independence in investigating these matters. Those interested in knowing the findings developed by the Mayor's Office prior to the commencement of our audit can examine the letters of demotion issued by the Community Services Director on November 7 and 8, 2002.

On another matter, in the Mayor's Office response to our audit, they state, *"The Auditor had conducted a review of the box office in 1998. Clearly the accounting for revenue in that function became a review point in this audit."* It is not clear to us whether *"this audit"* in the Mayor's Office comment above is referring to the 1998 audit or the current audit. If the reference is addressing the 1998 audit, we would like to clarify that we did not review accounting for box office revenue and its impact on the Event Settlement account, the Depository account, or the Fine Arts Fund Balance-Cash during the 1998 audit. The scope of our review of the box office during the 1998 audit was limited to determining if cash handling procedures (such as timeliness of deposits and check acceptance procedures) were being completed in accordance with Countywide Policy #1062, "Management of Public Funds."

IV. Background—Control Environment Development and Status

To better understand the situation that led to the current fiscal problems at Fine Arts, set forth below is a detailed review of critical events that occurred at Fine Arts since 1996. This section of our report outlines the evolution of the senior-level administrative and fiscal oversight, which either created, or as will be illustrated, failed to create what is commonly termed an "***environment of effective administrative and fiscal internal control***." Through our audit work, we observed that:

- **In 1996, due to the continued expansion of facilities and operations, a reorganization of the Fine Arts management structure was deemed to be necessary, and resulted in creation of the position: Fine Arts Director.**

- **The person selected as the new Director of Fine Arts, though a proven event and booking manager, lacked training and experience in fiscal and budgetary matters, and general administration.**

- **Attempts to strengthen Fine Arts fiscal and budgetary staff, during the 1997-1999 time period, deteriorated under the pressure of expanded facilities and related responsibilities, and due to a lack of supervision, coordination, and communication.**

- **The committee for selection of the upgraded position of Fiscal Manager, in 1999, was dominated by Fine Arts managers least equipped to distinguish the most qualified applicant. This resulted in the selection of one of the lesser-experienced and qualified candidates.**

- **The Fiscal Manager of Community and Support Services may have been aware of the new Fiscal Manager's ineptness, but due to the organizational structure and his focus on other priorities, did not take action to develop, train or hold her accountable. The unintended consequences included continued and compounded errors in the reconciliation of the Fine Arts Depository account, an account through which $6 to 8 million passes annually.**

- **Despite the national attention given to Y2K compliance during late 1999, the new Fiscal Manager received inadequate support to ensure Y2K systems compliance.**

- **The Fine Arts Fiscal Manager knowingly prepared cash-revenue-transfer journal entries that consistently and arbitrarily misstated the net operating revenue of Fine Arts over a period beginning shortly after her employment commenced in 1999, until the start of our audit.**

- **The Fiscal Manager of Community and Support Services noted and challenged the shortfall in actual Fine Arts revenue journalized by the Fiscal Manager, when reviewing the five-year revenue projections for budget preparation.**

- **The Community Services Department management's assumption and expectation regarding the Fine Arts Director's fiscal and budgetary oversight capabilities, in combination with the impact of the 2002 Winter Olympic events on the Director's focus, allowed the further deterioration of internal fiscal and budgetary controls.**

- **Management at Community Services, as well as the Mayor's Office, had ample warnings of, and admit to growing concerns regarding, the fiscal problems at Fine Arts from the period of September 2001 through September 27, 2002. However, they failed to act until a formal employee complaint was aired to the County's Employee Assistance Program Coordinator. Within six days of the Mayor's Office commencement of its review an official, written "whistle-blower" complaint was also filed. The Mayor's Office view of these events differs from this characterization.**

- **Despite significant warning events, the organization structure and job requirements of senior-level management at Community and Support Services (later Community Services) did not mandate their direct intervention into potential significant fiscal and budgetary problems at Fine Arts. Nevertheless, senior management had an assumed duty to respond to significant warning events.**

i. In 1996, due to the continued expansion of facilities and operations, a reorganization of the Fine Arts management structure was deemed to be necessary, and resulted in creation of the position: Fine Arts Director.

The Salt Lake County Center for the Arts (Fine Arts) has been a dynamic and rapidly expanding division of the County's Community Services Department since the mid-90s, when the County Commission approved the construction of Rose Wagner Phase I and II, and undertook the remodeling and expansion of Abravanel Hall. It was in this context that a decision was made to reorganize the management group at Fine Arts. Prior to 1996, Fine Arts had evolved into separate, distinct functional areas, *Operations, Event and Booking Management, and Ticket Office (ARtTiX) Operations*, each with its own manager.

These three functional managers constituted a "section" which reported to the Director of Community and Support Services (Department Director), under the portfolio of one of the three County Commissioners. Another individual served as Chief of Staff for the Commission, under the same Commissioner, although his official title remained Associate Director of Community and Support Services during that period.

The fiscal and budgetary functions of Fine Arts were the responsibility of the Fine Arts Accountant. On its face, the Department's organizational structure would suggest that the Accountant would have received at least dotted-line guidance and technical assistance from the Fiscal Manager of Community and Support Services (Department Fiscal Manager). However, our further inquiries determined that the Department Fiscal Manager's priorities were focused on project management and bonding issues relating to the rapid expansion of Fine Arts and other County facilities. The Department Fiscal Manager characterized to us, during our interviews, that he carried out duties related to the priority projects of the portfolio-managing Commissioner. These priorities *"consumed a very large portion of time especially for the [Department Fiscal Manager],"* according to the Mayor's Office response to our audit.

The Commissioner asserted that he always assumed and expected that the Department Fiscal Manager dealt with oversight matters as required by stated duties and responsibilities.

In our interview with the Commissioner, he asserted that his priorities were not intended to, and did not, in his view, prevent the Department Fiscal Manager from dealing with fiscal problems at Fine Arts. The Commissioner further stated that he always assumed and expected that the Department Fiscal Manager dealt with oversight matters as required by his stated duties and responsibilities. In the Mayor's Office response to our audit, they asserted that the Department Fiscal Manager was not supported with the "*type of infrastructure and resources he has under the new form of government."* The structure of the Fiscal oversight both before and after the new form of government is discussed in greater detail in Section xi.

Fine Arts budget development, until 1996, was a combined effort of the three functional managers, who provided input to the Accountant, which he used to develop each year's final budget submission and revenue projections. The Accountant was exclusively responsible for the day-to-day financial accounting functions. An Accountant in the Community and Support Services Department performed the payroll and purchasing functions for Fine Arts, but performed these duties at the Government Operations Center.

As a result of the expansion of the facilities at Fine Arts, and with the additional operational complexities, the decision was made to create the position of Director of Fine Arts. Through mutual agreement and recommendation of the Ticketing Services Manager and Operations Manager, the Department Director made the decision to promote the Event and Booking Manager to Division Director, Grade 33, during September 1996. This internal promotion process was used, instead of selection through a competitive announcement.

ii. The person selected as the new Director of Fine Arts, though a proven event and booking manager, lacked training and experience in fiscal and budgetary matters, and general administration.

At the time of her promotion, the new Division Director's performance rating expectations were weighted as follows: *General Management and Administration (**30 percent**); Fiscal Management (**15 percent**); Public and Tenant Relations Management (**20 percent**); Facilities and Event*

*Management (**15 percent**); Supervision of Staff (**15 percent**), and Other Duties (**5 percent**).*

The Division Director's education and work experience, prior to her promotion, suited her well for some of the expectations placed upon her, but not so well for others. Her undergraduate degree was a B.S. in Communications, 1983, from the University of Utah. From 1985 through her promotion, she had been primarily involved in event and booking management. The capstone of that experience may have been the successful management of the *Phantom of the Opera* Broadway production in 1995, to date *"the biggest production to play in one of our facilities,"* quoting from a letter addendum to her performance evaluation while still the Event and Booking Manager, dated October 1995. During this period, she also conducted some 25 tours of Abravanel Hall and Capitol Theatre for the Salt Lake Olympic Organizing Committee (SLOC). Thus, she was well-trained and possessed a wealth of experience for her public relations, facilities, and event management roles as the new Director of Fine Arts.

The new Division Director possessed strong operational expertise, but her fiscal and budgetary competency was not nearly as well developed.

In contrast, the formal training and background she brought to her new role in management and administration, staff supervision, and, in particular fiscal management (the focus of our inquiries) were not nearly as well developed. However, collectively these functional areas, at least per the "expectations" outlined above, constituted a weighting of 65 percent, with "fiscal management" weighted at 15 percent.

It is our observation that under the Commission form of government division directors were selected for their technical operational expertise, and in certain cases were not required to demonstrate administrative, fiscal and budgetary competency. However, according to the former Community and Support Services Assistant Director (who is now the Mayor's Chief Administrative Officer), the Mayor's Office expects division directors to have competency in administrative, fiscal and budgetary matters. In fact, the Mayor's Office response to our audit states that they have *"chosen to install managers over divisions more for these skills [budgetary and fiscal] than a specific division mission practitioner background. For example, the Health Director is not a doctor, the new Library Director does not hold a Masters of Library Sciences degree."*

iii. Attempts to strengthen Fine Arts fiscal and budgetary staff, during the 1997-1999 time period, deteriorated under the pressure of expanded facilities and related responsibilities, and due to a lack of supervision, coordination, and communication.

At the time of the Division reorganization, in the Fall of 1996, fiscal and budgetary functions were primarily the responsibility of the Accountant, a Grade 23. The Accountant had filled this position since 1991, experiencing the dynamic growth of Fine Arts. The expectations outlined in his 1996 performance evaluation indicated that he had *"full-charge accounting and budgetary responsibilities, including preparation of financial statements* *and other reports, maintenance of the general and all subsidiary ledgers, management of cash, and preparation of special reports and analysis."* His immediate supervisor was the Operations Manager.

In March 1997, another individual was transferred into the accounting function at Fine Arts to help the Accountant and to assist the Operations Manager in capital projects at Rose Wagner and Abravanel Hall. The new, "Assistant Accountant," also reviewed settlement statements and prepared billings for tenant organizations, among other duties. Eventually, she became the Petty Cash Custodian, assuming those duties from the Division Director's Administrative Assistant, and also assumed responsibility for purchasing, a duty previously administered by an employee at the Government Center. The Administrative Assistant, in turn, assumed Fine Arts payroll administration from the employee at the Government Center during this transitional period.

As the facilities and events of Fine Arts rapidly expanded so did the fiscal, budgetary, and project tracking responsibilities.

As the facilities and events of Fine Arts rapidly expanded so did the fiscal, budgetary, and project tracking responsibilities. Capital budgets for expansion projects were strained, which placed pressures on Fine Arts revenue generation. Cash-flow analysis for revenue projections became a critical area of focus for the Fiscal Manager of Community and Support Services (Department Fiscal Manager) since the gap between revenues and operating expenses had to be filled with subsidies from the Tourism, Recreation, Cultural and Convention Center (TRCC) Fund.

During Fall 1998, the projected Fine Arts Fund cash balance was overstated in the amount of $2.2 million. This incident marked the beginning of a series of revenue misclassifications.

During the Fall of 1998 the Accountant submitted a revenue projection that resulted in a projected cash balance in the Fine Arts Fund of $3,759,276 for the start of the 1999 budget year. The cash balance projection was overstated by $2,200,000. This was due to the advanced ticket sales for the production of *Joseph and the Amazing Technicolor Dreamcoat*, during 1998, having been accrued as revenue when, in fact, the advanced ticket sales should have been credited back to the promoter on the final Event Settlement Statement.

This error was disclosed by the Accountant in a memorandum to the Division Director, dated April 28, 1999. As our report demonstrates, this incident was the beginning of a series of misclassifications of Fine Arts revenues that led to even deeper, more complex problems that have only recently come to full light. A lengthy memorandum from the Assistant Accountant to the Division Director, dated May 11, 1999, outlines communication problems that existed among those in Fine Arts responsible for fiscal matters, and the frustrations the Assistant Accountant was experiencing with the Accountant's inability to cross-train her in areas for which he was responsible. Shortly thereafter, the Accountant submitted a letter of resignation, dated June 14, 1999, citing his opportunity to pursue other goals.

iv. The committee for selection of the upgraded position of Fiscal Manager, in 1999, was dominated by Fine Arts managers least equipped to distinguish the most qualified applicant. This resulted in the selection of one of the lesser-experienced and qualified candidates.

Community and Support Services restructured the position responsible for fiscal functions at Fine Arts from Accountant, Grade 19-23, to Fiscal Manager, Grade 26.

Out of the above circumstance and problems, a decision was made by senior management of Community and Support Services and Fine Arts to restructure the position responsible for fiscal and budgetary functions. The position was upgraded from Accountant, Grade 19-23, to Fiscal Manager, Grade 26, with the intention of upgrading the competency and skill set of the position. From a large number of applicants, the field was narrowed to nine candidates. Among the candidates were holders of Masters (5), Bachelors (3), and Associates (1) college degrees. Seven had several years of relevant County experience, including two with prior experience as Administrative and Fiscal Managers in other County organizations and two with extensive backgrounds in County Internal Audit. Another candidate had extensive governmental audit and tax experience with Salt Lake City and a quasi-governmental agency. Finally, one candidate had been both the Director and the Business Manager of the Kimball Fine Arts Center in Park City, Utah.

The Fiscal Manager position was offered to a candidate ranked 12th among 23 candidates after the initial screening by the Selection Committee.

From this apparently well-qualified group of candidates, the Division Director offered the position to a candidate who had been ranked 12th among 23 candidates after the initial screening by the Selection Committee. She accepted on August 4, 1999, nearly two months after the Accountant's resignation. The new Fiscal Manager's qualifications included a Masters Degree in Accountancy (emphasis in taxation) from the University of Utah (1998), and an undergraduate degree in Accounting (1996). However, her experience in governmental fiscal and budgetary matters was relatively limited, by almost any standard, having worked as a Cash Accounting Specialist, Grade 11-13, in County Developmental Services for 17 months, and prior to that as a student intern at County Pre-Trial Services for over four years while attending school. Her supervisory experience consisted of seven years as the Deli Manager for a local store of a national grocery and drug chain.

The Selection Committee was comprised of the Division Director, the Operations Manager, the Ticketing Services Manager and the Community and Support Services Fiscal Manager (Department Fiscal Manager), the latter a non-voting member who was not involved in grading the candidate interviews. Apparently, the Assistant Accountant was asked to sit in on the second round of interviews, but did not vote on the final selection. The Division Director indicated during our interviews that the decisive factor in her decision was a strong recommendation from a long-time County administrator, who, at that time, was the Development Services Director.

The Department Fiscal Manager asserted to us during our interviews that he had a sense that the new Fine Arts Fiscal Manager's qualifications were suspect when he asked her questions about governmental fund accounting and in his words, “she flopped.” Whatever concerns he, the person best qualified to assess her technical skills, may have expressed to the Selection Committee went unheeded. She was hired. His further expression of concern to the Community and Support Services Director (Department Director) was not acted upon.

Some guidance as to why the Department Fiscal Manager’s warnings and concerns were ignored is provided in the response from the Mayor’s Office. They state “*…[the Department Director] expressed frustration to [the then Associate Department Director] that [the Division Director] often attempted to go around [the Department Director] with direct contact to [the Commissioner’s Administrative Assistant] or [the Commissioner]. This was often successful in inhibiting [the Department Director’s] ability to work with [the Division Director]. [The Department Director] expressed concern to [the Associate Department Director] that this did not allow her to fully believe she had the ability to do the things she desired to do as a manager. These items <u>did not</u> include discussions of accounting irregularities. They were most often policy and direction implementation. [The Associate Department Director] speculated that this might have had a dampening effect on further managerial efforts. At no time did [the Commissioner] fail to act or prevent action on accounting irregularities.*”

Thus, the Mayor’s Office characterization of the “dampening effect” may be applied to explain why the Department Fiscal Manager’s warnings to the Selection Committee and further expressions of concern to the Department Director, regarding the candidate’s lack of governmental accounting knowledge, were ignored.

The history of the Fiscal Manager’s selection process is necessary to set the stage for a breakdown in the day-to-day fiscal and budgetary operations of Fine Arts over the next 36 months (August 1999 to August 2002). More disturbing is the fact that this breakdown occurred due, not only to the Fiscal Manager’s lack of technical accounting skills, but also due to the Department Fiscal Manager’s limited technical oversight due to the organizational structure and his focus on other priorities. This left direct supervision solely to the Division Director, who lacked competency in these areas.

In fact, our examination of the oversight structure at the time, leads us to conclude that placing full responsibility on the Division Director was the intent of the organizational design. However, the Division Director did not take an active role in assessing the Fiscal Manager’s abilities or providing effective transitional training. Furthermore, the Division Director lacked the skill, and failed to demonstrate the necessary initiative to effectively oversee budgetary and fiscal functions at Fine Arts. The Department Fiscal Manager’s limited level of technical oversight was the result of the County’s structure and attendant job descriptions, as will be discussed in Section xi.

v. The Fiscal Manager of Community and Support Services may have been aware of the new Fiscal Manager's ineptness, but due to the organizational structure and his focus on other priorities, did not take action to develop, train or hold her accountable. The unintended consequences included continued and compounded errors in the reconciliation of the Fine Arts Depository account, an account through which $6 to 8 million passes annually.

Problems with the Fiscal Manager's transition into her new position arose at the outset. She received no immediate orientation or transitional training, due to the resignation of the Accountant. The Department Fiscal Manager was unfamiliar with the day-to-day accounting functions performed at Fine Arts, having attempted to get familiarization training from the Accountant prior to his resignation. The Accountant had suffered chronic health problems, which required surgery at the time of the Department Fiscal Manager's attempt to become familiar, and so the training never took place. The Assistant Accountant was the only person in the fiscal and budgetary area who had any benefit from the Accountant's training.

Entries from the Assistant Accountant's day-planner indicate that, as early as mid-August 1999, problems developed between her and the new Fiscal Manager. *(We make no representation regarding the accuracy or reliability of the Assistant Accountant's record, which was voluntarily submitted to us by her. However, many of her observations were confirmed by our interviews with other Fine Arts employees, as will be discussed further, later in the report).* According to the Assistant Accountant's record, on several days the Fiscal Manager was late coming to work and waited for the Assistant Accountant to provide guidance before beginning any work.

On August 19, 1999, the Assistant Accountant recorded notes of a meeting attended by herself, the Department Fiscal Manager and the Fiscal Manager. According to the notes, the Fiscal Manager admitted to the Department Fiscal Manager, under his questioning, her lack of familiarity with governmental fund accounting. The Assistant Accountant also recorded that the Department Fiscal Manager indicated that when he was interviewing candidates, he was specifically looking for people with this experience. The Department Fiscal Manager asked the Fiscal Manager how much she had done with budgets. She stated that she had done a limited amount of budget preparation at Development Services.

Also during the meeting, the Fiscal Manager asked the Department Fiscal Manager which accounting system would be best to purchase, since the Fine Arts system was more like a database. According to the Assistant Accountant's day-planner entries, he advised the Fiscal Manager that she needed to refer that question to the Division Director. *When asked about this meeting, the Department Fiscal Manager stated that he had no recollection of it.*

The Department Fiscal Manager, as previously stated, focused on the priorities and projects of the Commissioner. This may have limited his time to deal substantively with Fine Arts fiscal matters. During our interviews with the Department Fiscal Manager, he stated that he rarely engaged himself in day-to-day fiscal matters, such as examining the Depository or Event Settlement account reconciliation. Likewise, he never held regular meetings with the Fiscal Manager, or questioned her about her progress, and only met with her to review her cash-flow projections during the budget preparation period in the Fall. She did attend monthly Fiscal Manager meetings hosted by him and received some training in those settings.

As stated in the Mayor's Office response and as acknowledged in other sections of this report, the Department Fiscal Manager "*worked with the staff on a number of issues,*" including the correction of a $1.25 million revenue recognition error, as will be discussed shortly. We note here that the job description for the Department Fiscal Manager merely required that he "*coordinate with division directors to establish fiscal priorities, goals, and objectives;* ***provide technical assistance to divisions as requested*** *[Emphasis added].*" Thus, the Department Fiscal Manager was not compelled by the provisions of his job description to be proactively involved in the day-to-day fiscal operations of Fine Arts.

The Mayor's Office response indicated that the Division Fiscal Manager also gave assurances that she was working on problems with the Director and the Associate Director of the Accounting and Operations Division of the Auditor's Office. We verified that the Auditor's Office provided assistance in fiscal matters when requested by the Division Fiscal Manager. However, the Director and the Associate Director of the Accounting and Operations Division have never had responsibility for supervision of the Fine Arts Fiscal Manager. They do recall occasions when they acted as technical resources in meetings with the Fiscal Manager and answered her questions. *All substantial problems presented by the Division Fiscal Manager to the Accounting and Operations Division of the Auditor's Office, during the period relevant to this audit, are discussed in this report.*

During the confusion created by the transition of fiscal responsibilities from the Accountant to the Fiscal Manager, a series of materially significant accounting misclassifications were made. Only one of these errors, the most significant one, was discovered and corrected. The other errors remained undetected and uncorrected until they came to light during our audit. These errors had the same effect of overstating Fine Arts revenue, as had happened on the previously described *Joseph and the Amazing Technicolor Dreamcoat* accounting error. Beginning in August 1999, the following entries were recorded as both "cash contributions" to the Capital Projects Revolving Fund, and as "cash revenue," which was

During the confusion created by the transition of fiscal responsibilities, revenue was overstated by a total of $1.5 million.

transferred, by journal voucher, from the Fine Arts Depository account to the Fine Arts Fund Balance – Cash:

- August 31, 1999 Contribution Rose Wagner – Phase II $251,000
- November 19, 1999 Contribution Rose Wagner – Phase II $1,250,000

The $1.25 million entry was discovered by the Auditor's Accounting Section when it appeared as a "reconciling item" on the Auditor/Treasurer Cash Reconciliation for the Fine Arts Fund during May 2000. The Auditor's Office staff accountant, charged with reviewing reconciling items, caught the error and brought it to the Fiscal Manager's attention. The discovery of the $1.25 million posting error was the result of the Fiscal Manager's attempt to correct the error. However, she only corrected the Auditor's Advantage Financial Accounting System (AFIN) record, but did not correct the error on the Treasurer's Depository cash balance. Thus, a reconciling item appeared during the Auditor's normal review process. The journal voucher correcting the $1.25 million error on the Treasurer's ledger was made in October 2000.

The Auditor's review of reconciling items consists of comparing the Treasurer's record of cash in the Fine Arts Fund, to the Auditor's AFIN Fine Arts Fund-cash. (*This process is in no way to be construed as an independent reconciliation of these cash balances. The Auditor's Accounting and Operations Division has never had the responsibility to reconcile the Fine Arts depository account.*) Therefore, if both the Treasurer's Fine Arts Fund cash balance, and the Auditor's AFIN Fine Arts Fund-cash balance were journal vouchered with identical, yet erroneous amounts, no reconciling item would appear. As a result, only the $1.25 million posting error was detected by this process prior to our audit.

At the time the error was discovered, the Associate Director of Accounting and Operations in the Auditor's Office spent time with the Fiscal Manager to explain that the Fine Arts Departmental checking account, *Balance Sheet Account 1114*, represented two essential components, i.e., the Depository account and the Event Settlement account. The Fiscal Manager received an explanation, as well, that the month-end balance in Fine Arts Non-encumbered Payables, *Balance Sheet Account 2106*, should equal the amount of *advanced ticket sales* and *advance rental deposits* on unsettled events and accounts. Also, at that time, it was explained to her that, theoretically, if Fine Arts accounting was current and reconciled, the balance in account 1114, *Departmental Checking*, and 2106, *Non-encumbered Payables*, should be the same. In other words, cash in the bank at Fine Arts should be sufficient to offset outstanding obligations.

The Division Director and the Department Fiscal Manager attended this meeting, held at Fine Arts, to correct the revenue recording error. The $1.25 million error, and its subsequent correction, created problems in the projections of revenue for the 2000 budget, and increased the pressure on Fine Arts to enhance revenue production. However, we found no evidence of an ongoing effort to review the reconciliation process by the Division Director or Department Fiscal Manager.

The $251,000 revenue posting error went undetected until December 2002, and was discovered during our audit.

Nonetheless, the earlier $251,000 posting error went undetected until December 2002, and was discovered during our audit. The problem had been exacerbated by the fact that, as of December 31, 1999, the County Treasurer's Office, with appropriate notice, discontinued its voluntary service of reconciling the Treasurer Depository account for Fine Arts, and certain other County organizations. Apparently, the Treasurer's Office spent significant time in the early months of 2000 continuing to assist the Fiscal Manager in the reconciliation, but had to abandon the effort due to the excessive time spent. According to her day-planner entry of February 15, 2000, the Assistant Accountant, who was still working in the accounting group at this time, claims to have called both the $1.25 million and the $251,000 posting errors to the Fiscal Manager's attention, and to have also discussed the matter with the Division Director.

As previously noted, the Division Fiscal Manager prepared a partial journal voucher in February of 2000 to correct the $1.25 million error for the December accounting period. This journal voucher only corrected the error in the County's AFIN system, but not on the Treasurer's ledger. Perhaps this correction attempt was made as a result of the Assistant Accountant bringing this matter to the attention of the Fiscal Manager. When asked about this, *the Division Director denied that the Assistant Accountant ever reported this error or discussed it with her. No staff member at Fine Arts independently confirmed the Assistant Accountant's record on this matter.*

During September and October of 1999, the Fiscal Manager's efforts were focused primarily on the preparation and submission of the 2000 Fine Arts budget. The former Accountant was brought back as an outside consultant to train the Fiscal Manager in the budget process and in the monthly close of the Fine Arts General Ledger, including the Depository account reconciliation. Nevertheless, by the end of 1999, the Fiscal Manager had fallen four or five months behind in performing the accounting and bank reconciliations.

Although out of the direct scope of our audit, other developments in the general management of personnel matters at Fine Arts illustrate problems of failing to address staffing issues that added to the delays in bringing the accounting functions current. In October 1999, a veteran Event Manager resigned. A few weeks later the other Event Manager gave three-months notice of her departure. The Division Director then made the decision to have the Patron Services Manager cover the duties of the resigned Event Manager, as well as the Patron Service duties.

By the end of 1999, the Fiscal Manager had fallen four or five months behind in performing the accounting and bank reconciliation.

From October 1999 to April 2000, the Patron Services Manager covered all of the former Event Manager's duties, assisted the departing Event Manager, and continued to perform as the Patron Services Manager. Consequently, the Patron Services Manager produced nearly all of the final event settlements for this period, a heavy burden due to the new events coming on with Rose Wagner II opening. Delays in completing Event Settlement Statements contributed to the Fiscal Manager falling further behind in the accounting and Depository account reconciliation.

vi. Despite the national attention given to Y2K compliance during late 1999, the new Fiscal Manager received inadequate support to ensure Y2K systems compliance.

Complicating matters further was the specter of Y2K compatibility of the Fine Arts general ledger software, Pacioli. The County's Information Services-Division's survey of Y2K issues assigned the solution for this division-level application to in-house, Fine Arts Division information systems personnel, with the expectation that they would contact the vendor for an appropriate solution. This contact apparently did not happen prior to the end of 1999.

On January 1, 2000, the Y2K incompatibility of the Pacioli software became a critical issue. The Fiscal Manager brought the problem to the attention of the Department Fiscal Manager, but no action resulted. Thus, after 2000 commenced, a rush to find a fix was undertaken and achieved, through an update from the developer sometime in March, with support from Fine Arts Information Services personnel. However, the time consumed put the accounting further behind. After resolving the Y2K problem, Pacioli was no longer updated or supported by the developer, or any third party.

On an additional software issue, the Fiscal Manager asked for assistance in procuring an upgraded, integrated general ledger package. She was instructed by the Department Fiscal Manager to ask other Fiscal Managers in the County for input. The Fiscal Manager appears to have sought advice, as directed, but did not take independent action. Only within the past month has this problem been addressed and a new general ledger software package been considered by a CPA assigned by the Mayor's Office to troubleshoot the fiscal problems at Fine Arts.

vii. The Fine Arts Fiscal Manager knowingly prepared cash-revenue-transfer journal entries that consistently and arbitrarily misstated the net operating revenue of Fine Arts over a period beginning shortly after her employment commenced in 1999, until the start of our audit.

Buried in backlogged work, the Fiscal Manager unwittingly committed another significant posting error. The journal vouchers to record the cash transfer of "net revenue" from the Depository account in the months of January, February, and March 2000, totaling $312,916, were not only recorded and transferred for those months, but also included in the cash transfer of "net revenues" for May 2000. This error, like the previous one, went undiscovered and uncorrected until our audit. The error might have been detected in the Auditor's reconciliation of the AFIN cash balance to the Treasurer's Fine Arts Fund –cash balance, had the Fiscal Manager attempted to correct the error in the way she did with the $1.25 million error, as previously discussed. But, she did not submit a similar, one-sided correcting entry.

The duplicate revenue postings left the Depository account short by $563,916.

The cumulative effect of the improper, duplicate posting of revenue was to transfer "phantom revenue" out of the Depository account, the effect of which was to leave the Depository account balance short by $563,916 ($251,000 + $312,916). In the absence of a timely and precise reconciliation, this shortage was essentially masked by the continued influx of cash to the Depository account from "advance" ticket sales on future events. In this case, transfers of cash from the depository account were supported and covered by cash coming in from new advanced ticket sales unsettled. Shortages were masked until such time as cash inflow from new ticket sales falls short of the required payouts.

Advanced ticket sales at Fine Arts are somewhat irregular. In the absence of a summer blockbuster, like *Phantom of the Opera,* ticket sales can peak during the fall/winter seasons when the Symphony, Opera, and Ballet are in full swing, and productions like the *Nutcracker* take place. Thus, in months when ticket sales diminished, the Fiscal Manager may have realized that, during these months, there was not sufficient cash in the Depository account to transfer the full amount of "net revenue" if unsettled events were to have actually settled during that particular month. However, we concluded from our interview that she did not understand why the projected shortfall was occurring.

To avoid overdrawing the Depository Account, the Fine Arts Fiscal Manager arbitrarily misstated the amount of "net revenue" reported.

We discovered, during our interviews with the Fiscal Manager, that she had systematically and arbitrarily, without the approval of her superiors, adjusted the amount of the "net revenue" transfer from the Depository account to avoid overdrawing. Yet, during some months she would over transfer revenue in an apparent attempt to make up for prior "shorting" of the revenue. This practice continued throughout 2000, 2001, and up to July 2002. Since that time, our Audit staff, in conjunction with the Mayor's Office fiscal troubleshooter, has confirmed the Fiscal Manager's consistent application of this unprofessional approach. (See Sections 8.1 and 8.4 of the Findings and Recommendations Section for more detail related to this situation.)

The Fiscal Manager displays in her office her membership certificate in the Government Finance Officer's Association (GFOA). GFOA members subscribe to a *Code of Professional Ethics*. *Article IV- Professional Integrity – Information* of this code states:

> *"Government finance officers shall demonstrate professional integrity in the issuance and management of information.*
>
> - *They shall* ***not knowingly sign, subscribe to, or permit the issuance of any statement or report which contains any misstatement or which omits any material fact.***

- *They* ***shall prepare and present statements and financial information pursuant to applicable law and generally accepted practices and guidelines****.*
- *They shall respect and protect privileged information to which they have access by virtue of their office.*
- *They shall be sensitive and responsive to inquiries by the media, within the framework of state and local government policy."[Emphasis Added]*

She apparently gave little heed to the GFOA *Code of Professional Conduct* in carrying out her responsibility for the accurate and timely reconciliation of the Depository account and recording of the cash "net revenue" transfer.

The Fiscal Manager's continued, systematic misstatement of revenue may have exhibited one or more of the prohibited behaviors delineated in Countywide Policy and Procedure, #5702, "Standards of Conduct," which defines, in Section 1.0, the types of behavior that the County considers inappropriate. For example, in Subsection 1.1 it states, *"Falsifying any documents to be received or used by County government including, but not limited to, employment applications and related documents, work related records, time cards, etc."*

viii. The Fiscal Manager of Community and Support Services noted and challenged the shortfall in actual Fine Arts revenue journalized by the Fiscal Manager, when reviewing the five-year revenue projections for budget preparation.

The Department Fiscal Manager noted this consistent shortfall in the revenue transfer, compared to budgeted projections, when he reviewed the five-year cash flow projections with the Fiscal Manager and the Division Director. However, the Department Fiscal Manager stated that he did not get directly involved in reconciling the Depository account or in the event settlement process. When the Department Fiscal Manager voiced concerns about these matters to the Director of Community and Support Services or to the Division Director, he was told that these issues would be resolved in due time. According to the Mayor's Office response, he was also told *"the Fine Arts Division was working with the Auditor's staff on this reconciliation."* (See our comments on page 15 concerning the role of Auditor's Office in the reconciliation process).

The failure of the Division Director to request the assistance of the Department Fiscal Manager coupled with his lack of proactive involvement in Fine Arts fiscal and budgetary matters, allowed serious fiscal problems to go uncorrected, as detailed in the remainder of this report. To an equally significant degree, this lack of oversight contributed to a tense and mistrustful atmosphere that has adversely impacted the morale of Fine Arts employees.

As the Fiscal Manager continued with her effort to bring the accounting records current, the revenue recording errors became more compounded and more complex. Through the first nine months of 2000, she and the Assistant Accountant attempted to work together to bring the accounting work current. The Assistant Accountant's day-planner entries, during January and February 2000, many of which were confirmed by our interviews with other Fine Arts employees, record observations of the Fiscal Manager coming to work late, spending inordinate amounts of time on the phone, and asking for help at the end of the day when the Assistant Accountant was ready to leave. The Assistant Accountant complained to the Division Director about these matters.

A letter, dated February 25, 2000, from the Division Director provided the following notice or warning to the Fiscal Manager: *"1) I don't feel it's appropriate for you to do income taxes in the office, 2) Your co-workers had complained to me regarding excessive personal phone calls during work hours, 3) Your work schedule: 8:30 am – 5:30 pm, if there are changes, please indicate on your weekly work schedule, which is e-mailed to me each week."*

As previously stated, the Assistant Accountant's notes also indicate that she brought the duplicate revenue entries of $1.25 million and $251,000 to the attention of both the Fiscal Manager and the Division Director, during February 2000. Neither of these errors was investigated until May 2000, when the $1.25 million error was discovered by the Auditor's Office. *The Division Director denies that the Assistant Accountant reported these errors to her.*

No substantial progress appears to have been made during 2000 to bring the accounting current. This was complicated by the fact that Rose Wagner events were coming on line.

By mutual agreement between the Division Director and the Assistant Accountant, a new position, ARtTiX Administrator, was created during September 2000, and the Assistant Accountant moved to that position. An individual was hired during October 2000 to replace the Assistant Accountant. No substantial progress appears to have been made during 2000 to bring the accounting current. This was complicated by the fact that Rose Wagner events were coming on line. Event settlements for Rose Wagner took longer to finalize for several reasons. They involved new, inexperienced promoters; ticket sales were often not sufficient to cover venue-rental and support expenses; and, the Event Manager for Rose Wagner was less experienced and was overwhelmed by the high volume of small events.

The Department Fiscal Manager's involvement with these issues was negligible by his own admission, his priorities being focused on budgetary matters, and project management related to completion of Rose Wagner Phase II, the South Town Convention Center, the County Emergency Operations Center and the new Adult Detention Center. In the Fall of 2000, the Director of Community and Support Services' attention was drawn to the budget circumstances at Fine Arts. In a letter to the Division Director, dated October 25, 2000, she provided this admonition: *"As you know, we are facing a budget crisis and therefore are required to scrutinize every program and project…Funding for capital projects is especially tight for next year, and the likelihood of funding the redesign of the Arts Center is* *looking bleak."* (Note: The $1.25 million duplicate recording of revenue was reversed during this same month, so the Department Director may have been reacting to this development).

Noteworthy is the fact that on their performance evaluations for the year 2000, the Division Director and the Fiscal Manager received numeric ratings of 2.80 and 2.75, respectively, on a scale from 1.00 to 3.00, with the 3.00 as the highest rating. These are above average, "exceeds most expectations" ratings.

ix. The Community Services Department management's assumption and expectation regarding the Fine Arts Director's fiscal and budgetary oversight capabilities, in combination with the impact of the 2002 Winter Olympic events on the Director's focus, allowed the further deterioration of internal fiscal and budgetary controls.

With the change in form of government, the Department Fiscal Manager was appointed the Chief Fiscal Officer in the Mayor's Office, and his former position was eliminated. (The title "Community and Support Services" was also shortened to "Community Services" at this time). Thus, the opportunity for fiscal and budgetary support of the Fiscal Manager and the Division Director became even less likely because of the elevation of the Department Fiscal Manager to a higher level in the Mayor's organization.

Both the Mayor's Chief Administrative Officer and the current Director of Community Services (a new Director was appointed after the Mayor took office) stated in our interviews that it was made clear to the Division Director that she was directly responsible for oversight of the Fiscal Manager regarding fiscal and budgetary matters. They further asserted that the promotion of the Department Fiscal Manager did not have an effect on the oversight support of Fine Arts.

Community Services management acted on the assumption that the Fine Arts Director was capable of supervising fiscal and budgetary matters, due to her lengthy tenure at Fine Arts.

They explained that they were acting on the assumption that the Division Director was capable of supervising fiscal and budgetary matters due to her lengthy tenure at Fine Arts. This may have been bolstered, as noted in the Mayor's Office response, by the fact that during the time period covered by our audit, the Division Director was pursuing course work toward an MBA. Finally, they point out that the Mayor's Office relied on the merit system's presumption that incumbent division directors possessed fiscal and budgetary competency, until proven otherwise. The merit system, defined in State statute, governs the assessment, treatment and retention of County employees.

In fairness, we acknowledge, that the Mayor inherited the substance of the Fine Arts' "problem" when she took office in January 2001. This included unqualified personnel and the absence of controls and procedures, together with a lack of effective oversight. Unfortunately, the Community Services managers' reliance on the Division Director's fiscal and budgetary competency eventually contributed to the continuing breakdown of effective financial controls thereafter.

With the onset of 2001, the new Mayor/ Council form of government was in place, and the focus of Fine Arts turned toward another major challenge: the 2002 Winter Olympic Games. Throughout 2001, the Division Director hosted group after group of visitors, as Fine Arts assumed responsibility for hosting the *Cultural Olympiad* for the Winter Games. The *Jay Leno Show* had been negotiating to broadcast from the Rose Wagner venue during the entire period of the Winter Olympics. Abravanel Hall and the Salt Lake Arts Center were preparing to host the *Chihuly Exhibits*, and other high-profile events. In addition to hosting the *Cultural Olympiad*, Capitol Theatre anticipated its heavy schedule of fall and winter events. Layered on all these challenges were the devastating events of the September 11th attacks on the World Trade Center and the Pentagon. These developments, without doubt, contributed to the further deterioration of internal fiscal controls at Fine Arts.

This cascade of events may have focused more of the Division Director's attention on her long-developed strengths, event booking and promotion, and public relations. Contributing to her workload was the need to relocate tenant organizations due to the space requirements of the *Cultural Olympiad* events. According to Fine Arts employees, even the regular, weekly manager meetings attended by the Ticketing Services Manager, the Operations Manager, the Fiscal Manager, and the Patron Services Manager were canceled. The hyper-activity around hosting out-of-town visitors and dignitaries put pressure on controls of day-to-day functions, like petty cash and purchasing management. These factors caused these areas to spin further out of control, and provided an array of challenges to an already unfocused Fiscal Manager. *In the Mayor's Office response to our audit, they dispute the characterization of the impact of the Olympics on Fine Arts practices, claiming these practices were "well entrenched."* We do not dispute that the practices had long existed. Our observation was that Countywide fiscal policies and procedures were further overlooked due to the activity and volume of transactions surrounding these events.

In the absence of regular meetings, the Fine Arts Director overlooked some crucial fiscal and budgetary planning for the 2002 Winter Olympics.

Moreover, in the absence of regular meetings, either with her subordinate managers or with the Department Director, the Division Director overlooked some crucial fiscal and budgetary planning for the 2002 Winter Olympics, beyond the existing day-to-day problems. One of the most crucial was the assessment of the overtime demands on Fine Arts employees. This challenge seems to have been met rather casually, with no in-depth analysis to project critical overtime requirements, even when other agencies of the County like the Sheriff, Fire, and Public Health went to great lengths to project these needs and negotiate payment from the Salt Lake Olympic Organizing Committee (SLOC). The failure to address these key issues illustrates the absence of planning and oversight by the Division Director. A more complete analysis of the actual use of overtime and compensatory time is presented in Section 11.0.

Our interviews with the Mayor's Chief Administrative Officer and the Department Director bolstered this view regarding the Division Director's lack of inclusive planning for Olympic events. The Mayor's Chief Administrative Officer indicated that he was concerned when he discovered that the Division Director chose to deal with these Olympic events using her normal event-contracting procedures. The consequence of her independent action was that a "non-commercial," "not-for-profit" rate was negotiated with SLOC, which negatively impacted the potential Fine Arts revenue from hosting *the Cultural Olympiad*. The Commission's policy, still in place at that time, was to charge full rate for services provided to SLOC. It is interesting to us that the Mayor's Chief Administrative Officer's concern, as stated in the Mayor's Office response, focused on the outcome of the Division Director's action, i.e. the less-than favorable not-for-profit rate, but not on the process by which these important contracts were reviewed and approved to ensure compliance with Commission guidelines.

x. Management at Community Services, as well as the Mayor's Office, had ample warnings of, and admit to growing concerns regarding, the fiscal problems at Fine Arts from the period of September 2001 through September 27, 2002. However, they failed to act until a formal employee complaint was aired to the County's Employee Assistance Program Coordinator. Within six days of the Mayor's Office commencement of its review an official, written "whistle-blower" complaint was also filed. The Mayor's Office view of these events differs from this characterization.

Substantial dispute exists about when senior-level management was given reason to believe there were significant accounting problems at Fine Arts.

Substantial dispute exists about when the Mayor's Office, through Community Services management, was given reason to believe there were significant accounting problems at Fine Arts. The Ticketing Services Manager contacted the Equal Employment Opportunity (EEO) Manager of the County, during September 2001, and: *"asked for advice and told her of my concerns,"* as the Ticketing Services Manager states in his "whistle-blower" letter to the Mayor's Chief Administrative Officer dated October 2, 2002. (This letter was submitted in accordance with Countywide Policy, #1310, "Discovery and Reporting of Non-Criminal Wrongdoing.") The Ticketing Services Manager further asserts in his letter that he *"met with…[the Director of Community Services] many times informally face-to-face, and kept her updated throughout the year by either e-mails or voice mails of how serious the situation is. She [the Director of Community Services] informed me that she told …[the] Chief Fiscal Officer of my fiscal concerns and that he would set up a time to meet.* ***This was the Fall of 2001 and we have yet to meet [Emphasis added]."***

The Ticketing Services Manager's letter goes on to assert: *"It is the responsibility of all County employees to report waste of taxpayer's money. The Fine Arts Division has very questionable accounting practices. I am greatly concerned that not only is there terrible waste, but we are damaging and not protecting Salt Lake County taxpayer's interest by using poor fiscal practices."*

As early as June 2002, the Ticketing Services Manager pointed to problems in the reconciliation of American Express deposits and Tickets.com transfers.

Assuming the Ticketing Services Manager's assertions gave the Director of Community Services (Department Director) reasonable cause and due notice to be concerned, she apparently did not respond quickly. In follow up interviews with the Ticketing Services Manager, he was able to produce an e-mail, dated June 7, 2002, to the Fiscal Manager in which he expressed concerns about whether the current "fee structure" at Fine Arts was producing enough revenue to make productions, like *Les Miserables,* profitable. He also referred to a document he provided to the Division Director, dated January 30, 2002, with a specific format for analyzing the income from United Concerts over the past 10 years, to which he claims the Fiscal Manager and the Division Director never responded.

Also in the June 7, 2002 e-mail, he goes on to state to the Fiscal Manager that, " *I have just been informed that you have not been able to reconcile the American Express deposits and the Tickets.com transfers to our bank account. When we reclassified the ARtTiX Systems Administrator and the Accountant position we separated the duties. [The ARtTiX Systems Administrator] makes sure on a weekday basis that all credit card batches for us and our clients balance to the Prologue system and that the batch has been sent to the bank. It is your responsibility to reconcile the bank statements, as it separates the duties and we do not receive the bank statements, the credit card statements, nor the County Treasury Office Statements."*

He ends the e-mail *"The only transfer I know did not go thru was during the Olympics from a foreign bank, and that issue was resolved. If you need help tracking these funds and reconciling, please let me know.* ***I must assume the funds are in the bank because from the ticketing side it looks fine, and… [the former Accountant] was able to reconcile the American Express when he was here*** *[Emphasis added]****."***

In the Mayor's Office response to our audit, they state, *"it would be simplistic to look at [the whistle-blower letter,]… presented after the investigation has begun, as being a statement of what was actually presented [by the whistle-blower] prior to that time [delivery of the letter]."* Thus, the Mayor's Office challenges the credibility of the Ticketing Services Manager's assertions in his whistle-blower account of what he had reported to the Department Director prior to filing of his letter and the near-simultaneous commencement of the Mayor's Office investigation. We feel that the appropriate issue is the whistle-blower's credibility, not the timing of his report. To that very point, the veracity of the Ticketing Services Manager's assertions in his whistle-blower letter is bolstered by the fiscal concerns he set forth in his e-mail of June 7, 2002, and by subsequent findings set forth in our audit.

The Ticketing Services Manager claims that he sent blind copies of this, and other similar e-mails to the Department Director, out of fear that if he indicated the "cc:" on the e-mail, the Fiscal Manager, for example, would go to the Division Director and a reprisal would result. In follow up discussions with the Department Director, she confirmed receiving a "blind copy" of the June 7th e-mail, contrary to her recollection during our prior interview. She explained that she may not have paid close attention to the last part of the e-mail, concerning the American Express charges and the *Tickets.com* posting error, thinking that these problems related primarily to the Ticketing Services Manager's ticket management responsibilities.

In the Mayor's Office response to our audit they state that the whistle-blower did not bring forth specific examples of financial irregularities prior to October 2002, with the exception of an issue involving a specific journal voucher related to ticket sales. Clearly, the content of the Ticketing Services Manager's June 7th e-mail refutes this contention. To illustrate, in the referenced e-mail, the Ticketing Services Manager points directly to problems in the reconciliation of the American Express deposits and in the *Tickets.com* transfers that were confirmed by our audit. For example, in Section 8.11 of this report, we discuss how American Express merchant discounts were recorded inconsistently in the month-to-month reconciliation, as part of the Depository account reconciliation.

Additionally, The Mayor's Office fiscal troubleshooter has discovered that some $312,200 in overstated revenue has been transferred, since the beginning of 2000, because the Fiscal Manager was transferring the full *Tickets.com* revenue out of the Depository account, without taking into account the "website" fee that was due and payable to *Tickets.com*. This is a significant portion of the $1.155 million, by which the Depository account has been chronically over withdrawn during the past three years.

We questioned the County's EEO Manager about her conversations and interactions with the Ticketing Services Manager. She claims that he never expressed concerns about fiscal matters, and that the complaints were more about the Division Director's level of support and loyalty to those, like himself, who had recommended her promotion. The EEO Manager asserts that her feedback from the Department Director was that pressure was being put on the Division Director to have regular, weekly meetings to establish accountability, but the Division Director would consistently find a reason to cancel the meetings.

During our interviews, the Department Director confirmed the EEO Manager's characterization that the Ticketing Services Manager's concerns were focused on overall administration of Fine Arts. Likewise, they were focused on problems the Ticketing Services Manager had with the Division Director's management style. The Department Director's impression of fiscal concerns raised by the Ticketing Services Manager were that they had more to do with the ticketing operation, and were not about broader fiscal concerns.

Management at Community Services characterized the Fine Arts Director as extremely uncooperative with their efforts to establish accountability.

The Department Director and the Mayor's Chief Administrative Officer mutually characterized, during our interviews, that the Division Director was extremely uncooperative with their efforts to establish accountability. The Department Director's efforts to hold regular meetings with the Division Director, to obtain useful revenue and expense projections, or to go directly to managers under her were met with stiff resistance. Meetings were postponed or cancelled, requested reports were inaccurate or incomplete, and attempts to meet with subordinates were viewed with suspicion.

Moreover, the Department Director and the Mayor's Chief Administrative Officer asserted to us that the Division Director continued to frustrate their attempts to obtain information and hold her accountable. Initially, the refusal to be held accountable was viewed as reluctance by the Division Director to accept new leadership. The Mayor's Office response to our audit further states, *"Discussions with [the Accountant and Fiscal Manager] seemed to indicate that they were conforming to the instructions of their supervisor [the Division Director]. There was no … [indication from the Accountant and Fiscal Manager] that they could not provide the information requested."* Only later did they recognize the Fiscal Manager and the Division Director lacked the necessary, fiscal and budgetary competence to respond to their requests.

The Department Director and the Mayor's Chief Administrative Officer went on to assert that the Division Director attempted to circumvent the chain of command, as she had been able to do in the Commission form of government, but failed. This behavior was gradually less acceptable to the Department Director and the Mayor's Chief Administrative Officer.

The Mayor's Office response to our audit characterizes these issues in the following way: *"Initially [the Department Director] was met with resistance in her attempts to have regularly scheduled accountability meetings. Her [the Department Director] attendance at Fine Arts staff meetings was questioned. However, when informed that these would be mandatory, [the Department Director and Division Director] did have regular meetings. These meetings focused on event type issues. Fiscal information was not the primary objective of the meetings."* This is contrary to the characterization made by the Department Director in her demotion letter of November 7, 2002, to the Division Director in which she stated, *"Over the last year I discussed with you [the Division Director] on multiple occasions concerns with fiscal management…Time and again, I was informed that matters upon which I inquired were being handled according to policy."*

The Mayor's Office asserts that during the pre-Olympic period, they had a sense that Fine Arts operations were not being administered as they would have wished. The Department Director provided us with a copy of an e-mail, dated September 21, 2001, in which she clarified an information request she had made of the Division Director: *"Hi… [Division Director's first name] - I want to clarify my information request from earlier today.*

I need:
Year 2000 Budgeted and Actual expenses (by line item)
Year 2000 Budgeted and Actual revenues (by line item)
Year-to-date Budgeted and Actual Expenses and Revenues.
2002 Projected revenues by program.

This will help me as I review the current budget requests for the division."

Certainly, the Department Director could have been more direct in stating her mounting frustrations with the Division Director. This e-mail does not convey the level of frustration that she reports to have experienced. According to the Department Director, she did not feel comfortable with placing the Division Director on a documented plan of action.

Once again, noteworthy are the performance ratings for 2001 with respect to the Division Director and the Fiscal Manager. The ratings were 2.60 and 2.50, respectively, on the scale of 1.00 to 3.00. Although down from the prior period these evaluations were still "exceeds many expectations" ratings.

The Department Director did set a number of fiscal-related expectations for 2002 with the Division Director, as part of this evaluation:

- Develop a five-year plan and cash-flow analysis using no more than $2 million of TRCC fund monies.
- In concert with the Department Director, identify and pursue new revenue sources.
- Present monthly revenue reports (by program) to the Department Director for review and analysis.

These expectations were indicative of senior management's inability to obtain revenue projections and their uncertainty about reporting at Fine Arts and their efforts to correct those problems. However, they do not appear to cover all of the areas of concern that would have addressed the problem more comprehensively. We note in the Mayor's Office response, their observation that the Division Director's authorship of the goal to "*present monthly revenue reports*" provided them with a level of comfort that the Director was responding to their efforts to establish accountability.

In the Mayor's Office response, they further observe that the Division Director's evaluation of the Division Fiscal Manager *"did not provide the Department with any indications of competency issues [with the Fiscal Manager]. At that time, there was a full expectation [that the Division Director could meet] the specific performance goals…"* with full reliance on the capabilities of the Fiscal Manager.

However, we discovered within the first hour of specific inquiries of the Fiscal Manager into her principle role regarding the reconciliation of the Fine Arts Depository account, that she had not obtained a functional understanding of this reconciliation and the related revenue recording process. In hindsight, the potential existence of significant Fine Arts fiscal problems would have been readily visible to the senior-level management of the Community Services Department, anytime during the three years of the Fiscal Manager's employment, had they made similar inquiries of the Fiscal Manager to test their reported level of discomfort.

In their response to the audit report, the Mayor's Office stated that the events leading up to and surrounding the 2002 Winter Olympic Games *"did play a role in the timing of when [the Division's] practices would be discovered by the Mayor's review team."* We take this to mean that the Mayor's Office opted to defer acting at that time, despite their concerns, and their expression of confidence that, had they taken action on their concerns at that time, they would have discovered the problems. Indeed, prior to the Olympics, the Mayor's Chief Administrative Officer asserts that he *"approached the Mayor with these problems as known at that time and a determination had been made that 'after the Olympics' …[they] were going to do a more thorough review…"* This makes clear the affirmative decision by the Mayor's Office to delay action until after the Olympics.

It was not until May of 2002, some two months after the Olympics, that, according to the Mayor's Office response, *"plans were being prepared to move [a member of the Mayor's Office fiscal and budgetary team] into the review process."* By that time *"[The Mayor's Chief Administrative Officer and Chief Fiscal Officer] were specifically concerned with a feeling that the Division could not provide cash positions and five year projections of estimated budgets."* Further, they describe an inability by Fine Arts *"to project [required] TRCC Fund transfers …[as a] particular concern."* The Division Director's lengthy convalescence from a serious automobile accident, which occurred shortly after the conclusion of the Olympic events, may have contributed to delaying the Mayor's Office review until early May 2002. At that time, the member of the Mayor's Office fiscal and budgetary team was, in fact, sent on a short familiarization tour of Fine Arts.

The Department Director and the Mayor's Chief Administrative Officer indicated in our interviews that during the time between May and September 2002 they continued to have doubts regarding fiscal matters at Fine Arts. However, the passing of the Fiscal Manager's mother coupled in time with the Operations Manager's unexpected death, may have also presented hurdles to the review of fiscal operations by the member of the Mayor's Office fiscal and budgetary team. However, events of this nature would typically be resolved in a matter of days and are not credible reasons for the lengthy delay from May 2002 to September 27, 2002. Notwithstanding the unresolved doubts and concerns, the evidence is clear, and supported by the District Attorney's Office, that no action was taken until the Fine Arts Accountant (who had replaced the Assistant Accountant) made further complaints on September 27, 2002.

Despite the ample warnings and admitted growing concerns regarding the fiscal problems at Fine Arts from the period of September 2001 through

September 27, 2002 the Mayor's Office failed to act. In the Mayor's Office response they state, *"The Department's response to the complaints was sufficient, in our opinion, given the nature of the issues presented it at the time. It is difficult to assess whether there should have been specific concern given the actual information received at the time. This and the fact that subsequent information was provided that indicated they were working together resolving the issues presented."*

The Mayor's Office response goes on to assert that "*subsequent information provided to the Department Director via email and other interactions with the personnel led us to believe there was an improving atmosphere in regards to the personnel/personality issues*." Our audit inquiries could not validate or confirm such a contention on the part of the Mayor's Office. In fact, this characterization is counter to the concerns expressed in the whistle-blower's e-mail of June 7, 2002.

We have difficulty reconciling conflicting characterizations of what the Mayor's Office could reasonably have known about fiscal problems at Fine Arts. On one hand, the Mayor's Chief Administrative Officer claims to have been "*uncomfortable with response received to requests for information, the manner in which the Division Director and other employees reacted when information was requested, and ...the accuracy of the information*." He states that he *"had approached the Mayor with these problems…and we were going to do a more thorough review of the division."* He refers, in the Mayor's Office response, to *"actual information received at the time,"* without any degree of specificity. He then claims, with regard to personnel matters at Fine Arts, that "*there was an improving atmosphere in regards to the personnel/personality issues."*

We acknowledge that the Mayor's Office focus, during this period, was on personnel/personality issues and accept their judgment that, from their perspective, there was an apparent improvement in this area. However, the repeated warnings of potential fiscal and budgetary problems were an entirely separate matter, with respect to which, we conclude, they gave inadequate attention.

All things considered, in our opinion, the Mayor's Office assessment, made prior to the Olympics, that circumstances at Fine Arts required an internal review, was an accurate assessment. In light of the continuing warnings that occurred thereafter, the Mayor's Office delay until September 27, 2002, to undertake such review does not reconcile with their earlier assessment.

The Accountant's complaint resulted in the Mayor's Office initiating an investigation.

On September 25, 2002, the Accountant reported her concerns regarding accounting procedures at Fine Arts to the County's Employee Assistance Program Coordinator, who brought in the County EEO Manager. They contacted the Department Director, who directed the Accountant to meet the next day with the fiscal person that had gone on the earlier familiarization tour. As described in the introduction, the Mayor's Office commenced their internal review of fiscal practices at Fine Arts on September 27, 2002, as a result of the Accountant's concerns. The Accountant's complaint was closely followed by the Ticketing Services Manager's "whistle blower" letter, dated October 2, 2002, which added an urgency and a better framework to the Mayor's Office investigation, which had already commenced.

Finally, the 2002 performance rating of the Division Director, issued on October 2, 2002, simultaneously with the employee complaints, was 2.65, a slight increase over the prior year. The Fiscal Manager was not, and has not been, rated for 2002.

xi. Despite significant warning events, the organization structure and job requirements of senior-level management at Community and Support Services (later Community Services) did not mandate their direct intervention into potential significant fiscal and budgetary problems at Fine Arts. Nevertheless, senior management had an assumed duty to respond to significant warning events.

The Community and Support Services Department (later the Community Services Department) had ample opportunity to note a series of warning events that could have alerted them to the progressive breakdown of fiscal and budgetary practices at Fine Arts. Among these early warning events were the following instances previously noted in our report:

- During the Fall of 1998, the Fine Arts Accountant submitted a revenue projection that resulted in a Fine Arts cash balance overstatement of $2.2 million. This was due to advance ticket sales from a major production being treated as revenue, rather than credited back to the promoter. The error resulted in a major year-end 1999 budget adjustment.
- The Department Fiscal Manager expressed serious reservations about the qualifications of the Division Fiscal Manager hired in August 1999.
- The Auditor's Accounting and Operations Division discovered a $1.25 million error in the transfer of revenue from the Fine Arts Depository Account in May 2000. The error resulted from the treatment of a contribution, previously recorded in the Fine Arts fund balance, as revenue. This was somewhat analogous to the previous $2.2 million error. This error was brought to the attention of the Department Fiscal Manager and the Division Director.
- The Department Fiscal Manager recognized a consistent shortfall in revenue transfers compared to budgeted projections when reviewing the five-year cash flow projections with the Division Director and Fiscal Manager, during the budget preparation for the 2001 and 2002 budgets.
- After the change in form of government in 2001, the Department Director and the Chief Administrative Officer encountered a lack of cooperation from the Division Director in their efforts to establish accountability.

- The Ticketing Services Manager, by his account, expressed serious concerns regarding fiscal practices at Fine Arts in September 2001. These expressions of concern continued throughout 2002, and are at least partially documented by an e-mail of June 7, 2002. The Department Director received a copy of this e-mail and determined that it did not provide sufficient grounds to take action at that time.
- The Department Director's demotion letter to the Division Director stated, "*Over the past year I discussed with you [the Division Director] on multiple occasions concerns with fiscal management.*"

We have had difficulty, during the course of our audit, pinpointing responsibility, beyond that which we have attributed to the Division Director and Fiscal Manager, for the remarkable breakdown of fiscal and budgetary functions in Fine Arts. We have examined the organizational structure prior to the change in the form of government in 2001, as set forth in Figure 1 below.

Salt Lake County Center for the Arts Organization Chart
(Under Commission form of Government)

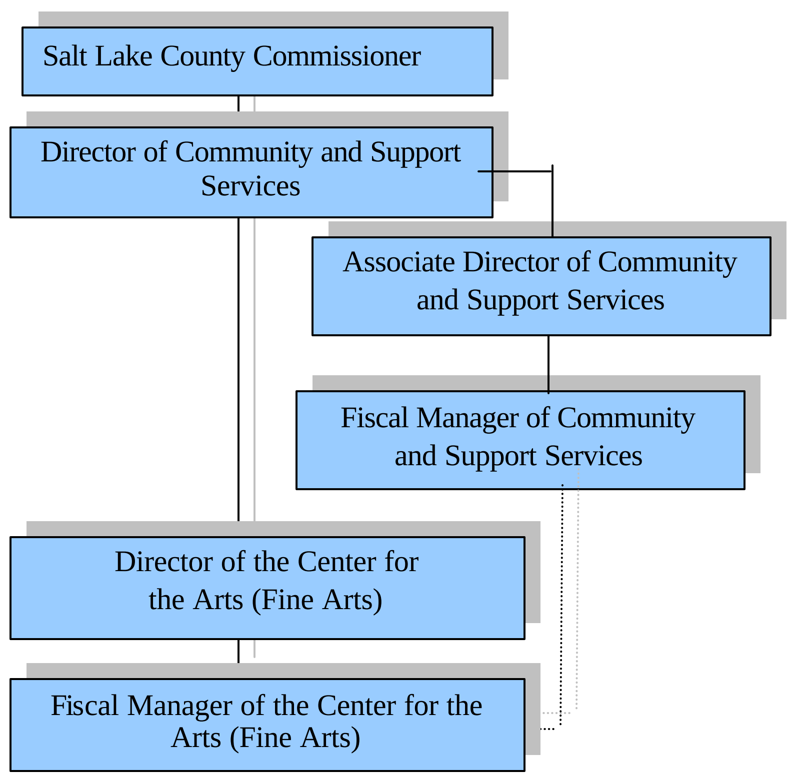

Figure 1. *It would appear from reference to this structure, alone, that the individuals occupying senior-level management positions would have had the duty, responsibility, and authority to act upon the warnings outlined.*

It would appear from reference to this structure, alone, that the individuals occupying these management positions would have had the duty, responsibility, and authority to have acted upon the overt warnings outlined above. The Division Director's job description clearly charged her with the full range of management duties, responsibilities and granted commensurate authority at the division level. However, according to their respective job descriptions, the oversight duties of other senior-level positions, with respect to the division, are not as clear.

The responsibility to develop the policies and procedures establishing management controls in Community and Support Services prior to the change in form of government was only partially addressed in the development of the relevant job descriptions. We refer here to the job descriptions of the key senior-level managers at that time.

Department Director: The Department Director was given the responsibility of *directly supervising all divisions of the department*, which includes the Division of Fine Arts. The Director was further charged with *establishing policies and procedures for operation of the divisions* within the Department and *directing and evaluating those divisions*. Finally, the Director was responsible for *reviewing the utilization of resources, contracting, planning, budgeting, fiscal management, and service delivery for the division and establishing policies to correct any weaknesses*.

Associate Department Director: The Associate Department Director was charged with *directly supervising the Department Fiscal Manager until the job description was changed* on October 14, 1997. Thereafter, the focus was shifted to duties as Commission Chief of Staff and oversight of services performed by the Central Administrative Office and Internal Service Divisions.

Department Fiscal Manager: The Department Fiscal Manager's description charged him with:

- *Developing and implementing accounting procedures* for the Department, including its divisions.
- Coordinating with Division Directors to *establish fiscal priorities, goals, and objectives and providing technical assistance to divisions as requested*.
- *Developing and maintaining manual and automated report and information systems for use by division directors* in monitoring their respective budgets on a month-to-month basis.
- Meeting with directors, as needed, to *address potential problem areas when they first appear*.

In our interviews with the Associate Director and Department Fiscal Manager of Community and Support Services, they indicated that they did not deem themselves to be directly responsible for management of the Fine Arts Division Director or Fiscal Manager prior to the change in form of government. This would explain the absence of well-developed and closely monitored management controls necessary to hold the Division Director and Division Fiscal Manager accountable for their direct fiscal and budgetary responsibilities.

We note that the job descriptions defining the duties and responsibilities of the senior-level managers, discussed above, are not current and do not address the duties and responsibilities of the new structure of government. In the structure of the new form of government as depicted in Figure 2 below, many of the senior-level positions are appointed, non-merit positions. Thus, job descriptions are only brief, summary descriptions of their senior-level duties and responsibilities. Indeed, these job descriptions lack specificity regarding essential duties and responsibilities and are only marginally, at best, helpful in assessing management oversight.

Salt Lake County Center for the Arts Organization Chart
(Under Mayor/Council form of Government)

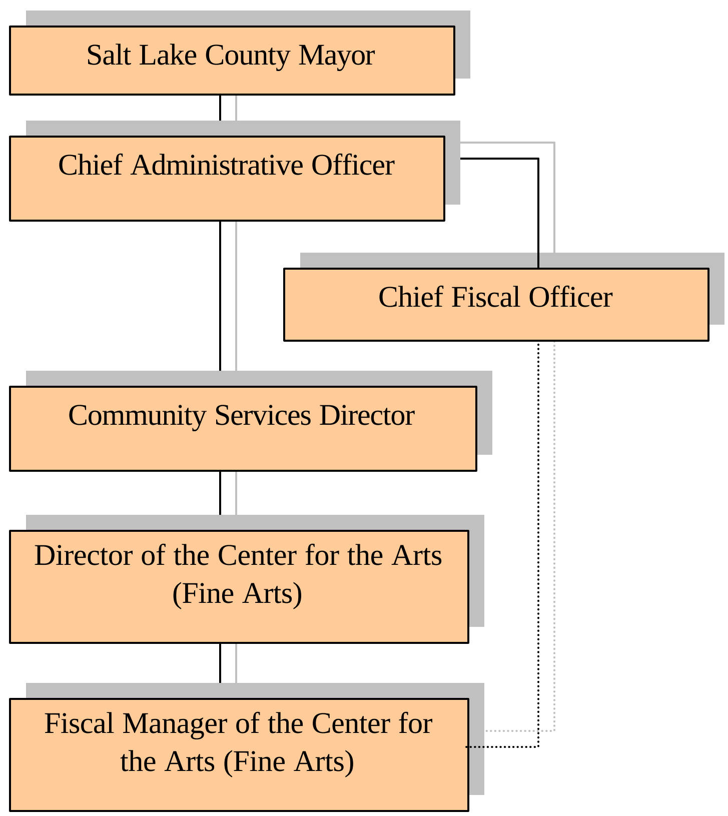

Figure 2. *Under the Mayor/ Council form of government, the Department Fiscal Manager position has been eliminated and the technical fiscal oversight of Fine Arts, and other divisions, is less clearly defined.*

As discussed in Section ix., since the change in the form of government, the Department Fiscal Manager position has been eliminated. Moreover, the Associate Director position in the reorganized Community Services Department remained vacant until February 2003. In addition, technical fiscal oversight of Fine Arts is less clearly defined in the duties and responsibilities of the County's Chief Fiscal Officer (formerly the Department Fiscal Manager). This brief job description, found in the Career Service Council Disclosure for this position, specifically charges the

Chief Fiscal Officer with supervising the financial and budget sections of the three Mayor's departments.

As previously stated, elevating the Department Fiscal Manager to Chief Fiscal Officer, and not filling his vacant Fiscal Manager position at Community Services, removed him further from a direct Fine Arts oversight role. This reorganization may have placed further stress on the Department Director, in her new role, given the broad scope of her duties. The decision to eliminate the Department Fiscal Manager position at Community Services was part of a larger re-organizational strategy within the Mayor's Office, whereby the fiscal manager positions, that were previously resident in the Departments of the Mayor's portfolio, i.e., *Human Services, Public Works, and Community Services*, were centralized, and brought into the Mayor's Office to work under the direction of the Chief Fiscal Officer and the Mayor's Chief Administrative Officer. As a result of this strategy, three new fiscal employees were brought into the fiscal operations of the Mayor's Office. The Mayor's Office was well into the process of developing this fiscal and budgetary team that would serve all of the Mayor's departments prior to the commencement of their review of Fine Arts.

In many organizations, the position of Chief Fiscal Officer implies a high level of responsibility and authority in that organization. Certainly, the implied duties of this position would set the expectation that the exercise of management control is an integral part of that function. Thus, regardless of whether specific duties outlined in the referenced job descriptions comprehensively state the duties of the Chief Fiscal Officer, there is an implied expectation that such senior-level position would have ultimate responsibility and authority for exercising management control.

We recommend that appropriate steps be taken to empower the Chief Fiscal Officer to carry out these vital oversight duties. In the Mayor's Office response they validate this recommendation by pointing out that "*it is now apparent that additional scrutiny of work product was needed at the Division level and/or Department level.*"

During our interviews with the Chief Administrative Officer and the Department Director, they absolved the Chief Fiscal Officer of responsibility for the breakdown in fiscal and budgetary oversight at Fine Arts. In fact, in the Mayor's Office response, they assert that the Department Fiscal Manager failed to act because "*he was not supported with the type of infrastructure and resources he currently has under the new form of government.*" Although the Mayor's Office has developed a staff to support the Chief Fiscal Officer, since the change in the form of government, this initiative did not cause him to exercise direct supervision and oversight of Fine Arts fiscal matters prior to the commencement of the Mayor's Office review of these matters.

In fairness, we recognize the argument of the Mayor's Office that they were planning to act and, in that vein, continued to apply pressure, which may have resulted in the staff coming forward to disclose fiscal and budgetary problems. In the Mayor's Office response to our audit, they pointed out that *"increased efforts at accountability were initiated and requests for information intensified."* They argue that the discovery of the Fine Arts fiscal problems was inevitable once this process began. They state their belief *"that demand for accountability ultimately resulted in the initiative that brought us to the point where the County is today."* An option to this application of pressure, over time, would have been to act immediately on senior management's initial concerns.

This "accountability" initiative may have had the goal of continued division-level autonomy with minimal senior-level oversight, as in the Commission form of government. However, continuing this degree of autonomy had a potential downside, which the Fine Arts Division unfortunately suffered, as evidenced by the further breakdown of management controls.

In the absence of clear direction from job descriptions, we relied on the reasonable expectation that senior-level management should be alert and react to warnings that problems are occurring, even though they do not have direct management responsibility. The United States General Accounting Office's Government Auditing Standards provide guidance with respect to the exercise of management control in a government setting. Sections 6.40 and 6.41 of these standards state:

- "*Management is responsible for establishing effective management controls. The lack of administrative continuity in government units because of continuing changes in elected legislative bodies and in administrative organizations increases the need for effective management controls.*

- *Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for* ***planning, organizing, directing, and controlling*** *program operations. They include the systems for* ***measuring, reporting, and monitoring*** *program performance."*

One of the classifications of management controls is validity and reliability of data. The GAO standards go on to state:

- *"Controls over the validity and reliability of data include* ***policies and procedures*** *that management has* ***implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports****. These controls help assure management that it is getting valid and reliable information about whether programs are operating properly."*

Another classification of management controls is safeguarding of resources. Here the GAO standards provide that:

- *"Controls over the safeguarding of resources include policies and procedures that management has implemented to **reasonably ensure that resources are safeguarded against waste, loss, and misuse.**"*

Our observation is that the exercise of management control outlined above was found lacking on the part of senior-level management in the Community and Support Services Department, prior to the change in form of government, and in the Community Services Department since that time. This may have been the result of a management structure that did not require the exercise of management control as contemplated in the GAO standards. Nonetheless, the unintended consequence of the failure to exercise these management controls was the significant further breakdown in fiscal and budgetary practices in Fine Arts.

Many explanations are cited in our report and the Mayor's Office response, for the focus of senior-level management's attention on other higher priority matters, i.e. the Olympics and bonding for rapidly expanding construction projects. Salt Lake County is a complex and dynamic organization. One cannot expect to find, at any given time, a comprehensive collection of senior-level duties and responsibilities that covers all contingencies. Job descriptions are the individual tiles that create a management oversight mosaic. Under the demands of change, these tiles may not fit snuggly at any given moment. Nevertheless, even though senior management may not be directly charged with yelling "fire," they have an implied professional duty to do so for the public benefit, if the circumstances warrant.

V. Findings and Recommendations

Findings and Recommendations are divided into 12 sections: The Settlement Account Checking Account, Patron Coat Check Services, Patron Services Checking Account for Deposit of Tips from Patrons, The County Fine Art Collection Checking Account, Ticket Office Refunds, Petty Cash Account, Purchasing, Accounting Processes/ Accounts Receivable/ Revenue Recognition, Issuance of Certain Complimentary Tickets, Fixed and Controlled Assets, Compliance with Fair Labor Standards Act Rules, and Continuing Audit Work at Fine Arts.

1.0 Settlement Account Checking Account

Purchases made through the Settlement account are not subject to the routine outside review that occurs before reimbursement of petty cash or through the County purchasing process.

Fine Arts uses an Event Settlement checking account (Settlement account) to facilitate remittance of event proceeds to tenant organizations, like Ballet West, to promoters of other shows, like *Phantom of the Opera*, and for expenditures made on behalf of event promoters, such as for stage hands and piano tuners. These "outside" expenditures are offset against event proceeds from ticket sales, in the final event settlement to that promoter. Purchases made through the Settlement account are not subject to the routine outside review that occurs, for example, before reimbursement of petty cash and imprest checking accounts, or through the County purchasing process. The greater flexibility allowed by the Settlement account was felt necessary due to the unique nature of Fine Arts operations. A similar arrangement is in place for operation of Salt Palace event settlements. We reviewed all the checks drawn on the Settlement account from January to October 2002, and reviewed checks written during the last month of each quarter for 2000 and 2001. We found the following:

- **Large-dollar-amount event settlement checks, made payable to Fine Arts employees or to "cash," were used to make advance cash payments to entertainers or their event promoters, without adequate controls in place.**
- **Several checks were drawn on the Settlement account for expenditures not related to an event or not recouped through a reduction of a promoter's settlement amount.**
- **An Event Settlement Statement was altered to make it appear that the County had been reimbursed for purchases of food, when no such reimbursement had been made.**
- **The Settlement account was used to restore the Ticket Office safe to its authorized fund balance.**
- **Salt Lake County employees received compensation through checks drawn on the Settlement account.**
- **The Settlement account was used to reimburse petty cash.**
- **A settlement check was issued without any approving signatures. Another was not filled in completely, and was missing the numeric portion of the amount. Checks are occasionally used out of sequence.**

1.1 Large-dollar-amount event settlement checks, made payable to Fine Arts employees or to "cash," were used to make advance cash payments to entertainers or their event promoters, without adequate controls in place.

The Fine Arts Director instructed that a check in the amount of $25,000, drawn on the Settlement account, be made payable in the name of a Fine Arts employee.

As previously stated, the Settlement account is to be used exclusively for the settlement of specific events where a promoter contracts with Fine Arts for the use of Fine Arts facilities, ticketing services, equipment rental, and related services. Early in our audit work, we discovered an instance where the Settlement account was used to partially settle an event with a foreign ballet company and its promoter, during June 2002. We found that, to satisfy the promoter's request to be paid a cash advance of $25,000 as a partial settlement, the following actions were taken by Fine Arts employees. The Division Director instructed that a check in the amount of $25,000, drawn on the Settlement account, be made payable in the name of a Fine Arts employee, in this case one of the Event Managers. The Event Manager was also instructed to: 1) obtain a protective escort, 2) carry the check to a nearby bank, 3) present the check for payment, and 4) bring the $25,000, in cash, back to Capitol Theatre for payment to the promoter.

The Event Manager was unsuccessful in arranging an escort from County Protective Services, so accompanied by the Stage Manager at Capitol Theatre she carried out the Division Director's instructions. The Event Manager, accompanied by the Stage Manager, obtained the $25,000 from the bank, placed the bank bag containing the monies in a shopping bag to make their portage less obvious to passers-by, and returned to Capitol Theatre without incident. The Event Manager temporarily secured the money in the ARtTiX safe, by her account, and then sometime later had the other Event Manager witness the counting out of the advance to the promoter. The promoter acknowledged receipt of the advance in a written document, apparently signed by the promoter and the Event Managers, dated June 21, 2002. Our attempts to contact the promoter by telephone, to independently verify his receipt of the $25,000 were unsuccessful. The telephone for the promoting company had been disconnected.

When the Division Director was interviewed regarding this transaction, she asserted that the demand for large cash advances by performers/ promoters was commonly made by touring companies and performing artists. The cash was necessary to pay for per diem expenses, catering at the event, and services of road workers. However, the Division Director did not acknowledge any reasons why the transaction with the promoter, using Fine Arts employees as intermediary (including making a large check payable to the employee), and having large sums of cash transported without an armored vehicle or armed escort, presented any financial or security risk.

To further the discussion, the Division Director produced documents showing that an advance of $2,000, made payable to "cash," had been recorded on the settlement statement of a country-music singer, based on the same type of request by that performer in November 1999. The Division Director did not understand the significant financial risk of making a Settlement account check payable to "cash." Moreover, the Division Director provided us with copies of a settlement with a national media company on behalf of a well-known actor and singer. In this settlement the cash advance was $20,000, and the Settlement account check to provide the cash was made jointly payable to two employees of Fine Arts, the Accountant and the Fiscal Manager.

We could not discover any separate document acknowledging receipt of the $20,000 cash by the national media company, other than a notation at the bottom of the Event Settlement Statement stating: *"$20,000 cash payment given to…[the promoter]."* However, the notation appeared to be initialed by someone other than the promoter. The promoter was contacted by telephone at his office. He recalled the transaction and verified the receipt of the $20,000 cash payment. We have not visited his office to review his documentation.

When the Fiscal Manager was interviewed regarding these transactions, she likewise could not suggest any financial or security risks inherent in such a procedure. She was also asked whether she had considered the federal tax implications of Settlement account payments, in significant amounts, to

The Fiscal Manager was unfamiliar with IRS regulations governing the issuance of a Form 1099 or the concept of guaranteed funds associated with cashier's checks.

third parties, i.e., the IRS requirements for issuance of Form 1099 for payments for services in amounts exceeding $600 to an individual. (An IRS audit could result in inquiries into checks issued for $20,000 to $25,000 and payable to individuals, particularly Fine Arts employees). The Fiscal Manager was not familiar with the IRS regulations governing the issuance of a Form 1099. When questioned about the feasibility, in the future, of issuing a "cashier's check" payable to the promoter to meet their cash needs, essentially guaranteeing the funds to cash the check, the Fiscal Manager seemed to be unfamiliar with the concept of "guaranteed funds" and the use of cashier checks.

Fine Arts has no policy and procedure in place with respect to making large cash payments to performers/promoters of events. The Division Director asserted that advancing cash to promoters is a common practice in the industry, especially in the case of touring musical groups and some Broadway-type productions. At the Division Director's suggestion, an Event Manager from the Delta Center was contacted about the Delta Center's established procedure for making cash advances to performers/promoters. He confirmed that the Delta Center does advance cash to touring groups in amounts ranging from $5,000 to $25,000 to cover their "road" expenses. Outlined below is the procedure followed by the Delta Center:

1. Requests for lump-sum payments of cash are stipulated by the performer/promoter in advance and, in most cases, are part of the event contract.
   a. Contract specifies the total amount of the cash advance and the exact denomination of bills needed.
   b. Contract also stipulates that the performers must be on stage (or at a minimum in the building), ready and capable of performing on the night the cash payment is made.

2. The procedure below outlines how the cash is to be obtained:
   a. Ticket Office is notified well in advance of the cash requirement set forth in the contract.
   b. Armored car escort is arranged to transport cash from the bank. *Funds are never in the custody of an employee.*
   c. Bank personnel are notified in advance of the amount and denominations of bills in the request.
   d. The check is made payable to "cash," but the name of the performing group, settlement statement reference, the purpose of the advance, denomination of bills, etc., is set forth in the description section of the two-part check. Checks are never made payable to an employee. *The Delta Center does not use cashiers checks due to the difficulty of cashing on weekends.*
   e. Ticket Office takes delivery of the cash, performs a count, and secures the cash in the Ticket Office vault.
   f. Disbursement of cash is documented in writing, signed, and dated, with the purpose of the disbursement acknowledged by a member of the performing group or the promoter.

The failure by Fine Arts to adopt a new written policy and procedure, and a continuation of past practices would perpetuate some significant financial and human risks. Among these are the following:

1. Issuing checks of substantial sums, payable to Fine Arts employees, and placing the check in their possession and custodianship for any period of time puts the employee in significant risk of misusing the funds or perpetrating a fraud or embezzlement.

2. Having an employee take custody of and transport cash from the bank, regardless of the protection and security provided, places the employee in the position of conflict and undue personal risk.
3. Payments to employees, whether real or perceived, outside the County payroll or expense reimbursement policies and procedures is a violation of Countywide policy, and, absent any explanation, have the appearance of impropriety and could subject the employee to possible questioning under examination by taxing authorities.

1.2 ACTION TAKEN:

1.2.1 Fine Arts has discontinued the practice of making checks drawn on the Settlement account payable to County employees.

1.3 RECOMMENDATIONS:

We recommend that:

1.3.1 Fine Arts develop a written policy and procedure applicable when substantial amounts of cash are paid to touring performers/promoters, in accordance with industry and peer "best practices," and incorporating the procedures outlined above at a minimum.

1.3.2 The Fine Arts Fiscal Manager receive training and take initiative to understand the Internal Revenue Code, and related Treasury regulations, with respect to the circumstances under which a Form 1099-MISC. -Report of Miscellaneous Income, must be reported with respect to independently contracted personal services relating to an event. (This matter is discussed further in Section 1.10).

1.4 Several checks were drawn on the Settlement account for expenditures not related to an event or not recouped through a reduction of a promoter's settlement amount.

Salt Lake County Center for the Arts (Fine Arts) Policies and Procedures govern management of the Settlement account. Under Section 4.1.4 it states, *"Fine Arts will process and pay payments for events and payments associated with events (such as taxes, IATSE [stage labor], piano tuners,* *Purchases made outside of the use stated in the policy establish an environment wherein inappropriate purchases could be made.*

etc.) using the Fine Arts [Settlement] Checking Account." However, we found several checks drawn on the account, signed by the Division Director, for expenditures not related to any one event or not recouped through reduction of a promoter's settlement amount.

- A check dated June 5, 2001 in the amount of $283.50 was drawn on the settlement checking account for food used during a press conference promoting an event.
- On November 30, 2001 a check in the amount of $261.71 was issued, made payable to a copy center for ARtTiX Brochures.
- On December 19, 2001 a check was drawn in the amount of $150 for parking validations. Other parking validations, purchased around the same time, were obtained through the normal purchasing process.
- On April 2, 2002, the Patron Services Manager's cell phone bill for February 2002, in the amount of $380.84, was paid for using Settlement account funds.
- A check dated April 30, 2002 in the amount of $479.84 was drawn on the settlement checking account to reimburse a Fine Arts employee for a purchase of signs advertising the Rose Wagner opening. (Receipts attached to this check were broken down into amounts less than $200, which may reflect an initial intent to use petty cash. Petty cash is discussed in Section 6.0).
- On June 19, 2002 a check was drawn on the Settlement checking account in the amount of $205 for a seminar on venue security.
- On August 17, 2002 a check was drawn for $500 for a seminar on "Technology Briefings for Today's Executives." The check was made payable to ARtTiX and was reportedly used to purchase show tickets. These tickets were then exchanged for admission to the technology seminar, which was attended by members of Fine Arts Information Services staff.

The Division Director has indicated that the parking permit and cell phone bill expenditures were made in connection with the 2002 Winter Olympics, and were billed to SLOC. Copies of invoices submitted to SLOC, however, contain insufficient detail to confirm whether these expenditures were included.

Amounts not charged to a specific event settlement result in an inappropriate reduction of Fine Arts revenue, due to an expense being charged under the generic title of an "administrative, outside expenditure." Because the expenditures detailed above were not processed through County purchasing, they were never entered against the appropriate line item in the Fine Arts budget. In addition, purchases made outside of the use stated in the policy establish an environment wherein inappropriate purchases could be made.

1.5 RECOMMENDATIONS:

We recommend that:

1.5.1 All purchases made from the Settlement account be restricted to those made on behalf of a promoter—not those relating to the general operation of Fine Arts.

1.5.2 All Settlement account expenditures be reviewed for appropriateness by an independent supervisor, in the process of being the co-signatory on Settlement account checks.

1.6 An Event Settlement Statement was altered to make it appear that the County had been reimbursed for purchases of food, when no such reimbursement had been made.

A series of checks signed by the Division Director, totaling $760, were written from the Settlement account to reimburse Fine Arts employees for purchases of food at a grocery store, a local market and deli, and a wholesaler in June 2002. Each check contains a notation stating its use for the foreign ballet company. A settlement check was issued to the foreign ballet company on June 22, 2002. The settlement statement backing up the check, on file with Fine Arts accounting, is also dated June 22, 2002 and is signed by both the promoter and the Event Manager. This copy of the settlement statement *does not* include any charges for the food purchased; meaning the County absorbed the cost of the food.

However, a second version of the settlement statement was found in the Event Manager's file for the foreign ballet company. This statement is dated June 26th, four days after the first settlement, and is signed by the Event Manager only. The final amount remitted to the ballet is unchanged, however the statement does include a charge for $760 in "catering" which is directly offset by reductions in several other expense categories, such as "*follow spots, piano rental and cleaning*." In any case, Fine Arts revenue was inappropriately reduced by $760.

1.7 RECOMMENDATIONS:

We recommend that:

1.7.1 Fine Arts pursue technology and separation of duty measures that will prevent one individual from having the ability to alter settlement amounts and from being the sole decision-maker regarding charges to promoters.

1.7.2 Representatives of the Auditor's Office, the Mayor's Office, and Fine Arts meet to identify and reach agreement on the specific content of the event settlement process, with a goal of ensuring that full-cost recovery of charges for non-tenant shows is consistently achieved.

1.8 The Settlement account was used to restore the Ticket Office safe to its authorized fund balance.

In August 2000, a check in the amount of $1,100, issued to "cash," and signed by the Division Director, was drawn on Settlement account funds. A copy of a letter, written by the Ticketing Services Manager and addressed to the Division Director, stating its use "*to replenish the box office [Ticket Office] cash in the Capitol Theatre for replacement of cash refunds for the following shows, Beauty and the Beast and Showboat*" was attached as documentation. A second check was issued in October of that year, also to cash, in the amount of $1,357.69—along with a similar letter explaining its use to replenish cash used to issue ticket refunds.

We questioned the Fiscal Manager regarding these checks. She indicated that the Ticketing Services Manager had approached her indicating that the Ticket Office safe was short due to ticket refunds. The Fiscal Manager indicated that she consulted with representatives of the Treasurer's Office regarding proper procedure to restore the fund balances to the authorized level. She was reportedly told that any funds issued would represent an increase in imprest fund balances—meaning Fine Arts would still be short. Fine Arts management then decided to restore the safe funds by cashing a check drawn on the Settlement account, documented by an explanatory letter signed by the Ticketing Services Manager.

The Treasurer's Office could not recall the conversation referenced by the Fiscal Manager, but indicated they consistently refer inquiries to the applicable countywide policies. In this instance, Countywide Policy #1203 "Petty Cash and Other Imprest Funds" details what would have been the proper procedure and in Section 3.9 states, *"Any unaccounted-for funds (shortages) shall be investigated immediately. The custodian, after appropriate investigation, may be required to personally replenish the shortage, depending on the circumstances. If the shortage appears to relate to a theft, it shall be reported in accordance with Countywide Policy #1304 - Discovery and Reporting of Thefts. Any shortages not resolved immediately shall be explained in a letter to the Mayor. The Auditor will reimburse requests to replenish accounts resulting from shortages if authorized by the Mayor through this procedure."*

We also contacted the Ticketing Services Manager regarding possible documentation of the refunds referenced. The Ticket Office was able to produce refund forms for the cancelled show "*Show Boat*" which totaled in excess of $135,000. Due to the time-consuming nature of reconstructing such a large volume of transactions, spread over several years, we were not able to determine if refunds issued, in aggregate, matched the total of the back-up provided. No single bundle or batch of refunds, however, matched the two checks in question. Ticket Office refund procedures are discussed in detail in Section 5.0.

1.9 RECOMMENDATIONS:

We recommend that:

1.9.1 Fine Arts only use the settlement checking account for its intended purposes—not to replenish or restore imprest fund balances.

1.9.2 Any shortages in fund balances be investigated and handled in accordance with Countywide Policy #1203, "Petty Cash and Other Imprest Funds."

1.10 Salt Lake County employees received compensation through checks drawn on the Settlement account.

The Sheriff's Protective Services Division handles routine security at County facilities, including Fine Arts. Normally, if an event requires additional protective services officers, Protective Services arranges the extra coverage, the officers are paid through County payroll and Protective Services internally bills Fine Arts for the hours worked. This practice is in accordance with Salt Lake County Personnel Policies and Procedures #5420, "Overtime and Compensatory Time," which states in Section 2.6, *"Where an employee in a single work-week works at two or more different types of work. . .both (all) agencies . . . shall be considered jointly for purposes of calculating overtime."* The policy goes on, in Section 6.4 to read, *"Hours worked by employees outside of a primary employer's regular payroll unit shall be paid for such hours from their regular payroll unit. The regular payroll unit will make a journal voucher for reimbursement from the payroll unit for which hours were actually worked."*

A series of Settlement account checks, totaling over $4,500, were written out to various Sheriff's deputies for security at Fine Arts events.

During the course of our review, however, we found a series of Settlement account checks, signed by the Division Director, totaling over $4,500, written out to various Sheriff's deputies for security performed at Fine Arts events. The majority of the checks were dated November 2001 and January 2002. Deputies were paid a flat rate of $25 to $30 per hour. The amount paid to the deputies was withheld from ticket proceeds during the final settlement for that promoter. In response to our inquiry about the purpose of these payments, the Lieutenant in charge of Protective Services indicated that the events in question had special security risks best handled by sworn deputies, instead of protective services officers. Because of this unique request, deputies were contacted and arranged for through the Sheriff's Office secondary employment program, instead of through regular scheduling.

Deputies paid through a check drawn on the Settlement account had no payroll taxes withheld. Hours worked did not count towards calculations of overtime.

Because Fine Arts paid the deputies through a check drawn on the Settlement account, payroll taxes were not withheld and hours worked did not count towards calculation of overtime. Such direct payments are only acceptable when made to an independent contractor. It is doubtful that these deputies would qualify under IRS regulations as independent contractors while working Fine Arts events. For instance, the United States General Accounting Office (GAO) advised the State of Arizona, in "Technical Bulletin No. 99-6," that *"When hiring a current (off-duty) employee of* *another State agency (the employee's primary agency) to perform duties substantially the same as his/her position at the primary agency, the individual is **not** considered an independent contractor for the secondary agency but a dual employee of the State . . .This will ensure that all Federal and State payroll taxes, unemployment insurance, applicable overtime, workers' compensation fees, etc., are properly paid."*

In addition, had the deputies qualified as independent contractors, at least two did not receive the required IRS Form 1099-Miscellaneous Income. The IRS requires entities that pay one individual, as an independent contractor, more than $600 per year to file a Form 1099 for that individual. At least two of the Sheriff's deputies were paid in excess of $600 for their security work. These individuals would already have a Wage and Earnings Statement (Form W-2) filed on their behalf by the County for their routine Sheriff's work. However, since the extra security work was paid for using a check drawn on the Settlement account, it would not appear on their W-2s.

Similar to the Sheriff's deputies, a Fine Arts Stage Manager was also paid for stage labor, during October 2001, using a check drawn on the Settlement account. We contacted Salt Lake County's Personnel Office regarding these practices. While they did not review the documentation in detail, they agreed that such practices were questionable. We also contacted County Contracts and Procurement to determine if a contract was in place under which these deputies could be paid as independent contractors. No such contract was found.

1.11 RECOMMENDATIONS:

We recommend that:

1.11.1 Fine Arts consult with, and obtain the specific approval of, Salt Lake County personnel prior to paying County employees, such as Sheriff's deputies, outside of the County payroll system.

1.11.2 All payments to independent contractors at Fine Arts, exceeding $600, be documented in accordance with IRS regulations.

1.12 The Settlement account was used to reimburse petty cash.

A check in the amount of $57.91 was drawn on the settlement checking account, written out to the Petty Cash Custodian, on September 25, 2001. A notation on the check indicated it was drawn to reimburse petty cash for "drill repair work" paid for out of that fund. In a separate instance, a check was issued to the Petty Cash Custodian, in the amount of $100.00, on November 9, 2001. The notation on the check indicated its use was to reimburse petty cash for a cash advance Fine Arts had issued to an event promoter. As has been outlined previously, obligations to event promoters are supposed to be settled directly through the Settlement account.

Countywide Policy #1203 details the proper procedure for reimbursing petty cash expenditures. Section 3.7 reads *"The reimbursement request shall be submitted to the Accounting & Operations Division of the Auditor's Office in accordance with existing procedures to process direct payments (where no purchase order is processed)."*

1.13 RECOMMENDATION:

We recommend that:

1.13.1 Reimbursement of Fine Arts petty cash purchases be restricted to requests to the Accounting and Operations Division of the Auditor's Office.

1.14 A settlement check was issued without any approving signatures. Another was not filled in completely, and was missing the numeric portion of the amount. Checks are occasionally used out of sequence.

A check in the amount of $58,774 was issued without any approving signatures.

A check dated October 23, 2002, in the amount of $58,774, was issued without any approving signatures. A note on the documentation for that check indicated that the bank had called prior to accepting the check due to the omission. A second check, dated July 7, 2000, in the amount of $24,423.51, was missing both a date and the numeric portion of the amount, presenting a significant opportunity for a third party to fraudulently alter the intended payment amount.

Although a comparatively minor finding, during the course of our review we also noted some checks that were used out of sequence. It is important, in order to protect against fraud, that checks be filled in completely, properly authorized and used in sequential order to ensure that none are missing.

1.15 RECOMMENDATION:

We recommend that:

1.15.1 All settlement checks be filled in completely and used in sequential order.

2.0 Patron Coat Check Services

We examined deposits to the Fine Arts Depository account (Depository account) prepared by the Accountant for the period of March 2000 through October 2002, reviewing just over 100 deposits. These deposits are comprised of a variety of sources. Fine Arts charges tenants and promoters for rent of Fine Arts facilities, outside expenditures incurred on their behalf and other miscellaneous items, such as any facility damage that may occur during a specific event. While such items are normally withheld from ticket proceeds, under some circumstances, such as non-ticketed events, Fine Arts must bill the amount due. The Accountant deposits payments received by mail into the Depository account, as well as proceeds from merchandise sales and cash collected from vending machines.

In addition, Fine Arts ushers provide a coat check service, charging $1.00 per item checked—with the exception of wheelchairs, walkers and strollers which are checked at no charge. Coat check fees are secured in safes at each location, collected by Patron Services and delivered to the Accountant for deposit into the Depository account. Our major findings in the area of deposits relate to the collection of these coat check fees.

- **Purchases were made from cash receipts prior to deposit.**
- **Deposits of coat check fees were not made on a timely basis.**
- **Controls over coat check fee collections were ineffective.**
- **Coat check change funds were created using money withheld from coat check revenue, as well as a check drawn on the Settlement account.**

2.1 Purchases were made from cash receipts prior to deposit.

We found that revenue from coat check fees was sometimes used to purchase food and other items, instead of being delivered for deposit. Countywide Policy #1062, Section 4.1.1 states, *"Cash disbursements such as refunds, payments, reimbursements, etc. will not be made from agency revenue receipts. Disbursements may be accomplished only in accordance with the authorized use of imprest funds, imprest checking accounts or the general warrant process."* We noted the following purchases:

- A coat check deposit in February 2001 was shorted $19 for the purchase of pizza.
- A deposit in April 2001 was short $56. An attached food services invoice for éclairs and punch contains a note indicating its use for a "going away party." The Division Director signed the attached coat check log.
- Collections totaling $38, from the period of May 3, 2001 to September 22, 2001, were never deposited and were instead used to purchase food.
- In May 2002, a deposit was shorted $303 for a series of purchases, documented by receipts dated from March 15 to May 6, 2002. Purchases consisted of two cash awards to individuals in the amount of $50 and $40, a "shirt and zipper tote bag," "pizza and utensils," and "lunch for two at a local restaurant."

Employees at Fine Arts were able to evade County oversight and internal controls over purchases of meals and other items by shorting deposits.

Employees at Fine Arts were effectively able to evade County oversight and internal controls over purchases of meals and other items by shorting deposits of coat check fees collected. For example, countywide policy requires that purchases made using petty cash are reviewed and signed by an independent party, items acquired using the County's purchasing system undergo several layers of oversight and require the signature of an independent party. In contrast, there appears to have been little review and no approval process for the items purchased from these receipts prior to deposit.

2.2 RECOMMENDATION:

We recommend that:

2.2.1 All purchases be made in accordance with countywide policy and procedure, using purchasing, petty cash or imprest checking funds, as such procedures dictate.

2.3 Deposits of coat check fees were not made on a timely basis.

During the period examined, coat check fee deposits were documented by logs on which ushers recorded the amount of fees and tips collected. In examining the logs attached to deposits for the year 2001, it was noted that funds were often collected from patrons two weeks to one month prior to being deposited. The most extreme example was a deposit dated November 28, 2001, which was documented by a series of logs beginning on September 14th of that year—indicating a two-month gap between initial collection and deposit. Countywide Policy #1062 in Section 3.7.2 states *"As required by Section 51-4-2, Utah Code Annotated, all public funds shall be deposited daily whenever practicable but not later than three days after receipt."*

2.4 RECOMMENDATION:

We recommend that:

2.4.1 All coat check fees collected be deposited on a timely basis, no later than three days after receipt.

2.5 Controls over coat check fee collections were ineffective.

Ushers use pre-numbered tickets to track items checked by patrons. However, because the same tickets are issued for items checked free of charge (such as wheel chairs), the number of tickets issued could not be used to verify the amount of fees reported by an usher. Use of different colored tags, with a different sequence for items checked free of charge would help overcome this control weakness.

One other control weakness we noted has recently been resolved. In a typical cash-receipting environment, computer or register reports can be used to verify that all cashiers remit funds collected for deposit. Under the coat check system there was no method for the Accountant or other supervisory personnel to ensure that coat check fees for each event and each usher were ever turned in for deposit. Recently however, instead of filling in a log of collections, ushers use pre-numbered collection envelopes. The Accountant is then able to verify that all envelopes distributed are returned or voided.

2.6 ACTION TAKEN:

2.6.1 New controls have been implemented over the collection of coat check fees, including pre-numbered collection envelopes.

2.7 RECOMMENDATION:

We recommend that:

2.7.1 Fine Arts begin using ticket sequences to verify the amount of coat check fees reported by ushers and that different colored tags with a different number sequence be used for items checked free of charge.

2.8 Coat check change funds were created using money withheld from coat check revenue, as well as a check drawn on the Settlement account.

In order to give patrons change for the coat check services described previously, change funds, in the amount of $25 each, were established for Rose Wagner and Abravanel Hall. Capitol Theatre’s coat check change fund was initially established in the amount of $75, which was later reduced to $25. These funds were established without the knowledge or assistance of the Treasurer’s or Auditor’s Office, and without notice to, and approval of, the Community Services Department or Mayor’s Office. While the source of the total amount is not known, we did note a deposit from April 2001 from which $25 was withheld for use as a change fund. In December 2001, a check in the amount of $25 was drawn on the Settlement account to reimburse petty cash, which had been used to establish the imprest fund.

Countywide Policy #1203, Section 2.1 states, *“The requesting organization shall complete an MPF form 2, Request for Change or Establishment of Petty Cash or Other Imprest Fund. . . It shall be forwarded to the Accounting and Operations Division of the Auditor's Office. After a review for propriety and internal controls, the Auditor will make a recommendation to the Mayor regarding implementation.”*

2.9 RECOMMENDATIONS:

We recommend that:

2.9.1 All imprest-type funds, such as change funds, be established in accordance with countywide policy, through a request to the Accounting and Operations Division of the Auditor’s Office.

2.9.2 The relevant paperwork be submitted so that the current coat check change funds can be added to the Auditor’s Office list of change funds and custodians.

3.0 Patron Services Checking Account for Deposit of Tips from Patrons

In addition to collecting a $1.00 coat check fee, ushers were often given a gratuity or tip of $1.00 or $2.00 dollars. The Patron Services Manager indicated that coat check fees were considered County funds, but tips collected were to be used to compensate and provide incentives to volunteers. Our findings in the area of tip receipts follow:

- **Fine Arts circumvented County procedures to establish a Patron Services checking account without the knowledge or approval of the Treasurer's or Auditor's Offices.**
- **Employee incentive awards were not made through County payroll, in accordance with County policy and applicable federal income tax law.**
- **Approximately $1,900 worth of meals were purchased using the Patron Services checking account without a properly approved Meal Reimbursement Form.**
- **Personal funds were commingled with Patron Services checking account funds and petty cash was used to reimburse the Patron Services checking account.**
- **Purchases and deposits made using the Patron Services checking account were poorly documented and not subject to supervisory review.**

3.1 Fine Arts circumvented County procedures to establish a Patron Services checking account without the knowledge or approval of the Treasurer's or Auditor's Offices.

Tips received by Fine Arts ushers were originally retained by the ushers. According to the Patron Services Manager, this created competition among the ushers to operate the coat check for certain high-profile events. Consequently, in approximately mid-year 2000, Fine Arts began retaining tips in addition to the normal coat check fees. Initially, tips were secured in safes at each location and reportedly used to purchase food and otherwise reward ushers and volunteers. The amount purchased or collected during this time period is not known and would be difficult to ascertain due to the lack of record keeping.

In November 2000, a joint checking account under the names of the Accountant and the Patron Services Manager was opened using the tip monies that had accumulated.

In November 2000, a joint checking account under the names of the Accountant and the Patron Services Manager was opened using the tip monies that had accumulated. The Patron Services Manager indicated that the account was set up at the Division Director's direction, and this is confirmed in the Mayor's Office response. During our interviews with the Division Director, we did not question her on her involvement in the establishment of the account. While the account was established under two names, only one signature was required.

County policy dictates that all depository accounts be established through the Treasurers Office. Countywide Policy #1062, Section 3.7.1 states, *"The Treasurer will establish all depository accounts for use by county agencies, and arrange for such account maintenance services and cash management services as the Treasurer and the agency deem appropriate."* Because the account had been established outside of normal procedures, the Auditor and Treasurer's Office did not become aware of its existence until a few months into our audit. Moreover, neither the Community Services Department nor the Mayor's Office was given notice of the establishment of the account.

It could be argued that the tip funds are not County funds, belonging instead to the ushers. The money comprising this account, however, clearly meets the definition of public funds, as set forth in County Ordinance Section 3.64.020 which reads: *"Public funds' and 'public monies' means money and other funds and accounts, <u>regardless of the source</u> from which these funds and accounts are derived, which are owned, held or administered by the county, its employees, or any of its offices, boards, commissions, departments, divisions, agencies or other similar instrumentalities." [Emphasis added]*

3.2 ACTIONS TAKEN:

3.2.1 As of January 2003, the Patron Services checking account was closed.

3.2.2 It is now against Fine Arts policy to accept tips from patrons.

3.3 Employee incentive awards were not made through County payroll, in accordance with County policy and applicable federal income tax law.

Fine Arts ushers, who work events held at Capitol Theatre, Rose Wagner and Abravanel Hall, are typically composed of one-half volunteers and one-half paid employees with temporary status. The County encourages the use of volunteers in order to save taxpayer money. Fine Arts seeks to motivate and reward both paid and volunteer ushers through employee recognition awards and celebrations.

At least $590 in volunteer and employee awards was disbursed in cash or cash equivalents, such as American Express gift certificates.

Over the period of December 2000 to December 2002, at least $590 in volunteer and employee awards was disbursed in cash or cash equivalents, such as American Express gift certificates. At least $440 of that amount was awarded to paid ushers. Countywide Policy #5430, "Employee Incentive Procedure," permits cash awards or leave with pay for employees, at the discretion of the Division, with approval from the Mayor, so long as the amount awarded does not exceed $300 in value.

However, beginning in Section 2.1.4 the policy states that cash awards "*represent compensation and are therefore subject to normal payroll taxes. Such amounts shall be charged to the Division's budget . . . [and] paid using the County's payroll system. The appropriate Division, Department, or*

Elected Office form or letter should accompany this [payroll] Register and a copy of the documentation should be submitted to the Personnel Division for inclusion in the employee's Personnel File (Official).” This policy reflects the requirements of applicable IRS guidelines on “employee awards.”

Because the cash awards were typically paid out of the Patron Service checking account, the amount of the award was not subject to the review of the Mayor or charged against the Fine Arts budget.

3.4 RECOMMENDATION:

We recommend that:

3.4.1 All employee incentive awards be approved by the Mayor, charged against the Fine Arts budget and paid through normal payroll procedures.

3.5 Approximately $1,900 worth of meals were purchased using the Patron Services checking account without a properly approved Meal Reimbursement Form.

Countywide Policy #1020, “County Meals,” covers appropriate procedures for purchases of meals. In Section 6.1 the policy states that, *“All requests for payment (including reimbursements from petty cash accounts) shall be submitted with the attached form which contains the:*

- *date and location of the meeting;*
- *type of meeting, whether a breakfast, lunch, or dinner;*
- *certification of the purpose of the meeting and the group attending in relation to county business;*
- *total number of attendees, with employees separated from other attendees;*
- *total payment amount requested;*
- *signature of the person submitting the request;*
- *date the request was signed;*
- *signature of the Division or Department Director or Elected Official approving the request;*
- *date approved by the official;*
- *and a copy of the bill or receipt.”*

Through establishment of a separate account, Fine Arts was able to avoid compliance with the meals policy and any oversight over expenditures.

A Meal Reimbursement Form did not accompany purchases of pizza, sandwiches and other items made through the Patron Services account. Through establishment of a separate account, Fine Arts was able to avoid compliance with the meals policy and any oversight over expenditures.

3.6 RECOMMENDATION:

We recommend that:

3.6.1 A Meal Reimbursement Form be completed and properly approved whenever meals are purchased.

3.7 Personal funds were commingled with Patron Services checking account funds and petty cash was used to reimburse the Patron Services checking account.

Overall, during the course of our audit, we found a pattern whereby similar purchases were made, at various times, using different accounts and procedures. While we found no item that was paid for twice, we did find instances where items were initially paid for out of one account and then reimbursed by another account. For instance, in September 2001, the Patron Services Manager purchased $223.89 worth of pizza using her personal checking account. On September 7th she reimbursed herself through a check drawn on the Patron Services checking account. On September 13th, $200 of this purchase was reimbursed from petty cash, along with two other pizza purchases that had also previously been paid for out of the Patron Services checking account.

However, the Patron Services Manager was not double-reimbursed, as it initially appeared. We noted that an undocumented deposit made to the Patron Services account on September 13, 2001 matched, by dollar amount, the petty cash voucher issued the same day. Therefore, the petty cash funds were not retained by the Patron Services Manager, but were deposited into the Patron Services Account. The receipts attached to that petty cash voucher, in turn, appeared to match the three purchases of pizza discussed above, although some of the amounts were slightly different due to the addition of a tip.

In another instance, during December 2002, members of Fine Arts staff made personal contributions to a Christmas charity. These funds were then deposited into the Patron Services checking account, which was used to then purchase gifts for a youth charity. We commend this charitable spirit, but caution that personal and County funds must be maintained separately at all times. Commingling personal and County funds, in addition to the pattern of paying for the same types of items using various accounts and funds, increases the opportunity for misappropriation of funds and the probability that misappropriation would go undetected.

3.8 RECOMMENDATIONS:

We recommend that:

3.8.1 Personal and County funds be maintained separately at all times, and not commingled.

3.8.2 The Community Services Department establish standard, division-level procedures for similar purchases, by type and dollar amount, and direct that the standards be consistently followed.

3.9 Purchases and deposits made using the Patron Services checking account were poorly documented and not subject to supervisory review.

We reviewed the Patron Services checking account and found that supporting documentation did not always match expenditures, including instances where the amount of the check exceeded the attached receipts and others in which no receipt was found. All of the missing receipts were later located among documentation for petty cash (see Section 3.7). After accounting for these receipts, and including the amount paid in tips, the total expenditures without matching documentation totaled $165, relating to three transactions. Documentation for deposits made was missing or inadequate in 14 out of 24 deposits examined (58.3 percent), relating to $1,633 deposited over the period of November 2000 to December 2002.

The Patron Services Manager indicated that she gave all receipts to the Fiscal Manager to be maintained in the Patron Services account file and used as documentation for purchases. Controls over this account were initially believed to be strengthened because the Fiscal Manager received the bank statements and reconciled the account, but could not sign checks. While it does appear that the account was balanced on a monthly basis, the lack of documentation of deposits and expenditures indicate that, in all likelihood, the appropriateness of each was never reviewed.

3.10 RECOMMENDATION:

We recommend that:

3.10.1 All purchases be made in accordance with established countywide policies and procedures, using purchasing, petty cash or imprest checking funds as most appropriate.

4.0 The County Fine Art Collection Checking Account

Over the past 10 to 15 years Salt Lake County has developed an extensive collection of art produced by Utah artists. The majority of the collection is on display at the County Government Center and is accessible to the general public. A Community Arts Specialist is employed by the County to manage, promote and maintain this collection. The position is organizationally under the umbrella of Fine Arts and associated salary expenditures are made out of the Fine Arts budget. Maintenance charges and any other expenditures relating to the collection, however, are budgeted in Facilities Management. During the course of our review we found that:

- **Fine Arts established a County Fine Art Collection checking account without the knowledge or approval of the Treasurer or Auditor's Office.**

4.1 Fine Arts established a County Fine Art Collection checking account without the knowledge or approval of the Treasurer or Auditor's Office.

In June 2001, the Art Specialist applied to a Utah State agency for a grant to fund the publication of an updated County Art Collection Catalogue. The

The Division Director reportedly expressed concerns that the County Council might use obtained grant monies for other than their intended purposes, and therefore advised the establishment of a separate account.

grant was approved and three checks, totaling $11,100, were received in August and September 2001. In reviewing the grant application we noted that the approving "fiscal manager" had not signed it, nor was the grant application approved by the County governing body (County Council). Upon receipt of the checks, the Art Specialist sought advice from the Division Director about the proper handling of the grant monies. According to the Art Specialist, the Division Director expressed concerns that the County Council might use the funds for other purposes, and advised her to establish a separate account, presumably because the funds would, therefore, not be visible during the County budget process. *The Division Director could not recall expressing these concerns or providing this advice to the Art Specialist.*

These concerns are unfounded, however, as grant contracts typically contain restrictions on how the funds can be used. Funds unspent at the end of the year can be placed in a restricted account, instead of becoming part of general fund balances. Nevertheless, a Fine Arts Collection checking account was opened on September 28, 2001, with the authorizing signatures of the Division Director, the Special Events Coordinator and the Art Specialist. The County Treasurer and Auditor were not aware of, or consulted about, the establishment of the account. Section 3.1, Countywide Policy #1062 states that only the Treasurer has the authority to establish new accounts. In addition, neither the Community Services Department nor the Mayor's Office were given notice of the establishment of the account.

The Fiscal Manager apparently also played a role in counseling the Division Director regarding the establishment of the account. In the process, the Fiscal Manager asserted to us that she, in turn, sought the advice of the Chief Fiscal Officer. She claimed that he advised her that these funds were not "County money" and should, therefore, be maintained separately. After learning the funds amounted to around $10,000 to $15,000, the Chief Fiscal Officer, by the Fiscal Manager's account, stated, "she was worried about ants and should be worried about elephants." *The Chief Fiscal Officer denies ever being asked or giving advice of this nature on this matter.* Moreover, in the Mayor's Office response they assert that *"[The Fiscal Manager]'s claim regarding [the Department Fiscal Manager's] alleged instruction regarding art is incorrect.*

Further, the Mayor's Office response asserts that *"During the budget preparation periods FY 2001 and FY 2002, the Division was given specific instruction by [the Mayor's Chief Administrative Officer and Chief Fiscal Officer] that art related funding should be done within the Facilities Management Division. Budget line items had been established there. [The Division Director, Accountant and Fiscal Manager] were specifically aware of this requirement… We consider the establishment of a separate account to be a direct and specific act of insubordination on the part of the Division and its employees."*

The Art Specialist received additional funds, in December 2002, from three local, private contributors, totaling $25,000. She consulted with the

Facilities Management Associate Director and was told to wait until 2003 to deposit the checks. The Art Specialist then secured the checks in her desk at Facilities Management. Apparently, the rationale for not depositing the checks immediately was that they related to 2003 expenditures.

In follow-up questioning on this matter, the Facilities Management Associate Director initially indicated that he was not aware of the source of the funds or the magnitude of the dollar amount involved. However, after further reflection, he produced a copy of an e-mail he received on December 12, 2002 from the Art Specialist, which the Chief Fiscal Officer also received. The text of the e-mail read, *"I recently received **word** that we **will be** receiving the following amounts: [Emphasis added]*

- *…Foundation [A] $15,000 [check dated 12/12/02]*
- *…Foundation [B] $5,000 [check dated 12/05/02]*
- *…Foundation [C] $5,000 [check dated 12/10/02]*
- *…[Utah State Agency] $11,000 [checks dated Fall 2001]"*

It is evident from the check dates discovered in our audit, as indicated in brackets above, that the Art Specialist misrepresented the facts by her statement in the e-mail that "*I recently received **word** that we **will be** receiving the following amounts."* In the case of the State grant, those monies were received nearly 18 months prior and deposited in an "invisible" account. In addition, she may have received one or more of the other checks some days before she composed the e-mail. In light of the Mayor's Office representations, regarding the instructions provided by the Mayor's Chief Administrative Officer during the budget process, the Specialist's e-mail characterization is all the more serious.

No budgetary line item was set up for either the grant monies or the contributions in the original Facilities Management 2003 budget.

The e-mail goes on to request an equivalent increase in the 2003 budgeted expenditures, and anticipates that the new catalogue would be printed by February 2003. No budgetary line item was set up for either the grant monies or the contributions in the original Facilities Management 2003 budget.

The Mayor's Office response to our audit provided the following observation regarding this matter, "*…[the Art Specialist] had direct and on-going activity in [the] area of the County's gift policy. She had filled out numerous gift forms in the performance of her duties. She was well aware of the process for receiving donations and the requirements of Salt Lake County."*

In addition, in the course of reviewing the contribution solicitations to private donors, we noted that the Art Specialist had erroneously represented the fact that the County has an "Art Museum" with an operating budget, rather than simply a collection of art.

4.2 ACTIONS TAKEN:

4.2.1 The Fine Arts Collection checking account has been closed. The $11,100 balance in that account was deposited into the Fine Arts Fund, along with the three checks from private donations totaling $25,000, on December 24, 2002.

4.2.2 An interim budget adjustment for 2003 was submitted to the Auditor's Office, Management and Budget Division, in mid-January 2003.

5.0 Ticket Office Refunds

Generally, it is against Fine Arts policy to issue ticket refunds. However, there are understandably situations that merit an exception. Refunds may be issued after a performance in the rare instance that a patron is dissatisfied due to audio problems, or heating and cooling difficulties. Refunds are also issued whenever a show is cancelled, or under extraordinary circumstances such as a death in the family. Fortunately, the majority of Fine Arts ticket purchases, over 75 percent, are done using credit cards. Thus, when refunds are necessary a credit is simply issued to that card. We reviewed controls in place over Ticket Office cash refunds. We found the following:

- **Refunds were given at the Ticket Office using cash receipted that day.**
- **Fine Arts has no established, routine, documented procedure for issuing and tracking refunds. Large amounts of cash were sometimes maintained, on hand, in the Ticket Office safe.**
- **Patron ticket refunds issued using the Settlement account often lack Division Director approval and, on at least four occasions, no Refund Form was completed.**

5.1 Refunds were given at the Ticket Office using cash receipted that day.

We found that in certain extraordinary circumstances, affecting a few patrons, who paid with cash or a check, a cash refund was issued at the Ticket Office using receipts collected from sales that day. If the day's receipts were less than the amount of the refund, the patron was told that a check would be mailed to them. The Ticketing Services Manager indicated that when enough cash was collected, the amount needed was delivered to the Accountant for deposit into the Fine Arts Depository account. Then a check was issued to the patron from the Settlement account.

The practice of taking refunds out of cash receipts reduces their visibility.

The practice of taking refunds out of cash receipts reduces their visibility. Fine Arts Ticket Office personnel have recently instituted the use of an "rf" code for such transactions to facilitate refund tracking. This practice should help strengthen internal control. However, Countywide Policy #1062 prohibits refunds from being issued out of cash receipts. Section 4.1.1 states, *"Cash disbursements such as refunds, payments, reimbursements, etc. will not be made from agency revenue receipts. Disbursements may be accomplished only in accordance with the authorized use of imprest funds, imprest checking accounts or the general warrant process."*

5.2 RECOMMENDATION:

We recommend that:

5.2.1 Fine Arts comply with established countywide policy by discontinuing the practice of issuing cash refunds from receipts.

5.3 Fine Arts has no established, routine, documented procedure for issuing and tracking refunds. Large amounts of cash were sometimes maintained, on hand, in the Ticket Office safe.

The Fiscal Manager indicated that Fine Arts had experimented with several accounting procedures for handling refunds. However, there is currently no written policy documenting refund procedures. In addition to using the day's receipts, in the case of a cancelled show, the practice has been to cash a check drawn on the Settlement account, in the amount of total anticipated refunds. The resulting cash is then kept in the Ticket Office safe and issued to patrons as they come in to return their tickets.

The cancellation of Show Boat in 1998 resulted in checks being cashed in increments of $15,000 to $25,000 at a time.

For example, the cancellation of *Show Boat* in 1998 resulted in checks being drawn on the Settlement account, in increments of $15,000 to $25,000 at a time. Keeping this excess cash in the Ticket Office safe introduced an additional element of risk of misappropriation or theft. For particularly large performances, like *Show Boat*, for which tens of thousands of dollars worth of tickets were refunded, this risk is magnified.

Countywide Policy #1202, "Authorizing and Processing of Certain Payments," states, under Note 2, *"Refunds in amounts of $1,000 or less may be authorized by the requesting organization and should be processed as a direct payment through the Auditor . . . For circumstances where it is required to issue frequent refunds of relatively small amounts (e.g., under $200 per transaction), an imprest-type checking account may be established upon proper approval of the Mayor and operated in accordance with existing procedures . . ."* Countywide Policy #1062 should be referred to for the procedures used to establish such a fund.

5.4 RECOMMENDATIONS:

We recommend that:

5.4.1 Fine Arts develop a consistent, written policy regarding refunds.

5.4.2 An imprest-checking account be established for the sole purpose of issuing Fine Arts refunds or that Fine Arts seek a formal exemption to countywide policy.

5.5 Patron ticket refunds issued using the Settlement account often lack Division Director approval and, on at least four occasions, no Refund Form was completed.

We examined 62 refund checks issued from the Settlement account during the period of January 2000 through October 2002. Refunds were documented through use of a "Refund Form" which contains *the customer's name, the event, the order number, the date of original sale and date of refund, and the amount of the refund*. During the time period examined the Refund Form contained three signature lines: one for the Ticket Office Manager, one for Division/Department Director approval and one for the customer.

The Division/Department Director had not signed indicating supervisory review on 37 percent of the refund forms examined.

Understandably, customers receiving a refund by mail were not present to sign the form. However, we also noted 23 instances, 37 percent of the forms examined, where the "division/department director" had not signed indicating supervisory review. Because the customer had also not signed, two of the three approving signature lines were blank. In addition, four refund checks had no Refund Form attached, but were documented by a letter or e-mail. Only a computer printout containing the handwritten message "ask [an employee]" documented one refund.

5.6 ACTIONS TAKEN:

5.6.1 All Fine Arts refunds are now reviewed by a representative of the Mayor's Office. This is an interim step that will be followed until the Fine Arts fiscal personnel issues are resolved.

5.6.2 An additional signature line was recently added to the required Refund Form, whereon the Ticketing Services Manager and supervisor must both indicate their approval.

5.7 RECOMMENDATION:

We recommend that:

5.7.1 The procedure for completing the Refund Form be made part of the overall policy on patron refunds, recommended in Section 5.4.1 of this report.

6.0 Petty Cash Account

Fine Arts currently has a petty cash fund with a $1,500 limit. Countywide Policy #1203 states, *"A petty cash fund is an amount of cash available for small purchases relating to normal business operations."* Disbursements from petty cash are for the purpose of covering over-the-counter, cash purchases under the specified limit of $200. During our audit we examined petty cash transactions for the period 2000–2002.

- **Petty cash funds were used to reward Fine Arts employees for wearing I.D. badges to strengthen security.**
- **The authorized limit for the cost of a meal, per person, was exceeded.**
- **A Meal Reimbursement Form was not completed at least 16 times during 2000–2002. On the forms that were completed, the appropriate approval signatures were not included on the form at least 20 times.**
- **Individuals were paid from petty cash for services provided to Fine Arts.**
- **Fine Arts used petty cash funds to purchase personal gifts.**
- **Fine Arts does not always include an adequate description and purpose for the items purchased using petty cash funds.**
- **Sales tax was unnecessarily paid on many purchases using petty cash funds.**
- **Money orders to pay invoices were obtained using petty cash.**
- **The Petty Cash Custodian did not obtain independent approval for approximately 35 transactions before the funds were used.**
- **A transaction was "split" to facilitate the payment of a transaction costing over the $200 limit.**

It should be noted that the Auditor's Office issued a memorandum, dated December 28, 1998, entitled "Adding Certification to Reimbursement Request." The memorandum set forth a standardized procedure for properly authorizing a petty cash or impress fund reimbursement and provided certification language to be placed or stamped above the authorizing signature. The certification language states: "*We (or I) certify that we have examined the documentation supporting the expenditures comprising the reimbursement request, and that the amount has already been expended for purposes authorized for this petty cash/imprest account.*"

One purpose of this memorandum was to focus the attention of Petty Cash Custodians and authorizing officials on the need to carefully review these expenditures, for documentation and legitimacy. Even though the Auditor's Office had made detailed reviews of these transactions historically, the Auditor deemed it an appropriate delegation of authority to place responsibility for this review at the division or agency level. The Auditor's Office has recently instituted a process for randomly sampling reimbursement requests to determine compliance with Countywide Policy #1203.

6.1 Petty cash funds were used to reward Fine Arts employees for wearing I.D. badges to strengthen security.

During 2002, Fine Arts determined that they needed to institute a stricter policy of security to keep their buildings safe for public performances. In a letter dated October 1, 2002, written by the Division Director, she states, *"This policy can be inconvenient to employees and may at times be a hindrance in the performance of daily activity within our organization. However, given the alternative, we see the policies as necessary for everyday business."* The Division Director further stated, *"Because of this inconvenience, we feel the need to recognize the voluntary cooperation of our staff with these new policies. This single gesture is to recognize the efforts of employees who are cooperating with a change in policy during a trying time. At our regularly-held staff meeting, and without warning, we are going to give a token lunch gift of $5.00 to every employee who voluntarily and without being prompted, wears their security badge to the meeting."* The amount withdrawn from petty cash to cover the expense was $150.

The Director wrote a personal check for $150, after having second thoughts about the use of petty cash for employee awards.

The Division Director, apparently having second thoughts about this use of petty cash, subsequently wrote a personal check, payable to the Fiscal Manager, for $150. The Fiscal Manager was instructed to cash the check and replenish the petty cash fund if the expense was questioned. However, the Fiscal Manager was not the Petty Cash Custodian. The Accountant was the Petty Cash Custodian and would have been the person to contact about any transactions affecting the fund.

When the Accountant forwarded the reimbursement request to the Auditor's Office, the petty cash voucher for the $150 reward transaction was not included. Currently, the petty cash account is short $150. A representative from the Mayor's Office working at Fine Arts is holding the $150 check issued by the Division Director until she receives further instruction on how to handle the transaction.

Countywide Policy #1203, Section 6.3 - 6.5 states, *"Transactions covered under other established financial systems in which funds are disbursed, the nature of which is in conflict with the petty cash and imprest accounts include, items of a personal nature to reward, compensate or express sympathy to a County employee…"* The $150 transaction to reward employees for wearing security badges is in direct conflict with Countywide Policy #1203.

6.2 RECOMMENDATION:

We recommend that:

6.2.1 Fine Arts write a letter to the Mayor explaining the circumstances of the $150 reward transaction and request the Mayor's approval

(requesting approval through a letter to the Mayor, setting forth mitigating circumstances, is in accordance with Countywide Policy #1203). If the Mayor does not approve the transaction, then the Director's personal reimbursement check should be processed.

6.3 The authorized limit for the cost of a meal, per person, was exceeded.

Prior to December 20, 2000, Countywide Policy #1020, Section 4.0, outlined the approved cost limit per person for meals. The following limits were in place:

Breakfast	$7.50/person
Lunch	$10.00/person
Dinner	$15.00/person

During 2000, prior to a change in policy, there were two instances in which meal limits per person were exceeded. One instance was on February 9, 2000; two employees and two other individuals went to lunch and spent $15 per person. In this situation, $5 more was spent, per person, than was allowed by the meal policy in place at the time.

The current meals policy was revised on December 20, 2000, and no longer places specific limits on meal expenditures. However, in the absence of a current benchmark for judging the reasonableness of a meal charge we have made comparisons to the prior limitations.

During 2000-2002, Fine Arts spent approximately $7,500 on meals through petty cash, $25,400 through purchasing, and $1,900 through the Patron Services checking account.

During 2001, there were 11 instances in which meal limits would have been exceeded if the meals policy had not changed at the end of 2000. Table 1, below, lists the meals that had the highest per person average. In comparison to the prior limits, in place during 2000, $130 could have been saved.

2001 Highest Per-Person Meal Expenditures

Date	Attendees	Cost per Person	Meal Type	Purpose of Meeting
4/09/01	6	$18.49	Lunch	Tenant Meeting
2/14/01	6	$21.45	Lunch	Planning meeting For Rose Wagner Opening
7/06/01	3	$15.46	Lunch	Lunch Meeting

Table 1. *Expenditures per-person for individuals receiving meals at Fine Arts appeared to be somewhat extravagant, on a per-person basis.*

Moreover, applying the prior meal limitations policy to all 11 meals, during 2001, a savings of $225 could have been achieved. During 2002, we discovered 12 instances where the prior meals limits were exceeded. A total savings of $167 could have been achieved, using the old policy as a benchmark.

More importantly, the Division Director signed as the "authorizer" and the Special Events Coordinator signed as the "certifier" on 11 of the Meal Reimbursement Forms completed for the above 12 transactions. On the other transaction, the Division Director signed as the "authorizer" and the Patron Services Manager signed as the "certifier" for the transaction. Had there been an independent review of the transactions by the Department Director the excessive average-per-person meal expenditures could have been scrutinized and approved for reasonableness.

The current policy states, in Section 4.0, *"It is the responsibility of the Elected Official or Department Director to monitor expenses and determine reasonableness for the meal."* We found that Fine Arts spent approximately $7,500 on meal expenses through petty cash during 2000-2002. This does not include meal expenses of approximately $25,400 paid for through the County purchasing system and $1,900 through the patron services checking account during the same period.

Prior to 2002, Fine Arts management submitted a letter each year to the Community Services Department Director for approval to provide snacks and meals for various board meetings and special events. A letter was not submitted for 2002. Countywide Policy #1020, Section 7.1-7.2 states, *"County organizations whose circumstances differ widely from those envisioned in this policy should submit a special policy on food and entertainment to the County Council for consideration and approval. Special food and entertainment policies must be approved by the Department Director or Elected Official before submission to the County Council."*

6.4 RECOMMENDATION:

We recommend that:

6.4.1 Fine Arts submit a division meal policy, through appropriate channels, to the County Council for approval.

6.5 A Meal Reimbursement Form was not completed at least 16 times during 2000–2002. On the forms that were completed, the appropriate approval signatures were not included on the form at least 20 times.

In examining the petty cash transactions for 2000–2002, we found that the Meal Reimbursement Form was not consistently completed for all meal transactions. We could not verify the detail of the 16 meetings or that proper approval had been obtained for the meals to occur. In addition, some meal forms did not contain the two signatures required on the form. Also, on some meal forms the Division Director signed as both the individual submitting the request and the individual approving the request.

Among the transactions not documented by a Meals Form were two transactions totaling $3,217.

Moreover, we found the same missing approvals while examining 2001 purchasing transactions. During 2001, there were 13 meal transactions in the purchasing system. We found two transactions totaling $3,217 in which a Meal Reimbursement Form was not completed.

As stated in Section 3.5 of this report, according to Countywide Policy #1020, a Meal Reimbursement Form is to be completed for each meal transaction with all the required information. Also, an independent signature for the individual submitting the request, and the individual approving the request, ensures a sound control measure through a separation of duties.

6.6 RECOMMENDATIONS:

We recommend that:

6.6.1 A Meal Reimbursement Form be completed for each meal transaction occurring at Fine Arts.

6.6.2 An independent reviewer approve each meal transaction.

6.7 Individuals were paid from petty cash for services provided to Fine Arts.

On May 15, 2002, a hand-written receipt was used as documentation to use $45 from petty cash to pay an operations worker for sewing a metal zipper in three leaf blowers used at Fine Arts. Fine Arts explained that rather than buy new leaf blowers, they decided to repair the old blowers. (The leaf blowers have since been replaced due to the motors failing.) It is unclear whether this service was performed as part of the employee's regular duties.
On August 4, 2000, $76.46 was paid to the previous Accountant. He was paid for attending a meeting concerning a problem with the Depository account. In addition, on March 13, 2001, an individual worked in the Ticket Office for a day before being officially hired by the County. The individual did not have a student visa to work and, therefore, could not be hired. The individual was paid $59.50 for the hours she worked.

Countywide Policy #1203, Section 6.3 states, *"Transactions in conflict with the purpose of petty cash include payments that represent compensation to employees, which are subject to payroll taxes."* The payment to the operations worker for sewing zippers was in direct conflict with the petty cash policy. Potential new hires should be screened for eligibility prior to being hired and performing any work. The payment to the previous Accountant was a consulting fee, which if accumulatively exceeded $600, would be reported on an IRS Form 1099-MISC.

6.8 RECOMMENDATIONS:

We recommend that:

6.8.1 Fine Arts pay individuals for services they provide through payroll or purchasing.

6.8.2 All job applicants be screened for eligibility prior to being hired.

6.9 Fine Arts used petty cash funds to purchase personal gifts.

Fine Arts used approximately $700 of petty cash to purchase gifts for individuals.

During 2000-2002, Fine Arts used approximately $700 of petty cash to purchase gifts for individuals. About $400 of the total was spent on flower arrangements sent to volunteers, employees, and other individuals to recognize awards they had received or to express sympathy. Another portion of the $700 includes the $150 reward mentioned previously that was given to employees for complying with the new security policy. About $110 was used to purchase Ballet West logo shirts for three Board Members whose term had expired and a scarf for a former chair of the Art Committee. The remaining $40 was spent on small gifts for various individuals. The Division Director signed the petty cash voucher for seven of the fourteen personal gift transactions that totaled $700.

Countywide Policy #1203, Section 6.3 states, *"Transactions in conflict with the purpose of petty cash include items of a personal nature to reward, compensate or express sympathy to a County employee, employee's family member or volunteer."* Fine Arts' use of petty cash for purchasing gifts for volunteers and employees is in violation of the petty cash policy. This policy provides an absolute prohibition against use of petty cash for these purposes, unless specifically approved by the Mayor, as pointed out in Section 6.2.1 above.

6.10 RECOMMENDATIONS:

We recommend that:

6.10.1 Fine Arts discontinue using petty cash to purchase gifts, and otherwise comply with Countywide Policy #1203.

6.10.2 Countywide Policy #1203 be reviewed to clarify circumstances whereby violators of the policy would be required to reimburse petty cash disbursements that are in violation of the policy.

6.10.3 Countywide Policy #4003, "Reporting and Recognizing Volunteer Services," be expanded to outline the detailed process for formulating recognition budgets, the types and dollar value of appropriate gifts and rewards, and the recognition authorization procedure and approval steps.

6.10.4 Countywide Policy #5430, "Employee Incentive Procedure," be expanded to provide guidance on the types of gifts and rewards that would be in violation of policy.

6.11 Fine Arts does not always include an adequate description and purpose for the items purchased using petty cash funds.

The petty cash vouchers we examined for transactions during 2000 indicated only the name of the business at which the item was purchased as the "description." We examined each receipt to determine the type of item that was purchased, and questioned Fine Arts employees about the purpose of some of the transactions.

In October 2000, the Petty Cash Custodian changed. Since then, the descriptions improved somewhat. However, in some instances only the item purchased was listed in the description, but the purpose was not clearly stated.

Countywide Policy #1203, Section 3.11.1 states, *"Vouchers are to be filled in completely, prior to releasing any cash."* The description of the petty cash transaction is important to document, along with the purpose, so that the Division Director and Auditor's Office review to approve petty cash reimbursements and replenish the fund can be accomplished expeditiously.

6.12 ACTION TAKEN:

6.12.1 A Fine Arts Petty Cash Request Form is now completed along with the petty cash voucher. The request form includes a section in which the item requested is listed and a purpose is clearly described.

6.13 RECOMMENDATION:

We recommend that:

6.13.1 Fine Arts follow the "certification of reimbursement request" procedure outlined in the Auditor's Office memorandum dated December 28, 1998.

6.14 Sales tax was unnecessarily paid on many purchases using petty cash funds.

During 2000–2002, approximately $360 to $500 in sales tax was paid from petty cash.

During the period 2000–2002, we estimate that approximately $360 of sales tax was paid for transactions from the petty cash account. There were also some transactions that had a credit card receipt as backup, so we could not determine if tax was paid. Based on the volume of these credit card receipts, the amount of sales tax paid is more likely to be about $500.

The petty cash fund custodian explained that sales tax was being paid because employees would not ask for reimbursement until after the transaction had taken place. As a result, the Accountant was not able to give the employee a copy of the County's tax-exempt form before they made the purchase. However, a number of County vendors have listings of sales tax-exempt organizations, so employees could obtain the exemption at point-of-sale, if they were aware that vendors often have this information available.

Countywide Policy #1203, Section 3.12 states, *"The County is exempt from sales tax as a governmental entity. In order to avoid sales tax, the custodians shall use or provide employees as needed Utah State Tax Commission Form TC-721 'Exemption Certificate.' This form is to be presented to the vendor as evidence of tax-exemption. If employees do not follow this procedure, they shall pay the sales tax themselves."*

6.15 RECOMMENDATIONS:

We recommend that:

6.15.1 Fine Arts employees contact the Petty Cash Custodian before purchases to obtain the tax exemption form, and that all employees be made aware of asking vendors for sales tax-exemption if they are not in possession of a proper form.

6.15.2 From this point forward, Fine Arts employees should be on notice that those who pay unnecessary sales tax will reimburse the County for the amount of sales tax paid, or not be reimbursed for the sales tax portion of the purchase.

6.16 Money orders to pay invoices were obtained using petty cash.

During our examination, we found several instances in which Fine Arts used petty cash to pay invoices. Instead of sending cash through the mail, the Accountant would purchase a money order to submit payment. Some examples of invoices that were paid using petty cash include: magazine renewals, invoices that had a late fee, and various other invoic es.

Countywide Policy #1203, Section 3.5 states, *"Any purchases charged with a vendor under the County's credit are to be processed under established accounts payable procedures, and not subsequently paid from a petty cash account. To do otherwise is in conflict with the purpose of the policy and is considered to be not cost effective."*

6.17 RECOMMENDATION:

We recommend that:

6.17.1 Invoices be processed under established accounts payable procedures.

6.18 The Petty Cash Custodian did not obtain independent approval for approximately 35 transactions before the funds were used.

There was no independent review of 35 petty cash transactions totaling $1,428 during 2000–2002.

We found that the Accountant was the recipient of cash and also signed as the custodian on the voucher for approximately 35 transactions totaling $1,428 during 2000–2002. Some of the funds were used to purchase the money orders mentioned above to pay for invoices. Other transactions included reimbursements for parking fees and miscellaneous office supplies.

To ensure that the transaction is approved before funds are spent, it is necessary for an independent reviewer to sign the voucher at the time cash is taken. This segregation of duties is a common accounting control to ensure that funds are not mishandled or misappropriated.

6.19 RECOMMENDATION:

We recommend that:

6.19.1 The Petty Cash Custodian obtain independent approval on the voucher for transactions in which the custodian is the recipient of cash.

6.20 A transaction was "split" to facilitate the payment of a transaction costing over the $200 limit.

On May 17, 2001, a vendor disposed of some paint for Fine Arts. The transaction total was $235. In order to qualify for a petty cash transaction, two invoices were submitted, one for $200, the other for $35.

Countywide Policy #1203, Section 6.4 states, *"Transactions covered under other established financial systems in which funds are disbursed, the nature of which is in conflict with the petty cash and imprest accounts include,* ***split purchases****, where multiple vouchers are prepared to facilitate the purchase of an item over the authorized per transaction amount [emphasis added]."* Transactions such as the one above, that exceed the petty cash limit, should be paid for through the purchasing system.

6.21 RECOMMENDATION:

We recommend that:

6.21.1 Transactions that exceed the petty cash limit be paid through the County purchasing system.

7.0 Purchasing

For the year 2001, we examined a sample of 208 purchases of a population of 1,149. Of the 208 purchases, 67 were obligations paid directly by the Auditor's Office. During our examination we found the following:

- **Purchase requisitions did not contain the proper approval.**
- **The authorized limit for the cost of a meal, per person, was exceeded.**
- **The description of items to be purchased was vague on the Requisition Order Form.**
- **The invoice was often dated before the "requisition" or "authorization" date.**
- **The amount paid was sometimes different than the amount on the requisition by 10 percent or more.**
- **A Requisition Order Form was not always included with the purchase documentation.**
- **Thirty-two purchases (15 percent) did not have documentation in the 2001 purchasing files.**
- **Travel-advance payments received by Fine Arts employees for per diem were not always computed accurately.**
- **The total hours submitted by a cleaning company on the Capitol Theatre Cleaning Order and Report (Cleaning Report) Form did not match the hours charged on the invoices paid by Fine Arts.**

We acknowledge the recent, yet substantial efforts of the Mayor's Office Fiscal staff in implementing improved processes with regard to purchasing and receiving procedures. We have included in this section of the report a concise description of the actions taken in this area, as indicated in the Mayor's Office response. For a complete discussion of these process improvements, please refer to the Mayor's Office response in Appendix A.

7.1 Purchase requisitions did not contain the proper approval.

For the year 2001, we found that approximately 6 percent of the Fine Arts purchase requisitions that we examined did not include an "authorizing" signature to indicate proper approval. We also found that 96 percent of the requisitions did not include the Fiscal Manager's signature.

Fine Arts did not have a written policy for processing purchase requisitions in 2001. However, they used a requisition form that was to be completed before each purchase. The form has an area for an "Authorizing" signature and a "Fiscal Manager" signature. An authorizing signature by a supervisor was also required before a purchase was made. The Fiscal Manager rarely reviewed and signed the requisitions. The Accountant indicated that often she did not receive the requisition and back-up documentation until after the purchase occurred. This made it impossible to ensure that the proper approvals were obtained before the purchase was completed.

During the past few months, purchasing procedures have changed at Fine Arts. A supervisor must sign all requisitions. The Fiscal Manager examines and signs all requisitions over $500 before the item is purchased. If a purchase is less than $500, the item may be obtained before the Fiscal Manager approves the requisition. However, the Fiscal Manager does examine all requisitions. As noted below, this transitional policy has been discontinued and every purchase is approved as described in Section 7.2.1.

Reviewing and approving requisitions before a transaction takes place is an essential and necessary internal control. Management must make certain that only necessary purchases are occurring and funds are being used for their budgeted purpose, and within budgetary limits.

7.2 ACTION TAKEN PER MAYOR'S OFFICE RESPONSE:

7.2.1 ***The Fiscal Manager approves and processes every purchase before the item or service is ordered (regardless of purchase amount or type.) The only exception is purchases of an emergency nature on weekends or after regular business hours. The Fiscal Manager reviews the emergency purchases the following business day.***

7.3 RECOMMENDATIONS:

We recommend that:

7.3.1 Fine Arts management write a formal policy for procurement, including specific procedures for completing and authorizing purchase order requisitions, providing adequate supporting documentation, and verifying receipt of purchased items.

7.3.2 The County Council direct the development of a Countywide Policy addressing the processes outlined in Section 7.3.1, above.

7.4 The authorized limit for the cost of a meal, per person, was exceeded.

During 2001, Fine Arts spent $7,017 for meal expenses through the purchasing system. We found five transactions in which meal limits would have been exceeded, using the prior meals policy as a benchmark.

Fine Arts spent $38.59, per person, for a Division Directors' lunch meeting on December 20, 2001.

The total amount that was spent on these five meals above the prior year cost-per-person limits was $1,298. One transaction particularly exceeded meal limits. The transaction was for a quarterly Division Directors' lunch meeting, called by the Mayor's Office, that occurred on December 20, 2001, in which $38.59 was spent per person, far exceeding the previous lunch limit of $10.00 per person.

Countywide Policy #1020, Section 4.0 states, *"It is the responsibility of the Elected Official or Department Director to monitor expenses and determine reasonableness for the meal."* The policy also states in Section 2.2.2, *"The meeting must be of a clear government nature and not for the purpose of furthering personal or social relationships between the employees and guests."*

7.5 ACTION TAKEN PER MAYOR'S OFFICE RESPONSE:

7.5.1 The Department Director or Associate Department Director signs all meal forms.

7.6 The description of items to be purchased was vague on the Requisition Order Form.

We found that some requisitions had a very general, vague description for the items to be purchased. At times, the items purchased were not listed individually on the requisition. Some examples of the description on various requisitions included: "tools for stage managers," and "electrical for shop."

Lack of specificity on purchase requisitions could encourage the purchase of items easily convertible to personal use.

Also, on two requisitions, we found that items that were not identified on the requisition were purchased in addition to the items listed in the description on the order form. For example, on October 19, 2001, a purchase was made at a hardware store. The requisition listed "lights" as the items to be purchased. However, a "hex key," "chalk-line refill," "carpenter square," and other miscellaneous items were purchased on the same requisition. This lack of specificity could encourage the purchase of items that could easily be converted to personal use.

The Requisition Order Form requires that model numbers be included in the description of the items purchased. Before authorizing the requisition, a supervisor should ensure that each item, along with the model number, is listed in the description. Once the Accountant receives the invoice, he or she can compare the packing slip, invoice and the requisition to ensure that all items purchased were received and authorized. This internal control practice was not followed at Fine Arts.

7.7 ACTIONS TAKEN PER MAYOR'S OFFICE RESPONSE

7.7.1 A newly designed requisition form is completed for all purchases. The form requires model numbers, complete descriptions, signatures, processing dates, initials, etc.

7.7.2 Two signatures are required on a delivery confirmation stamp that is imprinted on the NCR requisition form to indicate receipt of items that are ordered. The signed requisition is forwarded to Fine Arts fiscal section.

7.7.3 Employees are required to submit packing slips and delivery confirmations to the fiscal section.

7.7.4 The Accountant compares the requisition, packing slip/delivery confirmation, and invoice prior to payment.

7.8 The invoice was often dated before the "requisition" or "authorization" date.

The Requisition Order Form specifies three dates related to steps in the transaction. The first date establishes when the requisition was ***issued or started***. The second date shows when the requisition was ***authorized***. The third date indicates when the Fiscal Manager has ***reviewed*** the transaction.

We found that the *"start date"* and the *"authorization date"* on the Requisition Order Form indicated a date that was after the *"invoice date"* 13 percent of the time. We also found eight instances in which the invoice did not have a date so we could not determine if the *"requisition"* and *"authorization"* dates were before the purchase occurred.

Completion of a Requisition Order Form and approval by a supervisor are essential steps in the purchasing process that should take place prior to the purchase to ensure that adequate funds are available and the items are necessary for operations. If these steps are completed in the proper order, the requisite accounting and budgetary controls will govern the transaction.

7.9 RECOMMENDATIONS:

We recommend that:

7.9.1 Fine Arts management require that a Requisition Order Form be completed before a transaction occurs.

7.9.2 The proper approval and review signatures be obtained on the Requisition Order Form before a transaction takes place.

7.10 The amount paid was sometimes different than the amount on the requisition by 10 percent or more.

We found five instances in which the amount paid differed from the amount the requisition specified by more than 10 percent. In two instances a higher amount was paid than requested. Two other transactions occurred in which a lower amount was paid than requested. One instance occurred in which no amount was indicated on the Requisition Order Form, so we could not compare the requested amount to the invoice amount.

A requisition for 10 hand-held radios was approved for $990. Attached invoices, however, totaled $2,079.

For the two instances in which a higher amount was paid than requested, the main cause was a larger quantity of the item being purchased. For example, on April 2, 2001, a requisition was completed to purchase 10 hand-held radios for $990. Three separate invoices were attached to the requisition that totaled $2,079. The original requisition had the $990 crossed out with $2,079 written below. It appears that, originally, only 10 radios were to be purchased with the requisition, but 21 radios were actually purchased. This is a significant variance from the original authorized requisition, done with no explanation.

As mentioned in a previous section of the report, an independent review of the invoice, packing slip, and requisition would reveal anomalies such as the one just mentioned. As the individual performing the review follows up on the difference with the supervisor approving the transaction, the proper controls will be in place to ensure that funds are not mishandled or being spent on unapproved items.

7.11 ACTIONS TAKEN PER MAYOR'S OFFICE RESPONSE:

7.11.1 All invoices are reviewed and initialed by a supervisor and/or fiscal manager prior to release for payment.

7.11.2 The Accountant compares the requisition, packing slip/delivery confirmation, and invoice prior to payment. See Action Taken per Mayor's Office response 7.7.4.

7.11.3 A new filing system is used to track payment of invoices. Multiple invoices from the same vendor are combined into one payment release. A cover sheet is used to consolidate invoice information and to improve payment tracking. The use of a "received" date stamp for incoming invoices is implemented to ensure that payments are processed timely.

7.12 RECOMMENDATION:

We recommend that:

7.12.1 This procedure be incorporated into the Division purchasing policy.

7.13 A Requisition Order Form was not always included with the purchase documentation.

We found 50 purchases that did not have Requisition Order Forms included in the transaction documentation. Of the 50 purchases, 25 occur on a monthly basis. The following list contains examples of the 25 purchases: *uniform supply, pest control, alarm services, elevator maintenance, garbage collection, and the monthly lease*. For these types of transactions, the Accountant examined the bill for accuracy and then paid them directly and a requisition was not completed. The Accountant indicated that a requisition had not been completed for these types of transactions in the past because they are ongoing contracts and the process would be tedious. An invoice initialed by the manager responsible for the transaction will suffice as appropriate documentation for these types of transactions.

Nine purchases of the 50 we examined were for *water cooler rent, water supply*, *Federal Express charges*, and *IATSE (International Alliance of Theatrical Stage Employees) charges*. For these transactions, the Accountant collects the packing slip or other appropriate document indicating the service was provided. In some instances, such as the IATSE charges for stagehands, the Operations Manager initialed each invoice to indicate approval. Fine Arts does not require purchase requisitions for these type of transactions. Again, the initialed invoice and the documentation showing that the service was provided or the product was delivered will serve as appropriate back-up for these transactions.

The remaining 16 purchases were miscellaneous transactions such as, parking validations, membership fees, office supplies, etc. Transactions such as these, which do not occur on a recurring basis, need to be approved by management. Completing a purchase requisition and obtaining the proper approvals is a necessary internal control to ensure that funds are being used properly.

A Fine Arts employee, the current Facilities Maintenance Supervisor, echoed the need for the various controls on purchasing and receiving, outlined above. On March 26, 2003 we were provided with his statement, which read in part: "*It has come to my attention that the County has a potential problem with purchasing and accountability of supplies.*" The statement goes on,"*…we simply need to know that the merchandise, especially consumables, are in house and not used at that employee's home or business…[theft] or shrinkage in the County…believe me…does exist.*"

7.14 ACTION TAKEN PER MAYOR'S OFFICE RESPONSE:

7.14.1 ***The Fiscal Manager approves and processes every purchase before the item or service is ordered (regardless of purchase amount or type.) The only exception is purchases of an emergency nature on weekends or after regular business hours. The Fiscal Manager reviews the emergency purchases the following business day. (See Action Taken 7.2.1)***

7.15 RECOMMENDATION:

We recommend that:

7.15.1 A written procedure on the transactions that require Requisition Order Forms be completed and made part of a written Division purchasing policy.

7.16 Thirty-two purchases (15 percent) did not have documentation in the 2001 purchasing files.

The documentation for 32 purchases in our sample could not be located at Fine Arts. We were able to examine the invoices by obtaining the warrants from the Auditor's Office and the archive warehouse. However, we were not able to verify that Requisition Order Forms had been completed for these transactions.

One complete file, for vendors whose name started with the letter "N," was missing.

To illustrate this problem, one complete file, for miscellaneous vendors whose name started with the letter "N," was missing. The Accountant stated that the file had been borrowed by the Division Director and not returned to her. We asked the Division Director if she knew about what happened with the file. However, she stated that she did not have the file and did not know where it was. About half of the missing documentation we needed to examine was in this miscellaneous "N" file.

The documentation for each purchase should be maintained in the files at Fine Arts. When purchase documentation is missing from the files it is impossible to determine whether procedures were followed and the purchases were approved.

7.17 ACTIONS TAKEN PER MAYOR'S OFFICE RESPONSE:

7.17.1 A tracking number is assigned to every purchase made from a Countywide contract and blanket order to assist the fiscal section in monitoring purchases.

7.17.2 An electronic system is used to assign requisition numbers.

7.17.3 Requisition forms are maintained numerically as well as by vendor name.

- ***The original requisition form is maintained numerically to allow for quick research.***
- ***The duplicate requisition form is maintained in a separate file, along with the supporting documentation by vendor.***

7.18 RECOMMENDATIONS:

We recommend that:

7.18.1 The Mayor's Office actions taken, outlined above, be made part of a written Division purchasing policy (see Section 7.3.1).

7.18.2 Fine Arts adopt and maintain a file check out procedure to record the issuance and location of files.

7.19 Travel-advance payments received by Fine Arts employees for per diem were not always computed accurately.

The Patron Services Manager attended a seminar on "Crowd Management" in Las Vegas, Nevada from March 18, 2001, to March 21, 2001. Originally the total per diem requested was $252. The per diem advanced was $852.

Countywide Policy #1019, "Travel Allowance and Reimbursement," Section 2.2.2 states, *"Employees traveling outside the state will be allowed an advance consistent with the per diem maximum rate established by General Services Administration (GSA)."* During 2001, the per diem rate allowed by the GSA for Las Vegas, Nevada was $72 for lodging and $38 for meals and other expenses, for a total of $110 per day.

The Patron Services Manager spent $271 more than the initial advance authorized under GSA guidelines for a three-day trip during 2001.

The Patron Services Manager was on official business for 3.5 days and should have received a per diem of $385 according to GSA guidelines. We examined the Travel Expenditure Report submitted for the trip. The amount spent for the hotel ranged from $86.11 to $216.91 per night. The total amount spent on the trip above the allowed per diem was $271. The Patron Services Manager indicated that the prices were high because the NCAA Basketball Tournament occurred on the same days as the conference. The Patron Services Manager also stated that the trip was not approved until just prior to the conference, thus the hotel was not booked far enough in advance to avoid the high prices. She also stated that prices at other hotels in the area were also high.

However, during our examination we found that the warrant for the per diem was issued on February 20, 2001, approximately one month before the conference. Through further research, we also found that the Mountain West Conference Basketball Championship occurred March 8-10, 2001, at the Thomas and Mack Center in Las Vegas. This was about one week before the seminar that the Patron Services Manager attended. The NCAA Basketball Tournament occurred March 15 – April 2, 2001, but none of the games were played in Las Vegas. Therefore, the high hotel price was not due to the tournaments occurring in Las Vegas while she attended the seminar. We agree with the observation in the Mayor's Office response that hotel rates vary based on a number of factors. In this case, however, rather than engaging in speculation regarding the cause of room rate fluctuations, we were testing the assertion made by the traveler.

For three trips, the Division Director received one more day's worth of per diem than she should have.

In addition, we found three trips taken by the Division Director during 2001 in which the per diem advanced was not accurate. For each trip, the Request for Travel Allowance form indicated an incorrect number of days that the employee was on official travel for the County. In each case, one additional day of per diem was advanced above the actual days the employee was out of town. The total amount advanced for all three trips was $450 above the amount allowed according to the actual number of days on travel. The total amount advanced for per diem was spent by the Division Director. In addition, for one trip, an extra $165 was paid to cover expenses beyond the authorized limit.

In examining the Travel Expenditure Report for each trip the Division Director made during 2001, we also found that the amount spent on the hotel was always higher than the rates published by GSA. For the three trips, we calculated that the amount spent above the GSA rates for hotels was $698. The Division Director indicated that the hotel charges were higher because she traveled by herself and selected hotels that were in a safe part of the city. Two of these trips were to New York City and Los Angeles, cities where safety could have been a concern.

Countywide Policy #1019, Section 3.0, states, *"…It shall be the responsibility of the traveler's organization to review the itemized expenditure report and verify the propriety of each receipt, i.e. to determine the receipt is for the amount claimed, it is an authorized expenditure, it is reasonable in amount and nature, and it does not violate provisions of this procedure or other County policies and procedures [Emphasis added]."* Although GSA standard is the guideline for the amount of the travel advance, nonetheless, it also should act as a benchmark for determining the reasonableness of expenditures.

The Auditor's Office is involved in the issuance of travel advances, however, their involvement is limited to receipt of excess travel advances remitted back to the County. If expenditures exceed the amount advanced, responsibility for reconciliation rests with the organization, and reimbursement by the employee is received through payroll.

The Community Services Director, along with Fine Arts management, should closely monitor travel expenditures to ensure that the funds spent on travel concur with GSA approved rates. Many of the best hotels located in prime areas of big cities will honor GSA per diem rates, if requested.

7.20 RECOMMENDATION:

We recommend that:

7.20.1 Per diem for travel be monitored and disbursed at the approved rates published by the General Services Administration, with exceptions specifically approved by the Director of Community Services.

7.21 The total hours submitted by a cleaning company on the Capitol Theatre Cleaning Order and Report (Cleaning Report) Form did not match the hours charged on the invoices paid by Fine Arts.

We examined the event file for the *Beauty and the Beast* production that occurred at Capitol Theatre from July 28 to August 18, 2002. We found two invoices in which the hours submitted by the cleaning company on the Cleaning Report did not match the number of hours Fine Arts was billed. One invoice dated July 30, 2002, charged Fine Arts for 48 cleaning hours. When we examined the Cleaning Report the hours actually worked totaled 36. Another invoice dated September 4, 2002, charged Fine Arts for 536 cleaning hours. The Cleaning Report supporting this invoice showed 434 hours actually worked.

Fine Arts was billed for 114 more cleaning hours than was recorded. It appears that the County was over-billed by $1,166.

Between the two invoices, it appears as though Fine Arts was billed for 114 more hours than was recorded on the Cleaning Report. The cleaning company charges Fine Arts $10.23 per hour. At this rate, Fine Arts appears to have been over-billed by $1,166.

The initials of the Production Manager were on the invoices indicating his approval. We asked the Production Manager to explain the differences in the amounts billed on the invoices and the number of hours recorded on the Cleaning Report. He indicated that the cleaning company occasionally does other cleaning to assist the regular custodians at Fine Arts, such as cleaning chandeliers. He said the cleaning company did not submit Cleaning Reports in these situations. He also stated that he did not have any other backup to show that the work was actually completed.

An independent review of the invoice and the Cleaning Report would have revealed the anomalies such as the ones mentioned above. As the individual performing the review follows-up on any differences, the proper controls will be in place to ensure that funds are not mishandled or being spent on unapproved services.

7.22 RECOMMENDATIONS:

We recommend that:

7.22.1 Fine Arts management require vendors to submit adequate documentation to support billing for services provided.

7.22.2 Fine Arts management review the back-up documentation submitted by vendors before approving invoices for payment.

8.0 Accounting Processes/ Accounts Receivable/ Revenue Recognition

Money from the Tourism, Recreation, Cultural and Convention Center (TRCC) Fund is used to subsidize Fine Arts operations, typically in the amount of $2 million annually.

The Pacioli general ledger software is the central repository of financial information and the "off-line" Fine Arts accounting system. This off-line general ledger receives source data from several other components, including: 1) the Prologue ticketing system; 2) Excel spreadsheets used to summarize data from Prologue and to produce Event Settlement Statements, and 3) the County's Advantage Financial Accounting System (AFIN). Fine Arts revenue is recognized from service fees charged on ticket sales and from rents charged to event promoters for building and equipment usage. Any deficiency in these revenues to cover Fine Arts operational expenses is made up by a tax subsidy from the Tourism, Recreation, Cultural and Convention Center Fund (TRCC); these tax subsidies have typically amounted to about $2 million annually.

Pacioli can produce a Fine Arts Balance Sheet and Income Statement, as required, at any given point in time. The Fine Arts Fiscal Manager prepares an accounting journal voucher to report Fine Arts revenue, and accounts receivable and payable to AFIN. Accounts payable occur when Fine Arts owes money to an event promoter for ticket sales relating to that event. Accounts receivable, on the other hand, occur when an event promoter or outside organization owes money to Fine Arts for expenses these organizations incurred in using Capitol Theatre, Abravanel Hall, or Rose Wagner, the three Fine Arts facilities available to performing groups.

Usually, ticket sales are sufficient to cover these expenses; if not, or if ticket sales did not occur, then an organization will owe money to Fine Arts.

Fine Arts has ongoing contractual relationships with a group of eight "tenant" organizations, such as Ballet West and the Utah Opera and Symphony. These groups have offices within Fine Arts facilities. Account settlement for tenant organizations differs from most other groups since the process of netting event expenses against ticket sales, in an Event Settlement Statement, is not the designated procedure. Instead, tenant organizations have their ticket sales remitted to them weekly or periodically, and then rent and other expenses are billed to them separately. This process results in a recurring accounts receivable balance for each of these organizations.

To provide comparability and mirror Pacioli with AFIN, it is necessary to record some of the Fine Arts-related accounting data complied in AFIN into Pacioli. This is because many Fine Arts expenses are processed directly through the Auditor's Office, instead of the Fine Arts administrative offices, creating the need to record, by journal voucher, transactions from AFIN to Pacioli to provide comparability.

Coordination and personal initiative among the Fiscal Manager, Event Managers, Ticket Office personnel and the Treasurer's and Auditor's Office are required to ensure the accuracy of the accounting process. When deficiencies occur in any of these areas, the system falters, as we discovered in the following findings:

- **A $1.155 million shortage in the Treasurer's Depository account occurred because of accounting errors and inadequate oversight.**
- **The Fiscal Manager has engaged in logically inconsistent accounting processes that misstated revenues and produced inaccurate balance sheets.**
- **Redundant processes unnecessarily drain employee time and resources.**
- **Receivables were arbitrarily adjusted in December 2001 and January 2002.**
- **Multiple on-going problems with the credit card portion of the attempted monthly Depository account reconciliation contributed to consistent inaccuracies.**
- **Revenue recognition has not been timely due to a lack of coordination among Fine Arts staff in different functional areas, and deficiencies in accounting system integration.**
- **Fiscal personnel were not following the written internal Fine Arts policies and procedures for managing accounts receivable.**

- **The Fine Arts general ledger system is obsolete, no longer updated, and customer support is no longer available.**

8.1 A $1.155 million shortage in the Treasurer's Depository account occurred because of accounting errors and inadequate oversight.

All Fine Arts cash, checks and credit card collections from ticket sales are deposited into the Treasurer's Depository account. The Treasurer records cash for Fine Arts, and cash deposits from other County organizations, in a general ledger depository account, distinguishing each organization by a unique identifying number. Fine Arts requests transfers out of the Depository account under two recurring circumstances: 1) To transfer money to the Fine Arts Event Settlement account, and 2) To recognize Fine Arts

revenue, in which case the revenue amount is transferred to the Fine Arts Fund balance. This process is depicted in Figure 3, below.

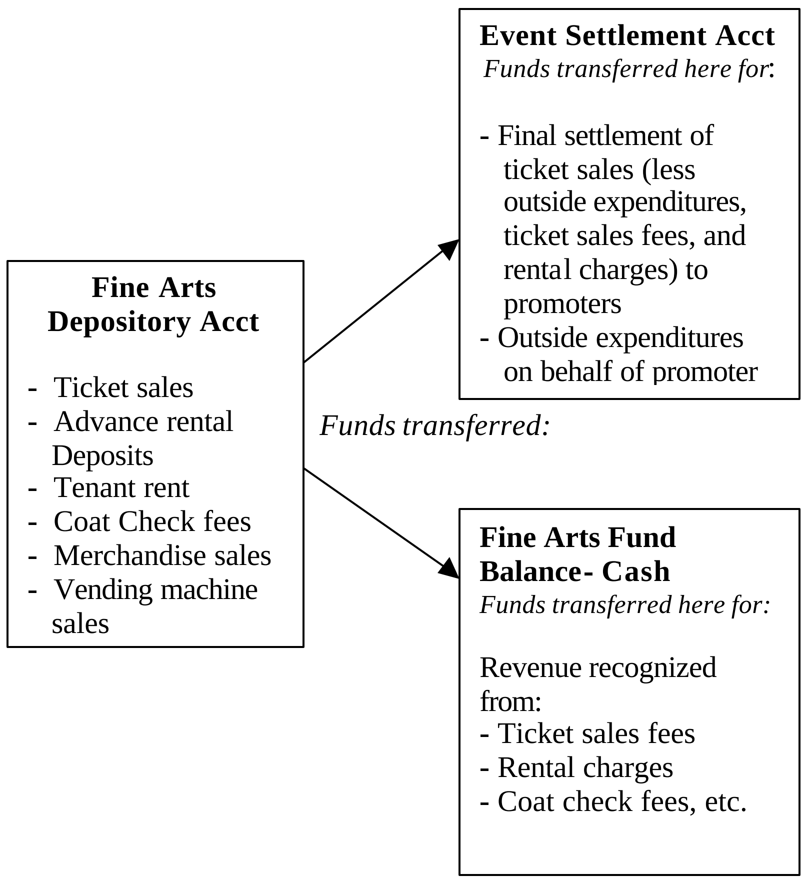

Figure 3. *Funds are transferred out of the depository account to settle with promoters, pay promoter's outside expenditures and to recognize Fine Arts revenue.*

The $1.155 million shortage, previously identified, in the Depository account resulted from accounting errors in double reporting or otherwise inaccurately stating revenue. To correct these errors, the Mayor's Office fiscal troubleshooter has prepared a journal voucher reducing the Fine Arts Fund balance by $1.155 million, and transferring that amount back to the Depository account. He has identified errors occurring over the period 1999-2002.

As noted in Section v. on page 9, in 1999, a $251,000 contribution to Fine Arts was treated as revenue. Initially, the Fiscal Manager of Community and Support Services properly credited the contribution to the Capital Revolving Fund. Subsequently, the Fiscal Manager recognized the contribution as "revenue" when it was posted erroneously to the Pacioli monthly revenue statement. When the journal voucher was prepared transferring this misclassified "revenue" to the Fine Arts Fund balance, the effect was to erroneously reduce the Depository account by the amount of the contribution, thereby shorting the account by $251,000. Double-reporting revenue and the subsequent reduction of the Depository account for this "phantom revenue" demonstrates the Fiscal Manager's lack of attention to detail.

Other accounting errors followed in subsequent years. Revenue for January, February and March of 2000, totaling $312,916, was incorrectly recorded twice, resulting in a duplicate reduction to the Treasurer's Depository account, and therefore, an additional shortage in that account of $312,916.

The Mayor's Office fiscal troubleshooter has identified yet another unrelated, overstatement of revenue of $312,207 from the on-line ticketing system, *Tickets.com*. These ticket purchases were assessed a service charge of $4.00, of which *Tickets.com* retains $2.50, and Fine Arts receives $1.50. However, the Fiscal Manager was incorrectly recognizing the full $4.00.

In Table 2 below, the cumulative revenue misstatements identified have been summarized. The reader will note that the cumulative total of these chronic misstatements is $1.155 million.

Summary of Revenue Misstatements		
1999	Contribution recorded as revenue	$251,000
1999	Excess cash transferred	$120,683
2000	Jan., Feb. & March revenue recorded twice	$312,916
2000	Excess cash transferred	$84,689
2001	Excess cash transferred	$184,676
2002	Shortage of cash transferred	($188,582)
2000-2002	Overstatement from *Tickets.com*	$312,207
1999-2002	Shortage of cash transferred (over & short)	($23,351)
	Unknown difference (Yet to be identified)	$100,738
	Total	**$1,154,975**

Table 2. *Revenue misclassifications, over a period of three years, resulted in material misstatement of Fine Arts revenue.*

The Treasurer's Depository account should be maintained accurately and with attention to detail to ensure that all monies due event promoters are available for payment, and that Fine Arts revenue is accurately recognized. Fine Arts incurs an obligation and position of trust with respect to event promoters.

The reconciliation between the Fine Arts and the Treasurer's record of the Depository account had not been properly performed since the end of 1999.

The critical reconciliation process between the Fine Arts and the Treasurer's record of the Depository account had not been properly performed since the Treasurer's Office discontinued this service to Fine Arts at the end of 1999. Since that time, the Fiscal Manager attempted to match corresponding numbers between her records and the Treasurer's Depository account through a matching process. Non-matching figures were simply listed as reconciling items, without reference to the balance in the Treasurer's Depository account.

The Mayor's Office fiscal troubleshooter has gone back to June 2002 and reconciled the Depository account, monthly, going forward through the end of 2002. He is continuing this process on a monthly basis. For the first five months of 2002 and going back to 1999, he has performed the reconciliation on an annual basis.

8.2 ACTIONS TAKEN:

8.2.1 Reconciling items for the $1.155 million shortage in the Treasurer's Depository account have been isolated, except for an unknown difference of $100,738. An accounting journal voucher has been prepared and processed, reducing the Fine Arts Fund balance by $1.155 million, and restoring this amount to the Depository account.

8.2.2 A proper monthly reconciliation between the Treasurer's Depository account and Fine Arts records, and a reconciliation between Fine Arts cash and the Prologue report of ticket sales is now being performed.

8.3 RECOMMENDATION:

We recommend that:

8.3.1 The Auditor and the Mayors Office undertake a joint effort to further identify the $100,738 of unreconciled items.

8.4 The Fiscal Manager has engaged in logically inconsistent accounting processes that misstated revenues and produced inaccurate balance sheets.

Under or over-reported revenue impacts the taxpayer subsidy to Fine Arts from the Tourism, Recreation, Cultural and Convention Center (TRCC) Fund.

The application of logically inconsistent accounting processes have led to misstated revenues and inaccuracies in Fine Arts internally-generated financial statements. The end result of under or over-reported revenue impacts the taxpayer subsidy to Fine Arts from the TRCC Fund. Though understatement of revenue occurred in many monthly transactions, revenue overstatement, as outlined in the previous section, created the largest error, by dollar amount, and led to an erroneously understated tax subsidy to Fine Arts from the TRCC Fund.

In addition, the internally generated Balance Sheet, produced by Pacioli, did not agree, on a consistent basis, with the County's AFIN system. As part of the countywide accounting system, AFIN produces a Fine Arts Balance Sheet to which the Fine Arts general ledger should reconcile.

Among the processes that led to misstatements were the following: 1) The Fiscal Manager underreported revenue to make up for a cash shortage in the Depository account, 2) Residual balances in event accounts were netted and an adjustment made to revenue, 3) The Fiscal Manager produced erroneous journal entries.

The Fiscal Manager underreported revenue to make up for a cash shortage in the Depository account. The Fiscal Manager prepared a monthly journal voucher to report Fine Arts revenue to the County's AFIN system. This journal voucher also reported the net change in accounts payable and receivable for the month and was submitted to the Auditor's Office, for posting to AFIN.

The Depository account received all bank deposits from ticket sales and was reduced for transfers made to the Event Settlement Account. The Depository account was also reduced when Fine Arts recognized revenue, which was then transferred to the Fine Arts Fund. Thus, if Fine Arts submits a journal voucher to the Auditor's Office to recognize revenue of $20,000, the Treasurer's Depository account will be reduced by an equal amount.

Revenue reported to the County's AFIN system is based entirely on the accumulated and summarized revenue entries reported in Pacioli. The Fiscal Manager created a monthly Income Statement from Pacioli that was the basis for the amount of revenue reported to AFIN. However, rather than reporting total revenues as they appeared on the Income Statement, she made illogical adjustments. First, she subtracted credit card fees, shown as "contra-revenues" on the Income Statement, despite the fact that these fees had already been subtracted to arrive at "total revenue."

The Fiscal Manager subtracted credit card fees, despite the fact that these fees had already been subtracted to arrive at "total revenue."

After subtracting the "contra-revenues," the revenues were again reduced by an arbitrarily determined amount intended to make up for a shortage in the Treasurer's Depository account. If properly reconciled, the amount of cash in the Treasurer's Depository account would equal advanced ticket sales from events, not yet settled, plus accumulated Fine Arts revenue from tenant rents and other fees and charges. This was a basic concept that the Fiscal Manager did not understand or ignored.

As the Fiscal Manager prepared the monthly journal voucher to report revenue, she would determine that the Depository account had insufficient cash to cover both the revenue transfer, and the immediate settlement of all outstanding events. Making no apparent attempts to determine the source of the problem, the Fiscal Manager tried to build up the cash balance by shorting the amount of revenue reported. This reduced the amount transferred out of the Depository account. She surmised that revenue could be shorted each month to bring the Depository account to a point where it could satisfy outstanding settlements on all events.

This process of double-subtracting contra-revenues, then shorting revenue to make up for the cash shortage, makes no sense from an accounting standpoint, and shows the Fiscal Manager's failure to grasp the process for determining and reporting revenues. The Fiscal Manager explained the "contra-revenue" double subtraction as something she learned from the previous Accountant. She produced an Excel spreadsheet, with notations in the margin, which she said represented instructions from the previous Accountant. A prudent Fiscal Manager would have investigated the shortage in the Depository account to determine the cause before deciding to short the revenue transfer to increase the cash balance.

Residual balances in event accounts result from a deficiency in Prologue posting of ticket sales. We noted that residual balances were evident in event settlement accounts. These balances were the result of a deficiency in Prologue, which resulted in some current-month ticket sales being posted to a prior month. These debit or credit balances were not treated as money owed either to or from an event promoter. Thus, they do not represent accounts receivable or payable, in the traditional sense.

These balances resulted from the process of updating ticket sales in Prologue, which were subsequently not properly reflected in Pacioli. For example, if a patron ordered tickets in February, and then ordered additional tickets in March, the posting in Prologue of the additional order would carry back to February ticket sales. However, Pacioli would only reflect the original report of February ticket sales, and the additional ticket order would escape posting in Pacioli. According to the Mayor's Office fiscal troubleshooter, the residual balance write-offs initiated since the commencement of our audit have resulted in a reduction in revenues of less than $5,000.

The Mayor's Office fiscal troubleshooter indicated that residual balances and the lack of reconciliation between Prologue and the general ledger system could be resolved through an interface between the two systems. In addition, he stated that Prologue is developing a general ledger module to interface with the ticketing system. In the meantime, he is developing a process to "flag" carry-back ticket orders, and correct the problem before it results in residual account balances.

The Fiscal Manager produced erroneous journal entries. The Fiscal Manager prepared a monthly journal voucher to transfer expenses and balance sheet items reported in the County's AFIN system to the Pacioli general ledger system, so that the Pacioli Balance Sheet reconciles to the AFIN Balance Sheet. For example, Fine Arts expenses relating to purchases are processed through the Auditor's Office and come to the attention of the Fiscal Manager only through AFIN. We learned from our interviews that the

Fiscal Manager apparently misapplied a journal-entry procedure outlined by the prior Accountant. The unintended result of her interpretation of the procedure was a series of financial misstatements.

Payments to vendors were triple- posted in Pacioli, resulting in a negative "vouchers payable" balance of $202,000.

For example, we noted a significant negative balance of $202,000 in "vouchers payable" in the Pacioli Balance Sheet, which did not reconcile to AFIN "vouchers payable." This negative balance was highly unusual, because balance sheet accounts do not normally have a negative balance. A negative balance in "vouchers payable" would indicate that a vendor would somehow owe money to the County. We determined that the Fiscal Manager had double and triple posted the payments the County made to vendors in Pacioli. For example, we discovered that she had appropriately posted January payments to vendors. However, she then erroneously posted the January plus the February payments to vendors, which she did again in March. The accumulation of January, February, and March payments erroneously posted, created the negative balance. This incident, again, shows a lack of attention to detail and this series of repeated errors demonstrate the incompetence of the Fiscal Manager.

8.5 ACTIONS TAKEN:

8.5.1 The Mayor's Office has taken disciplinary action against the Fine Arts Fiscal Manager. However, it should be noted that the Fiscal Manager may challenge this personnel action.

8.5.2 The Mayor's Office has hired an Associate Director of Community Services to provide additional support to the Mayor's Office fiscal troubleshooter and the acting Fiscal Manager of Fine Arts in identifying problems, and improving processes and procedures.

8.6 RECOMMENDATIONS:

We recommend that:

8.6.1 Out of the efforts of the Mayor's Office initiatives and the Auditor's findings, a comprehensive documentation of fiscal, accounting and budgetary procedures be developed and Fine Arts fiscal personnel be appropriately trained in these processes and procedures.

8.6.2 Fine Arts' accounting system requirements be jointly studied by the Mayor's Office and the Auditor and, based on their recommendations, appropriate system improvements be made.

8.7 Redundant processes unnecessarily drain employee time and resources.

We noted that Fine Arts accounting personnel were creating financial documents from already-existing reports generated in Prologue. These processes involved re-entering data from a Prologue report into an Excel spreadsheet. The resulting documents generated in Excel, presumably, were able to facilitate analysis of financial data and provide a more user-friendly format. Nevertheless, the redundancies involved in re-entering data to create these documents were inefficiencies in the accounting system. These inefficiencies could be addressed by developing a Prologue reporting format that is compatible and exportable to Excel spreadsheets, or interfaced directly with an upgraded general ledger system.

Redundancies we noted were found in three areas: 1) A monthly "Service Charge Summary" to track ticket sales collections, 2) Monthly billings to outside ticket vendors for ticket sales relating to Fine Arts facilities, and 3) Monthly financial statements reflecting operations and activities within Fine Arts. The latter involved a redundancy, not with Prologue, but with the Pacioli general ledger system. Pacioli already produces financial statements which accounting personnel then re-enter onto an Excel spreadsheet.

Monthly Service Charge Summary. The Service Charge Summary is produced in Excel using data manually re-entered from a Prologue report of ticket sales. It provides ticket sales detail for each event, as well as corresponding service charges on those sales occurring during the month. Fine Arts uses this summary as the source document for reporting service charge revenues and ticket sales to the Pacioli general ledger system. It is also used as the source document for recording in Pacioli any cash overages or shortages that occur during the month, by comparing the actual bank deposits to cash collections reported on the Prologue ticket-sales report.

The redundancy occurs because all information in the Service Charge Summary is already produced in the Prologue Report of Ticket Sales. The problem with the Prologue ticket sales report is that it contains extraneous information not useful to the task of recording ticket sales, service charges, and revenues. The procedure followed by the Fiscal Manager was to select certain ticket sales data and service charge revenues, then manually re-enter these into an Excel spreadsheet. The product was an easier-to-read spreadsheet format with eight columns of ticket sales and collections data, and anywhere from 40 to 150 rows, representing each event for which tickets were sold that month.

A computer-generated Monthly Service Charge Summary, produced from Prologue, or through an interface with Excel, would increase efficiency.

Certainly, a computer-generated report in this format, produced either directly from Prologue or through a compatible interface with Excel, would increase efficiency. Another enhancement would be an appropriate interface between Prologue and an integrated general ledger system, which would summarize ticket sales and service charge revenues, and produce monthly journal entries to record this activity in the general ledger.

Billings to Outside Ticket Vendors. ARtTiX is the Fine Arts proprietary ticketing system used for selling tickets to events occurring at Capitol Theatre, Abravanel Hall and Rose Wagner. In addition to these sites, five other ticketing locations, outside of Fine Arts, are included within the ARtTiX system—*Kingsbury Hall,* the *University of Utah Union Information Desk, Eccles Theater in Logan and Park City* and the *Salt Lake Acting Company*. Each one sells tickets for the other's events.

This reciprocal arrangement for ticket sales requires a reconciliation process whereby actual sales are credited to the site where the event is occurring. To accomplish this task, Fine Arts produces monthly billings in an Excel spreadsheet based on data derived from Prologue ticket-sales reports. Fine Arts bills the five remote ticketing locations for tickets sold for events at Fine Arts locations, i.e. Capitol Theatre, Abravanel Hall and Rose Wagner. In addition, they generate separate bills to reflect the amounts that remote-ticket sites would owe each other, and for what Fine Arts owes to these remote vendors.

The process is redundant because billing information already exists on Prologue reports, but not in a format suitable for billing. Billing requires additional calculations before arriving at the amount to be billed. To produce an invoice, Fine Arts accounting personnel manually select necessary data from Prologue Ticket Sales Reports and re-enter this data in an Excel spreadsheet. Not only is the process redundant, it is also convoluted, involving a series of decisions about the amounts to include, and also the application of percentages. The process is not documented, and only one person, the Accountant, is trained in the procedure. Thus, if the Accountant was to become incapacitated, the billing process for remote-site ticketing could well breakdown.

An automated billing process, integrated with Prologue and the general ledger, would eliminate the redundancy and the reliance on a single individual to produce invoices.

An automated billing process, integrated with Prologue and the general ledger, would eliminate the redundancy and the reliance on a single individual to produce invoices. An additional enhancement would allow electronic transfer of funds between these ticketing locations based on reconciliation statements of ticket sales, which are automatically produced.

Financial Statement Duplication in Excel. Fine Arts Balance Sheets and Income Statements can be produced from Pacioli on demand. Nevertheless, the Fiscal Manager found it necessary to re-enter the same data each month into Excel spreadsheets, thereby reformatting the Balance Sheet and Income Statement to a more user-friendly presentation. Other subsidiary schedules are being reproduced in Excel, such as monthly summaries of accounts receivable.

Apparently, Pacioli could not produce reports with the required financial comparisons. Having the financial statements and other subsidiary schedules in an Excel spreadsheet facilitates data analysis because of the Excel "calculation formulas" and ease of data manipulation. Nevertheless, re-entering this data into a spreadsheet is time-consuming.

Fine Arts is installing *Quick Books Pro,* general ledger software, as an interim upgrade to the current Pacioli system, and plans to further upgrade the system to even more powerful software. Hopefully, an updated software package will have integration features, which will eliminate redundant re-entry of financial data into Excel spreadsheets.

8.8 RECOMMENDATIONS:

We recommend that:

8.8.1 Fine Arts information systems and accounting personnel examine ways to apply the Prologue report writing function to produce reports in a format compatible and exportable to the general ledger system, and Excel spreadsheets as needed, thereby reducing or eliminating redundancies.

8.8.2 Fine Arts information systems and accounting personnel explore ways to automate the billing process among the various ARtTiX agencies, and a process to electronically transfer funds between these agencies.

8.9 Receivables were arbitrarily adjusted in December 2001 and January 2002.

The Fiscal Manager increased the Fine Arts accounts receivable balance by $6,728, without supporting documentation.

In December 2001, the Fiscal Manager increased the Fine Arts accounts receivable balance by $6,653, without supporting documentation, and did so again in January 2002, by a smaller amount, $75. These erroneously adjusted totals were recorded to AFIN accounts receivable. The Fiscal Manager could not recall recording these transactions or why these amounts arbitrarily appeared in the accounts receivable detail. This once again demonstrates the Fiscal Manager's lack of adherence to fundamental accounting principles and practices.

8.10 RECOMMENDATIONS:

We recommend that:

8.10.1 Any write off or adjustments to accounts receivable balances receive appropriate supervisory review and be supported by detailed backup.

8.10.2 The Auditor's Office undertake an independent confirmation of accounts receivable balances.

In the Mayor's Office response, they state that an accounts receivable confirmation *"has been done."* The Mayor's Office troubleshooter, who performed this work, explained that the process involved mailing letters, setting forth accounts receivable balances, to all tenant organizations, all ARtTiX ticketing outlets, and three or four other event promoters that had used Fine Arts facilities, for a total of about 15 letters. He and the Accountant reviewed all accounts receivable balances, and made changes and fixed problems in accounts as deemed necessary. They then sent confirmation letters to other organizations that had stopped making payments on their accounts, but not to those that were continuing in their payments, assuming that these organizations, since they were paying, knew the correct amount of their balance. By their admission, they did not confirm 100 percent of accounts receivable.

In addition, the response process involved phone calls, and not the physical receipt of a letter or document from respondents. One or two merely sent in a check to pay their outstanding balance. The process did not entail a positive confirmation statement by the organization, and was more of an informal exercise to shore up accounts receivable. Clearly, this "confirmation process" was not what would be considered a procedure conducted according to professional standards.

Our recommendation envisions the mailing of confirmation letters to all parties that have outstanding accounts receivable, and requesting that they return the letter, verifying or disputing the purported balance contained in it, as a positive statement of their obligation.

8.11 Multiple on-going problems with the credit card portion of the attempted monthly Depository account reconciliation contributed to consistent inaccuracies.

We reviewed the credit card portion of the Fiscal Manager's attempted monthly reconciliation of Fine Arts records to the Treasurer's Depository account, as described in Section 8.1, from January-June 2002. The most significant problems included:

- The American Express merchant discounts, which are the per-transaction fees charged by the company, were not recorded in a consistent manner, month-to-month, on the reconciliation. For instance, in January, May, and June merchant discounts were *subtracted* from American Express card deposit amounts, with the net figures shown as the deposit amounts on the reconciliation. In contrast, from February through April the merchant discounts were *added* to the deposit amounts, and these figures were shown on the reconciliation as the deposit amounts, an inconsistent and inaccurate treatment.

  American Express revenue was overstated by approximately $1,837 in February, $729 in March, and $3,282 in April. It was understated by approximately $1,887 in June.

  In addition, the total American Express discount amounts were deducted as a "miscellaneous entry" on the June reconciliation. This was the only month that this deduction was made. As a result of these errors, the Fiscal Manager's reconciliation overstated American Express revenue by approximately $1,837 in February, $729 in March, and $3,282 in April, and understated that revenue by approximately $1,887 in June.

- Visa and MasterCard fees and adjustments were deducted on the Fiscal Manager's reconciliation based on credit card statement amounts called "Financial Advice." These are the fees and adjustments incurred, but not actually deducted during the statement period. The amount actually deducted from the Depository account is based on the credit card statement's "Financial Detail," which are the fees and adjustments deducted during the statement period. Differences arising from additional fees and adjustments incurred between the "Advice" date and the "Detail" date were not reconciled.

- The amount entered on the Fiscal Manager's reconciliation for January Visa and MasterCard fees and adjustments did not agree with either the "Advice" or the "Detail." Instead, the amount entered appeared to have been "plugged" to bring the total of the Visa and MasterCard fees, as well as that month's Discover card fees, equal to the amount actually deducted from the Depository account for that month.

- Inexplicably, nine Visa/MasterCard deposit entries on the January-June reconciliations did not match the corresponding deposits on the Treasurer's ledger for the Depository account, or the corresponding amounts on the Visa/MasterCard statements.

- In-transit adjustment amounts on the reconciliation also appeared to be "plugged" figures, with no supporting calculations shown.

These problems indicate the Fiscal Manager's lack of understanding of the reconciliation process, and a lack of the appropriate attention to detail.

8.12 ACTION TAKEN:

8.12.1 See Action Taken 8.2.2

8.13 Revenue recognition has not been timely due to a lack of coordination among Fine Arts staff in different functional areas, and deficiencies in accounting system integration.

The Fiscal Manager recorded monthly Fine Arts revenue to the County's AFIN system, with an average lag of three months.

The Fiscal Manager recorded monthly Fine Arts revenue to the County's AFIN system, with an average lag of three months. As mentioned in a previous section, she reported revenue to AFIN based on adjustments to Pacioli reports. The Fiscal Manager cited delays in Event Manager submissions of Event Settlement Statements as the primary cause for the lag. She also attributed the problem to the time required by the Treasurer to process and deliver the Teasurer's report of Fine Arts Depository cash, typically a one-month lag, and the time needed by the ARtTiX administrator to complete adjustments to the Prologue ticket sales reports. The Fiscal Manager appears to have had difficulty asserting her authority over various staff involved in the process to gather timely information.

The Event Settlement Statement details event revenue earned by Fine Arts from contracting events, and is one source document used for recording and reconciling revenue in Pacioli. The longer an accounting process stretches out, the more difficult it becomes to accomplish a particular monthly close out.

Most large business enterprises, with significant monthly billings and cash flow, establish well-defined accounting cutoff periods. This ensures that accounting periods are closed promptly and open items are recorded on the books appropriately.

8.14 RECOMMENDATIONS:

We recommend that:

8.14.1 The Fiscal Manager be given full authority to coordinate all accounting and budgetary matters at Fine Arts.

8.14.2 An event cutoff policy and procedure be established for recognition and reporting of accrued revenue and expenses at the end of any given accounting period.

8.15 Fiscal personnel were not following the written internal Fine Arts policies for managing accounts receivable.

An internal policy governing Fine Arts accounts receivable is currently written and in place. It provides for several commonly used collection techniques including notification letters, interest accrual on uncollected balances, and referral of excessively delinquent accounts to the District Attorney's Office. For example, Section 3.2 of Fine Arts' internal policy states: "*All receivables will accrue an interest charge on the unpaid balance of the account compounded monthly as per contract terms.*" Moreover, Section 3.5 of the same policy provides for delinquent account referral to the County (now District) Attorney's Office by stating, "*After ninety days the account receivable will be turned over to the County Attorney's Office for collections.*" We found that Fine Arts fiscal personnel were not charging interest on unpaid delinquent balances nor were they referring excessively delinquent accounts to the District Attorney's Office.

Accounts receivable, where outside organizations owe money to Fine Arts, occur less frequently than accounts payable, where Fine Arts owes money to outside organizations, usually to event promoters. As mentioned previously, the tenant organizations, those artistic groups that are resident within the Capitol Theatre, Abravanel Hall or Rose Wagner, typically maintain an accounts receivable balance with Fine Arts, due to the unique settlement process in place for these groups. Rather than netting ticket sales against expenses in a settlement statement, Fine Arts remits each group's ticket sales collections to them weekly or periodically. Fine Arts then bills tenant organizations separately for building and equipment rents, and other fees and charges.

In addition to tenant groups, outside organizations also accrue accounts receivable with Fine Arts. These outside organizations are performing groups or other organizations that rent Fine Arts facilities, like high schools and TV production companies. These organizations either do not sell tickets or ticket sales are insufficient to cover rent and equipment expenses. Also included in accounts receivable are amounts owed to Fine Arts from the outside ARtTiX locations for ticket sales these vendors make relating to events at Fine Arts facilities. Finally, included in Fine Arts accounts receivable balances are the bad checks that patrons have written for event tickets. The bank returns these checks to the Treasurer's Office and they attempt to collect the outstanding balance. Fine Arts typically runs a balance of $5,000 to $7,000 in bad checks. The consistent balance in bad checks points to a need for better collection efforts or write-off of checks that are deemed uncollectable.

The average balance in accounts receivable was 18 percent higher during July 2001 to June 2002, in comparison with the over-all period of July 1999 to June 2002.

We analyzed the trend in accounts receivable over a 36-month period from July 1999 through June 2002 and found that balances in these accounts were increasing, indicating a need to more closely monitor and follow through on collections efforts. During this period, the eight tenant organizations—Ballet West, Gina Bachauer Foundation, KBYU-FM, Repertory Dance Theater, Ririe Woodbury Dance Company, Salt Lake Art Center, Utah Opera Company and the Utah Symphony—in addition to 166 outside organizations, appeared in Fine Arts detail of accounts receivable balances. The average accounts receivable balance over the three-year period for all organizations combined was $168,273, for tenant organizations it was $80,467, and for outside organizations the average balance was $87,806. However, a significant increase occurred when isolating these account receivable balances to the 12-month period from July 2001 through June 2002. Account balances, in total, averaged $198,269, an 18 percent increase over the 36-month period. Outside organizations averaged $96,488, a 10 percent increase; and tenant organizations averaged $101,780, a 26 percent increase.

The Eccles Theater in Logan maintained a balance of $24,000 to $31,000 during July 2001-July 2002. Prior to that their balance ran much lower, from $6,000 to $11,000.

Accounts receivable balances from the outside ticketing locations are significantly contributing to the growth in overall receivables. For example, the Eccles Theater in Logan maintained a consistent outstanding balance of $24,000 to $31,000 during the period July 2001-July 2002. Before July 2001, their balance consistently ran much lower, from $6,000 to $11,000. Arrangements should be put in place to require electronic transfer of funds related to sales from outside ticketing locations within days of the conclusion of ticket sales. Remote ticketing locations are agents of ARtTiX, as is ARtTiX an agent of these remote locations. Therefore, each stands in a position of trust with respect to the other. We are concerned that certain of the unpaid balances relate to ticket sales on events long since settled by Fine Arts.

We also noted that an outstanding balance was forgiven during 1999, when the County Commission absolved $51,500 in rent owed by the Salt Lake Art Center (Art Center) in exchange for six paintings from the Art Center. The Art Center displays paintings and other works of visual art. Like other tenant organizations, the Art Center originally contracted to pay rent for its use of Fine Arts facilities. However, as part of the rent-forgiveness arrangement, Salt Lake County has agreed to charge the Art Center rent at a nominal annual cost of $1. This arrangement is set forth in a *Transfer of Art Agreement,* dated June 30, 1999.

This *Transfer of Art Agreement,* was drafted by the County Attorney's Office, and approved by the former County Commission. Under this agreement, the County is contractually bound to keep the six different works of art for five years without selling them. At the end of the five-year period, the Art Center has the option of repurchasing these pieces for the same amount at which they were valued, $51,500. Otherwise, the County can then sell or trade them, without restriction. The reason for this arrangement was the Art Center's inability to cover its rent expense. Public admission to the Art Center is free, and the organization relies on contributions for its support.

We conclude that this transaction was ill advised. This contract resulted from a failure to secure payment for a growing account receivable. Further, there remains a question as to whether the Arts Center ever had the capacity to pay rent. This case is presented as a warning against allowing accounts receivable to drift.

8.16 RECOMMENDATIONS:

We recommend that:

8.16.1 Fine Arts reduce the balance in accounts receivable through vigorous and timely collection efforts, in compliance with their own written policy.

8.16.2 Immediate action be taken to expedite the process for collecting from outside ticket vendors for current ticket sales, and that outside ticket vendors be linked to provide for real-time billing and electronic fund transfer.

8.16.3 The County Council adopt a resolution setting forth a payment standard for remote ticket locations, requiring such agents to provide full payment on ticket sales within ten days from the date of sale.

8.16.4 Fine Arts work with the Treasurer's Office to collect on bad checks and reduce the unpaid balance through improved collection efforts.

8.17 The Fine Arts general ledger system is obsolete, no longer updated, and customer support is no longer available.

As previously discussed, Pacioli is an off-line system that does not interface with Prologue, Excel or the County AFIN system. All inputs from these other systems must be entered manually into Pacioli. An interface between the Prologue ticketing system and the general ledger system is essential to support a functional and integrated accounting system.

8.18 ACTION TAKEN:

8.18.1 Quick Books Pro 2000 is currently being installed as an interim replacement to Pacioli pending acquisition of a more comprehensive solution.

9.0 Issuance of Certain Complimentary Tickets

Fine Arts policy generally allows tenant organizations to receive a credit on their "Rental/ Personnel/ Labor/ Equipment" Settlement Statement for the value of complimentary tickets given to Salt Lake County employees.

During our review of complimentary tickets issued to employees for tenant events from July to December 2002, we noted inconsistencies between amounts that should have been credited according to completed complimentary ticket approval forms, Ticket Office reports, and amounts actually credited on the statements.

These inconsistencies are summarized in Table 3, below.

Complimentary Tickets Value vs. Credit Given Tenant on Settlement

Event/ Tenant	Approval Forms		Ticket Office Reports*		Tenant "Rental, etc." Settlement Stmt
	Qty	$	Qty	$	$
A Midsummer Night's Dream/ Ballet West	5	$185	7	$265	$300
An Evening of Ballets/ Ballet West	0	$0	0	$0	$300
The Nutcracker/ Ballet West	22	$832	26	$992	$300
Otello/ Utah Opera-Symphony	4	$260 **	4	$260	$412

* Dollar amounts for complimentary tickets are listed as $0 on Ticket Office reports. We estimated the dollar amounts for Ticket Office reports based on the most common ticket price listed on the approval forms for each event.
**Estimated, one form had no $ amount listed.

Table 3. *Various records of complimentary tickets given away that were maintained by Fine Arts failed to match each other.*

Our findings related to these inconsistencies include:

- **Incorrect amounts were credited on tenant settlements for complimentary tickets issued to Salt Lake County employees.**

- **Employee Complimentary Ticket Approval Forms were not always completed.**

In the Mayor's Office response to our report, they call for *"a distinction between … the practices of the Commission and the methodology the Mayor has employed as it relates to [complimentary] tickets"* and the acknowledgement that the practice has changed since the issuance of the opinion in Commission vs. Short. However, we did not examine requests for complimentary tickets issued prior to the change in form of government.

The issue of touring company complimentary tickets has also been raised in the Mayor's Office response. Therefore, we feel obliged to note that the number of complimentary tickets issued for these non-tenant productions are contractually stipulated with the touring production promoter. This category of tickets will normally have a monetary value at least equal to the retail price of the ticket, although, unlike tickets for tenant events, the value of these tickets is not credited to promoters. This means that these tickets are provided to the County at no cost. Thus, we did not examine complimentary tickets issued for these non-tenant, touring productions, during the course of our fieldwork.

Even though these tickets are provided, through contractual agreement, at no cost to the County, they constitute a valuable County asset, and their control and issuance should be closely monitored. In the Mayor's Office response, they state that, *"use of complimentary tickets is monitored by the [Community Affairs Director] as a central point for [ticket] requests."* An effective system would both control requests for tickets and distribute such tickets according to an established County policy that assures that this valuable County asset is devoted to an identified public purpose. This level of monitoring does not appear to be even informally well established currently.

Complimentary tickets are also issued when contracting agencies wish to "paper the house" when a performance fails to produce substantial ticket sales. There is no written policy on the issuance of, and crediting for, complimentary tickets. It is our intent to perform follow-up audit work, to broaden our view of Fine Arts complimentary ticket issuance practices.

9.1 Incorrect amounts were credited on tenant settlements for complimentary tickets issued to Salt Lake County employees.

An apparent lack of training and supervisory review resulted in the Event Manager completing tenant settlement statements incorrectly.

The differences between the dollar amount of complimentary tickets issued and the amounts credited on the tenant's statements occurred because the Event Manager who prepared the settlements assumed, incorrectly, that the amount to credit was pre-determined and contractually set. This situation could unfairly favor either the County, as in the case with the Nutcracker, or the tenants, as in the case with the other three events shown in the table above, depending on the number of complimentary tickets issued and the pre-determined charge amount used. An apparent lack of training and supervisory review resulted in the Event Manager completing these tenant settlement statements incorrectly.

9.2 RECOMMENDATIONS:

We recommend that:

9.2.1 Event Managers accurately credit tenants for employee complimentary tickets based on the actual number of tickets issued for each event, at the ticket's pre-determined price.

9.2.2 A written policy and procedure outlining the use of and crediting for complimentary tickets be established and maintained and that Event Managers be trained to comply.

9.2.3 A joint effort be undertaken by the Auditor and the Mayor's Office to review and improve the tenant settlement process.

9.3 Employee Complimentary Ticket Approval Forms were not always completed.

According to the Fine Arts Special Events Coordinator, differences in the number of tickets issued, between approval forms and Ticket Office reports, occur because forms are often not completed for requests made at short notice, such as late in the day of a performance. The Special Events Coordinator stated that when these requests occur, they are often made by members of the Mayor's Office or the Community Services Department, at the last minute prior to a performance.

The Fine Arts Division has provided blank Complimentary Ticket Approval Forms to these organizations and asked that they complete and forward them to Fine Arts when these short-notice requests are made. However, these forms are often not completed, according to the Special Events Coordinator.

In the Mayor's Office response to our report, they claim that they *"are aware of one request [for comp tickets] by the Department in the time since the change of form [of government.]"* Our review of this assertion shows otherwise. For the 2002 production of The Nutcracker alone, according to ticket office reports, as validated by Complimentary Ticket Approval Forms, when completed, there were five requests, for a total of 16 tickets, made by the Mayor's Office or Community Services Department. One of these requests, for four tickets, was not documented by a Complimentary Ticket Approval Form, but only by an e-mail, indicating a potential short-notice request. Another request for four tickets had no accompanying Complimentary Ticket Approval Form, again indicating the possibility of short notice. This lack of request accounts for the difference between the number of tickets requested and the number of tickets actually issued for the Nutcracker, as shown in Table 3, page 94.

In addition, one of the Ticket Office Supervisors related the following incident, during our recent follow-up interviews. The Mayor's Office requested eight tickets for the *Jerry Seinfeld* production on April 4, 2003. The recipient of two of the tickets was specified. However, the remaining six tickets were sent to the Mayor's Office. To date, the ultimate recipients of the six tickets have yet to be reported to the Ticket Office.

Moreover, the Ticket Office Supervisor indicated that as recently as April 27, 2003 she was asked to set aside the twenty complimentary tickets contractually provided by the promoter of the Les Miserables production, scheduled for June 4, 2003. These requests, according to the Ticket Office Supervisor, normally come from the Mayor's Office through either the

Division Director or her Assistant (the Special Events Coordinator). The Ticket Office Supervisor noted, on the Prologue ticketing system, under this transaction, the following: *"Getting names from the Mayor's Office is difficult."* In both of these cases, the ticket request forms have not been completed.

9.4 RECOMMENDATION:

We recommend that:

9.4.1 Employee Complimentary Ticket Approval Forms be completed and approved in advance for all complimentary ticket requests, including those made at short notice. Completed and approved forms could be faxed, or sent by e-mail in electronic format, to the Ticket Office.

10.0 Fixed and Controlled Assets

Our objectives for this portion of the audit were to review asset purchases for the years 2001 and 2002 to ascertain whether all newly purchased fixed and controlled assets are being adequately accounted for, and to determine if Countywide Policy #1125 "Safeguarding Property/Assets," and #1100 "Surplus Property Disposition/Transfer/Internal Sale" are being adhered to. A fixed asset is an item of real or personal property owned by the County, having an estimated life expectancy of more than two years, and meeting the criteria for capitalization. Currently, the capitalization threshold for individual personal property items is equal to or greater than $5,000.

A controlled asset is a personal property item, which is sensitive to conversion to personal use, having a cost of $100 or greater, but less than the current capitalization threshold. Personal communication equipment is considered to be a controlled asset regardless of the cost of the individual items.

Our findings are:

- **No system is in place for an authorized person to verify physical receipt of newly purchased controlled assets.**

- **Newly purchased controlled assets have not been tagged or accounted for properly.**

- **Fixed and controlled asset lists are not current, and we could not verify that an annual inventory for 2002 had been done.**

- **Accountability for individually assigned controlled assets, and a check-out system for shared property, needs to be established and monitored.**

- **Surplus assets need to be disposed of timely and with proper documentation.**

- **Despite allegations regarding construction of furniture for personal use, we found no supportive evidence.**

10.1 No system is in place for an authorized person to verify physical receipt of newly purchased controlled assets.

Fine Arts purchasing process for controlled assets begins with preparation of a three-part requisition form by the individual needing an item. After going through an approval process, the Purchasing Clerk receives and retains one copy of the requisition form until the item is delivered. The requester retains the other two copies until the item is received. After delivery, the clerk receives one of the requester's copies, along with the dealer invoice, for processing payment. However, at Fine Arts we discovered that neither the Property Manager, nor any other person independent of the purchaser, verifies that the item has been actually received. Nor, does anyone tag the item or enter the item inventory information on an asset list on a consistent basis.

Countywide Policy #1125, Section 2.2.8 and 2.2.12 (e) states, *"The property manager will...coordinate with the organization's purchasing clerk to ensure all newly acquired property is identified and accountability is appropriately established...ensure proper receiving controls are in place so that property received is what was ordered, and that upon receipt all other property controls explained in the policy are followed."*

10.2 RECOMMENDATION:

We recommend that:

10.2.1 Fine Arts ensure that adequate receiving controls are in place, in accordance with Countywide policy.

10.3 Newly purchased controlled assets have not been tagged or accounted for properly.

We could not verify that some recently purchased assets were actually received and present. We went through the Purchase Request Forms for the years 2001 and 2002 and made note of all the asset purchases that could be considered controlled assets. We compared those purchases with the lists of assets provided by Fine Arts and with the physical inventory we conducted. Because so many assets had not been tagged, listed on the controlled lists, or the invoice copies did not contain adequate identification, we could not verify that all the purchases for the period covered were received and on site.

For example, five Dell Inspiron 8100 Notebook laptop computers were purchased on December 26, 2001. We were able to account for four of them at Fine Arts locations. The other laptop is reported to be in the possession of the Division Fiscal Manager. Various tools were purchased over the two-year period, some we could locate, but they were of such variety, without I.D. tags, and at so many locations, that we could not determine which were the recent purchases. Other items like vacuums, hand trucks and specialty equipment were untagged and so vaguely described on the invoices that, again, we could not make a confirmation. Also, packing slips, with identifying information, were not kept with the purchase files, making it difficult to identify specific items. Assets need to be accounted for as soon as they are purchased.

10.4 RECOMMENDATION:

We recommend that:

10.4.1 Newly purchased controlled assets be tagged and accounted for at the time they are received.

10.5 Fixed and controlled asset lists are not current, and we could not verify that an annual inventory for 2002 had been done.

Fine Arts has not had a permanently assigned Property Manager since the passing of the Operations Manager in July 2002. However, the interim Property Manager provided us with three separate lists of controlled assets, one for each of the three facilities under Fine Arts control, Capitol Theatre, Rose Wagner, and Abravanel Hall (with some assets at the adjoining Art Center). Additionally, Fine Arts Information Services personnel gave us a list of computer-related equipment.

To help in controlling inventory, Fine Arts has numbered identification tags for controlled assets. Each of the facilities has a different colored tag, *red* for Capitol Theatre, *blue* for Rose Wagner, *green* for Abravanel Hall, with a generic tag for items that are used at all sites. The system to account for and control assets is well conceived, if consistently applied, but the process appears to have been ignored for some time.

With the assistance of the interim Property Manager, we conducted an inventory of fixed and controlled assets at all of the facilities. We then compared our inventory results with the lists provided. Our inventory revealed items that had been tagged, but the facility lists had not been updated to include those items. Some tag numbers shown on Fine Arts' lists were actually on different items than indicated on their lists. The facility lists had not been updated to include fixed-asset items that were now valued at below the fixed-cost threshold, which should be reflected as controlled assets, where appropriate.

There were several items listed that could not be located and 59 percent of the items we inventoried had not been tagged.

There were tagged items shown on the facility lists that we could not locate, after a reasonable search, and 59 percent of the items we inventoried did not have tags. Our comparison also revealed, for example, that the latest fixed asset list showed three pianos in inventory, two at the Capitol Theatre and one at Abravanel Hall. However, our search revealed there were four pianos at Capitol Theatre, four at Rose Wagner and two at Abravanel Hall, for a total of 10. The list of electronic equipment was similarly deficient in that it was not updated for new purchases, did not include older items, or was inconsistent with the other lists in that it did not show tag numbers and locations in the same format.

The interim Property Manager subsequently reported to us that all four of the pianos at the Capitol Theatre are owned by Fine Arts, two of which were not included on the Auditor's fixed asset list. One of the two pianos at Abravanel Hall is owned by the Utah Symphony, the other is on the fixed asset list. Three of the pianos at Rose Wagner belong to Fine Arts, two of which are in the process of restoration, having been recently purchased from the Salt Palace under the surplus program. The fourth piano found at Rose Wagner belongs to Ballet West. It is unknown, at this point, whether the pianos missing from the fixed asset list should be on the list, because the original cost may not exceed the current capitalization threshold.

We also found no evidence that an annual inventory was completed for the year 2002. Due to modifications of the County fixed asset system imposed by GASB 34 compliance, the Auditor's Office, for the year 2002, did not produce and forward to agencies the Fixed Asset Inventory By Organization Report, AFIN 0801. As a result, the Auditor has not required that the Annual Report of Inventory be provided by County organizations to the Auditor for 2002. However, this does not relieve agencies of the responsibility of following the policy that an annual inventory be completed and all applicable functions relating to the control of assets remain current.

We again refer you to Countywide Policy #1125, Sections 2.2.2, 2.2.3, 2.2.8, and 2.2.11, Property Manager's duties, "*Accounting for all controlled assets...maintain records as to current physical location of all fixed and controlled assets...property is identified and accountability is appropriately established...at least annually, conduct physical inventory of fixed assets and controlled assets.*"

10.6 RECOMMENDATION:

We recommend that:

10.6.1 Fixed and controlled asset lists be maintained and updated, and annual inventories be conducted by a property manager appointed to carry out those responsibilities.

10.7 Accountability for individually assigned controlled assets, and a check-out system for shared property, needs to be established and monitored.

We could not locate several radios listed. Some radios were listed as being assigned to persons no longer employed by Fine Arts.

Our inventory showed that there were individually-assigned controlled assets, such as lap-top computers, palm pilots, radios, and cell phones, for which there were no Employee Control Forms in use. We could not locate several radios shown on the facilities lists, and there were radios on the list assigned to persons no longer employed. In the shop areas at each site were numerous hand tools that were shared, but not controlled as required by County Policy.

Countywide Policy #1125, Sections 2.2.12 (c), and 2.3.4 state, "*To ensure adequate accountability, property managers should establish internal protective controls appropriate for custody of the property assigned...using a checkout system for shared property.*" Sections 4.3 and 4.3.1, state, "*the property manager shall maintain records to manage controlled assets using the following forms (or forms that contain substantially the same information).... Controlled Assets Inventory Form - Employee is used for those assets, which due to their nature, are used by (and therefore readily assignable to) an individual. Controlled Assets Inventory Form – Organization is used for property not readily assignable to an individual employee or which is shared by more than one employee.*"

10.8 RECOMMENDATION:

We recommend that:

10.8.1 Fine Arts use the forms specified in Countywide Policy #1125, or similar forms, for individually assigned or shared property.

10.9 Surplus assets need to be disposed of timely and with proper documentation.

At each facility we observed equipment that was stored, or collected in closets and open areas, that is scrap or apparently no longer useful to Fine Arts. The clutter of unused and old equipment could be a nuisance to those who need to operate in already tight surroundings, such as in the Capitol Theatre stage control room and Ticket Office areas. These items should be properly surplused in a timely manner. Also, there were items on facility lists that could not be located, if those assets are in fact missing, they should be listed on a PM-2 Form and removed from the lists according to policy.

We refer to Countywide Policy #1125, Section 2.3.3 "*When employees determine property they are using is no longer needed it should be disposed of under supervision of the Property Manager in accordance with Countywide Policy #1100 Surplus Property Disposition/Transfer/Internal Sale.*" Policy #1100 defines surplus property as "*personal property that is no longer needed by a County agency for the performance of its duties,*" and scrap as "*personal property for which there is no residual value beyond the value of its material content.*" Items meeting these criteria need to be surplused. For those items that are in fact missing, but still listed, Countywide Policy #1100, Section 6.4.1 states "*a completed PM-2 Form listing items to be written off from the assets records, is to be submitted for approval to the Mayor.*"

10.10 RECOMMENDATION:

We recommend that:

10.10.1Surplus items be disposed of in accordance with Countywide policy.

10.11 Despite allegations regarding construction of furniture for personal use, we found no supportive evidence.

We were asked to investigate allegations that material had been purchased over a period of time and used to construct furniture items for personal use by Fine Arts employees. We reviewed selected purchase requests and invoices for the years 2001 and 2002. The invoices reviewed were those of specialty lumber companies and hardware retailers. We were looking for furniture-quality lumber and hardware such as handles, hinges, drawer slides, etc.

Our review revealed that during the years 2001 and 2002 purchases from one lumber specialty store totaled $3,345.86 for 2001, and $4,479.11 for 2002. The bulk of these purchases were for red oak lumber. Review of other similar companies revealed no purchases of furniture-quality lumber or hardware.

We interviewed several persons employed at Fine Arts, skilled in wood shop operations, and asked them to examine some of the invoices we had reviewed, and indicate for what purpose the materials had been used. They reported that over the last two years the lumber had been used to build eight ticket stands, 10 program holders, 20 easels, six stair units for the Rose Wagner and Abravanel Hall venues, and six lecterns (speaker podiums), all of red oak. They stated that some of the material was still in the shop where they continue to make some small items. We verified that some pieces of the red oak lumber were on shelves at the Capitol Theatre shop. We also physically inventoried some of the items listed above and verified their presence.

They also showed us other items that they had constructed from the oak lumber, such as small cabinets for storage, tool cases, renovations in dressing rooms, a Rose Wagner studio dance floor, and platforms for the Capitol Theatre orchestra pit. They asserted that all items built in the shops were for use at one of the Fine Arts sites.

Representatives of the District Attorney=s Office continue to investigate the possibility of furniture items being constructed for non-County use.

11.0 Compliance with Fair Labor Standards Act Rules

During our interview with one of the Event Managers, she asserted that the compensatory time and overtime policy at Fine Arts was not well communicated during the hosting of *the Cultural Olympiad*, associated with

According to an Event Manager, in February there was an on-again, off-again verbal authorization of overtime.

the 2002 Winter Olympic games. According to the Event Manager, in February there was an on-again, off-again verbal authorization of overtime, by the Division Director, during *the Cultural Olympiad*. Furthermore, we verified that neither the Division Director nor the Payroll Administrator sought advice regarding overtime policy from either County Personnel, or the Mayor's Office.

The Event Manager asserts that she worked numerous overtime hours during *the Cultural Olympiad* events at Abravanel Hall for which she was only partially paid. This, according to the Event Manager, entailed working a 2,800-seat theatre for 22 straight days, putting on 17 *James Beard Dinners*, nine shows/special events, and hosting 21 straight days of piano gallery and the viewing of the *Chihuly Exhibits*. She also claims that staff at Rose Wagner had numerous "dark days," but were not assigned to Abravanel Hall to fill the gap. This seems to contradict the assertion of the Special Events Coordinator, who stated that Rose Wagner did have down time during the Olympics, and that staff was, indeed, rotated to cover events at Abravanel Hall. Despite the above, the Event Manager has made no claim for payment of the excess overtime.

In clear contrast with the Event Manager's assertion is an existing memo from the Division Director, dated February 5, 2002, specifically addressing the process to obtain overtime during this period. This memo states in part, *"Effective immediately, through February 24th, over eight hours of overtime must have prior approval from me…"* It appears that overtime hours worked by the Event Manager, for which she was paid, fell within the eight hour per week ceiling authorized by the Division Director. When questioned on these matters, the Event Manager asserted that she made no record of the excess overtime worked because she was not authorized to perform the overtime hours.

In this regard, the Community Services Director asserted her understanding that the staffing demands during the Olympiad were largely carried out by SLOC volunteers. According to the Mayor's Office response to our audit, *"The Division Director was specifically queried by the Department Director on how overtime would be handled in the Olympic period. The response was that they would use their normal overtime policy. No complaints were received by either the Department or the Mayor concerning overtime practices during or immediately following the Olympics. No unusual overtime practices were noted on payroll. Only at the point of the Mayor staff's review were any comments made on this item."* This response confirms that the actual overtime requirements for the Olympic period were never assessed through any in-depth analysis. Had such action been taken, the need to address subsequent employee comments and complaints regarding overtime may have been avoided.

In his interview, the Chief Fiscal Officer reported that the Mayor's Office became aware of overtime assertions during the recent Mayor's Office investigation. Although we are not aware of any action being taken by the Mayor on this matter, such action may be underway. In brief interviews with the Ticketing Services Manager and the other Event Manager they also indicated that they had worked some overtime during the Olympics, which they did not record, and for which they were not paid. However, the following analysis would indicate that the Ticketing Services Manager was indeed paid $1,422 in overtime, and both Event Managers received approximately $400 in overtime.

We extracted payroll data to analyze the accrual and payment of overtime during February and March of 2002 on all Fine Arts employees. During our analysis we found the following:

- **Overtime paid to Fine Arts employees during February and March 2002 totaled approximately $4,836.**

- **Compensatory (comp) hours accrued by Fine Arts employees during 2002 totaled 536 hours, equivalent to approximately $9,053.**

11.1 Overtime paid to Fine Arts employees during February and March 2002 totaled approximately $4,836.

Our analysis for the period February and March 2002 disclosed that the Ticketing Services Manager received the most in overtime pay, $1,422. The second highest amount paid in overtime, $495, was paid to the Patron Services Manager. Figure 4 below summarizes the overtime paid to Fine Arts employees during the time period mentioned above.

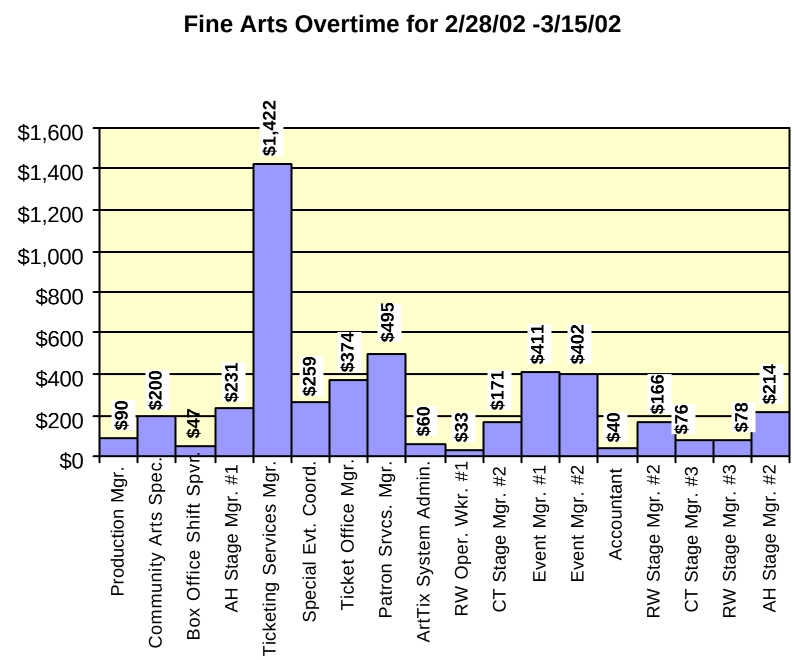

Figure 4. *The employee who received the most overtime pay during February and March 2002 was the Ticketing Services Manager.*

The two Event Managers received approximately $400 each in overtime pay during the time period. As mentioned above, one of the Event Managers worked overtime at Abravanel Hall during the Olympics. According to the County Payroll System, that Event Manager was paid for 15 overtime hours during the Olympics. We were unable to confirm that she had worked any hours in addition to those paid, which validates her assertion that excessive overtime had not been recorded on time sheets.

Countywide Policy #5420, "Overtime and Compensatory Time," Section 2.5.1 states, *"County Divisions, sections, or work units may develop policies consistent with this policy (#5420) as provided in Countywide Policy #1000."*

11.2 RECOMMENDATIONS:

We recommend that:

11.2.1 Fine Arts review their need for a special overtime policy, based on the unusual demands placed on their organization for hosting events.

11.2.2 Countywide policy and the Fair Labor Standards Act be strictly adhered to during times in which overtime is unavoidable.

11.3 Compensatory (comp) hours accrued by Fine Arts employees during 2002 totaled 536 hours, equivalent to approximately $9,053.

During the audit we examined total compensatory (comp) time accrued by Fine Arts employees for 2002. According to the County Payroll System, only two employees accrued comp time during the Olympics in February 2002. The Fiscal Manager accrued one hour of comp time and one of the Rose Wagner Stage Managers accrued 3.75 hours of comp time during February 2002. The Patron Services Manager accrued 91 hours of comp time, about 46 hours more than any other Fine Arts employee, during 2002 as shown in Figure 5, on page 106.

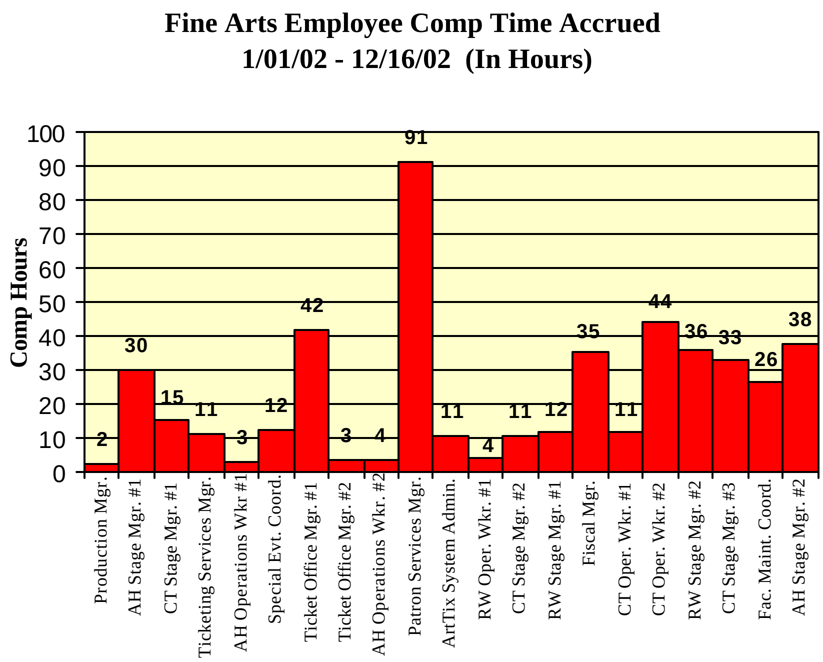

Figure 5. *The County Payroll System did not show any comp time accrued for the Event Managers, Accountant, or Community Arts Specialist during 2002.*

Countywide Policy #5420, Section 2.1 states, *"Covered employees must be compensated at time and one-half their regular rates for hours actually worked over 40 in a work-week. FLSA nonexempt/covered employees may be granted compensatory time off, in lieu of cash payment, for overtime hours worked at a rate of not less than one and one-half hours of compensatory time for each hour of overtime worked. Compensatory time will be preserved, used or exchanged for cash payment in accordance with this Policy and Procedure and with FLSA."*

The payroll data that we extracted did not report any comp time accrued by the Event Manager who claimed to work extra hours during the Olympics. The only compensation she received above her normal pay was $400 in overtime pay. However, we were unable to verify actual hours worked because comp time was not recorded on time sheets at Fine Arts.

11.4 RECOMMENDATION:

We recommend that:

11.4.1 ***Fine Arts implement a policy on comp time in line with countywide policy and the Fair Labor Standards Act.***

12.0 Continuing Audit Work at Fine Arts

In various sections of this report we have made recommendations that require the Auditor's Office to do additional work at Fine Arts. These recommendations are repeated here as a summarization of the content of the Auditor's on-going efforts, which essentially represent a second phase of this audit. If circumstances warrant, the scope of this second phase may be expanded.

- ***Representatives of the Auditor's Office, the Mayor's Office, and Fine Arts meet to identify and reach agreement on the specific content of the event settlement process, with a goal of ensuring that full-cost recovery of charges for non-tenant shows is consistently achieved. (See Recommendations 1.7.2 and 9.2.3)***

- ***The Auditor's and the Mayor's Offices undertake a joint effort to further identify the $100,738 of unreconciled items related to the Depository account. (See Recommendation 8.3.1)***

- ***The Auditor's and the Mayor's Offices jointly study the Fine Arts accounting system requirements and, based on their recommendations, make appropriate improvements. (See Recommendation 8.6.2)***

- ***The Auditor's Office undertake an independent confirmation of accounts receivable balances. (See Recommendation 8.10.2)***

- ***The Auditor's Office perform follow-up work on Fine Arts complimentary ticket issuance practices. (See Section 9.0)***

Introduction to Mayor's and Department's Comments

As stated in the report, a draft copy of our audit report was transmitted to the Mayor's Office on April 24, 2003. This Appendix contains the full-text of the Mayor's and Community Services' comments on the draft copy of this audit.

We have inserted our responses to their comments throughout the text of the comments. Most of our responses have been taken directly from the body of our final report, and include a reference indicating the section, page number(s), and, where possible the paragraph(s) on the page(s) on which the reference appears in the body of the final report. **Please note that, because of formatting changes required to facilitate the printing of this report, these references may not be completely accurate.**

Page number references in the Mayor's/Department's comments are related to the page numbering of the draft copy originally provided to them and, therefore, for the most part do not coincide with the page numbers of the final report. In addition, names that were included in the Mayor's/Department's comments have been replaced with titles. These replacement titles are bracketed in the text of the Mayor's/Department's comments.

Our responses, that are solely included as an insert to their comments, i.e. those that are not included in the body of the final report, are clearly referenced as such.

Three types of text appear in our responses to the Mayor's/Department's comments. These include:

Red text, which indicates language that did not appear in the draft copy provided to the Mayor's Office, which has been added, and is in our final report.

Black text that is lined through, which indicates language that was in the draft copy provided to the Mayor's Office, which has been deleted, and is not in our final report.

Black text, which indicates language that is unchanged and, therefore, is the same in both the draft copy and our final report.

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May 7, 2003

Craig Sorensen, Auditor
Salt Lake County Auditor

Dear Craig:

Thank you for the opportunity to respond to the "draft" audit prepared concerning the Salt Lake County Center for the Arts (Fine Arts).

We appreciate the findings and recommendations as displayed in the draft document received. As a general statement, we agree with the findings as they replicate and confirm the findings of the Mayor's internal review team. The recommendations are well received, and as often noted in the report, we have already begun the implementation of many of them. The process of implementing change in the Fine Arts Division will be on-going with close attention from the Department and Mayor's Office. We will continue to work with your staff and others in implementing the changes.

In this document we will provide our feedback on the draft. It is our expectation that these comments will be considered for adjustments in the final copy and/or will be available in the final report as our "response." We look forward to the opportunity to discuss this further with you and your staff.

Again thank you for the effort of the Auditor's team.

Sincerely,

David Marshall, Chief Administrative Officer
Salt Lake County Office of the Mayor

EXECUTIVE SUMMARY

The first paragraph is incorrect on the timing of the involvement of the District Attorney's Office. The District Attorney's Office was notified of possible problems in the Fine Art's Division prior to any determination to implement discipline on any employee. The Attorney was contacted to assist in determining methodology of review and because we desired to conduct the entire process under with the advice of the County District Attorney's Office. Movement of the Mayor's team into the Division and notice to the District Attorney's Office occurred virtually at the same time.

> **Auditor's response to Mayor's/ Department's's comment -** *Executive Summary, Page i, Paragraph 1.* This audit was initiated at the request of the District Attorney's Office, after they were asked by the Mayor's Office to assist in determining the methodology for a review, which they anticipated being conducted under the guidance of the District Attorney's Office. Our Office's understanding of the focus of this review was to determine appropriate disciplinary actions with respect to certain Fine Arts employees.

Mayor's/ Department's Comments continued…
The statement that the process was implemented because of the specific complaints of any employee is also incorrect. The Mayor's Office, as explained in our interview with the Auditor's staff, was uncomfortable with the responses we had received to our requests for information, the manner in which the Division Director and other employees reacted when information was requested, and the fact that we were concerned with the accuracy of the information. In fact, [the Fiscal Manager and Accountant's] initial responses to our requests were actually quite different than the information [the Accountant] later provided. [The Accountant's] initial responses were that [the Division Director] had directed that she and [the Fiscal Manager] respond as they had to our requests for information. She did not express concerns about the competence of the managers nor did she provide instances of mis-management. If anything, these initial responses led us to believe it was more a question of desire rather than competence in providing the information we had requested.

[The Mayor's Chief Administrative Officer] had approached the Mayor with these problems as known at that time and a determination had been made that "after the Olympics" we were going to do a more thorough review of the Division. As early as May 2002 plans were being prepared to move [a member of the Mayor's Office fiscal and budgetary team] into the review process. [The Mayor's Chief Administrative Officer and Chief Fiscal Officer] were specifically concerned with a feeling that the Division could not provide cash positions and five year projections of estimated budgets. Inability to project TRCC fund transfers required were of particular concern. Also, the Mayor's Office was specifically concerned with what was perceived to be attempts of the Division to be uncooperative with [the Director of Community Services] on management issues.

The letter from [the Ticketing Services Manager] and subsequent meeting with [the Mayor's Chief Administrative Officer] came after the review process had begun. [The Accountant's] expressions of concern through the Personnel Division were taken very seriously. However, the review was not a direct result of these employees complaints. These complaints, however, did provide a better frame work for what would be reviewed and that there was expedited need.

Auditor's response to Mayor's/ Department's comments - *Executive Summary, page i, paragraph 2.* According to subsequently issued disciplinary letters from the Community Services Department, ~~These actions~~ this review was ~~were~~ undertaken in response to allegations, made by a ~~some~~ Fine Arts employee, of fiscal irregularities at Fine Arts. As the Mayor's Office's review progressed, the District Attorney independently asked the Auditor to conduct a financial related audit. ~~were informed that the Mayor's Office had begun disciplinary actions against the Fine Arts Division Director and Fiscal Manager~~.

Introduction, page 1, paragraph 2, through top of page 3. …the Mayor's Office had initiated ~~disciplinary actions~~ a review, in response to reports and allegations, made to the Mayor's Office by ~~some~~ a Fine Arts employee~~s~~ on September 25, 2002. The employee alleged ~~of~~ improper use of Fine Arts financial accounts and the failure of Fine Arts management to follow Countywide policy regarding employee business meals. The District Attorney's representative also confirmed that the review of these allegations had resulted in disciplinary actions against the Fine Arts Division Director and Fiscal Manager.

The Director of the Community Services Department (Department Director) addressed a demotion letter to the Division Director, dated November 7, 2002, which sets forth the timeline of these events. The Department Director stated in her letter, "*On Wednesday, September 25, 2002 a formal verbal complaint regarding inappropriate fiscal and administrative practices in the Center for Fine Arts Division was presented to [the County's Employee Assistance Program Coordinator]. An employee made a complaint after several unsuccessful attempts were made to notify you of the seriousness of the financial problems within the organization. Due to the nature of the complaint, [the Employee Assistance Program Coordinator] notified me and a meeting was scheduled for Friday, September 27th.* ***<u>During this meeting it was decided that… [a member of the Mayor's Office fiscal and budgetary team], would conduct an internal review of the fiscal practices in the Center for Fine Arts Division</u>*** *[Emphasis added].*"

We concluded from the timeline set forth above that the Mayor's Office acted with dispatch in commencing their formal investigation of these matters on September 27, 2002, as a result of a specific complaint received from the employee, as outlined above.

The Department Director's letter goes on to state, "*On October 2, 2002 I met with you [the Division Director] to discuss your performance evaluation. At that time, we discussed my sense that I was continuing to face challenges with the fiscal practices of the division. Although I was unaware of the depth of the fiscal management issues, at the time of your evaluation, it is reported that you had been in contact with employees and heard their complaints, but did not include these in our discussions.* ***As you are aware, over the last year I discussed with you on multiple occasions concerns with fiscal management****. As a director, it is your responsibility to oversee fiscal operations and ensure compliance with all relevant county policies. Time and again, I was informed that matters upon which I inquired were being handled according to policy. I informed you that [a member of the Mayor's Office fiscal and budgetary team]* ***<u>would be conducting a review of the divisions fiscal practices</u>*** *[Emphasis added].*"

Simultaneous with the Division Director's performance evaluation on October 2, 2002, a letter was delivered to the County's Chief Administrative Officer in which a formal "whistle-blower" complaint was set forth by the Ticketing Services Manager. The allegations in the letter, likewise, added a degree of priority to the Mayor's Office efforts.

We reviewed this time-line with the representatives of the District Attorney's Office that were assigned to advise on these matters, and they confirmed the following:

- The first contact with the District Attorney's Office by the Mayor's Office was on September 27, 2002, as a result of the Fine Arts employee's complaint to the Employee Assistance Program Coordinator of the County.
- The Mayor's action to contact the District Attorney's Office and begin an "internal review of fiscal practices" was caused by this employee complaint.
- The District Attorney's Office was enlisted by the Mayor's Office to provide legal advice in addressing the employee complaint and any subsequent, potential personnel actions.
- During the course of the District Attorney's advice to the Mayor's Office, the District Attorney's Office representative participated in an ad-hoc group with the Mayor's Office staff, gathered to address Fine Arts problems. The District Attorney's representative became progressively aware of the expanding scope of fiscal irregularities, i.e. improper use of petty cash, improper cash advances to promoters, etc.
- Personnel actions did, in fact, result from findings regarding serious fiscal irregularities.
- The District Attorney's Office representative also took independent action to inform her Division Director of concerns of potential criminal activity. Thereafter, the District Attorney personally contacted the Auditor, and formally requested an audit.
- The District Attorney's Office representative confirmed that the Mayors Office and her staff were concerned about issues at Fine Arts as early as May 2002, but no action was taken by the Mayor's Office to initiate a formal review until September 27, 2002.

Mayor's/ Department's Comments continued…

In your statement of factors contributing to the problems, you note the "assumption that incumbent division directors, including the Fine Arts Director, possessed adequate fiscal and supervisory skills." As you are aware, the Fiscal Manager possesses a Master's Degree in Accountancy. The Division Director had decades of experience including supervisory responsibility in the Division. The Division Director was also in the process of receiving a Master's of Business Administration. The audit later references the "untested" assumption that these people had the necessary skills to be in their positions based on education and experience. While the word "untested" would infer a negative finding, it should be noted that there are a significant number of Divisions and many more Sections within the Mayor's portfolio. Personnel evaluations were reviewed by the incoming Department Directors. Meetings were conducted with Division Directors by the Department Directors and the Mayor's Office staff. The Merit system does not allow the Mayors Office to choose who the Division Directors are when a transition in Office takes place. It becomes a process of assessing skills and abilities. The incumbents should be qualified, based on the merit system, to be in the position they are in. This is not an untested assumption. It is the reality of County government as defined by State law. We worked with the Division and its personnel and attempted to assist, mentor, and train. When those activities were insufficient more aggressive actions were prepared.

Auditor's response to Mayor's/ Department's comments –*Executive Summary, "contributing factors," page ii, fourth full paragraph.* Mayor's Office ~~organizational decisions related to fiscal and budgetary functions, which were influenced by the~~ understandable assumption that incumbent division directors, including the Fine Arts Director, possessed adequate fiscal and supervisory skills. – The Mayor's Office relied on the merit system's presumption that incumbent division directors possessed fiscal and budgetary competency, until proven otherwise. Unfortunately, this initial, understandable presumption contributed to the continuing breakdown of effective financial controls.

Mayor's/ Department's Comments continued…
Page iii states that a journal entry has been prepared. That is correct. We have worked within the Division to reduce costs and will present a budget adjustment in June. It is our thought, and I have mentioned this to [the Auditor's Office Director of Management and Budget], that we could make a preliminary adjustment in June with a final adjustment in the November budget setting based on actual TRCC fund required for FY 2003.

Auditor's response to Mayor's/ Department's comments – (***Not included in the main body of the report.)*** *Statement by the Director of the Management and Budget Division within the Auditor's Office.* During a recent discussion with …the Mayor's Chief Administrative Officer, he stated that a year-end budget adjustment would be necessary for the Fine Arts budget in November. I indicated that if the 2003 ending fund balance for the Fine Arts Fund is projected to be in a deficit position and is reported as such in the Fund Summary prepared for the June Budget re-opening, then a budget adjustment would be needed then. The County cannot legally adopt a budget for a fund if the ending fund balance is projected to be in a deficit position.

Mayor's/ Department's Comments continued…
We appreciate the recognition on page iii that the Depository account reconciliation has been conducted by the Mayor's Office. However, through most the text of the audit there is little recognition given to the fact that the cooperative effort included many other areas. Many of the items noted in the audit were initiated and presented to the audit team by the Mayor's Office team. This is simply a result of the fact that the Mayor's team was present prior to the Auditor's team. We do recognize the work the Auditor's team has done and acknowledge their great efforts. Nonetheless, we believe it is an important omission from the Executive Summary.

Auditor's response to Mayor's/ Department's comments – *Executive Summary, page iii, second full paragraph through paragraph 4.* We note the fact that, in conducting their review, representatives of the Mayor's Office undertook an investigation of fiscal irregularities and had identified certain breakdowns of internal financial controls. Among their discoveries were noncompliance with petty cash policy and procedures, improper accounting for and reconciling of receivables, untimely submission of financial reports, inadequate separation of duties, inadequate budget disbursement controls, and lack of reconciliation between the in-house accounting system and the County's Advantage Financial (AFIN) system. We acknowledge their initiative, cooperation and assistance in our audit efforts.

However, except for a joint effort to resolve the complexities of the Fine Arts Depository account, related accounting system problems and revenue reporting misclassifications, both parties performed their work independently. Our audit procedures, including tests of transactions, were carried out independent of the investigation undertaken by representatives of the Mayor's Office.

While we did engage in informal discussions with the Mayor's Office representatives to clarify issues, we were not furnished with, nor did we review, the initial findings of the Mayor's Office representatives prior to the undertaking of our audit procedures. Many of our findings parallel and validate initial discoveries made by the Mayor's Office representatives, of which we were not substantially aware until our fieldwork was completed. Our findings expand on their discoveries and we encountered additional fiscal irregularities. They, in turn, examined areas that our audit did not, such as proper authorization of event contracts and other areas.

Scope and Objectives, page 4, bottom paragraph, through first 2 full paragraphs on page 5. As previously noted, representatives of the Mayor's Office undertook their own investigation of fiscal irregularities and had identified certain breakdowns of internal financial controls. Among their discoveries were *noncompliance with petty cash policy and procedures; inaccurate accounting for, and reconciling of receivables; untimely submission of financial reports; inadequate separation of duties; inadequate budget disbursement controls; and lack of reconciliation between the in-house accounting system and the County's Advantage Financial (AFIN) system.* We acknowledge their cooperation in our audit efforts. We also commend them on their diligent efforts to examine and correct control weaknesses as they were identified.

However, except for a joint effort to resolve the complexities of the Fine Arts Depository account, related accounting system problems, and revenue reporting misclassifications (see Section 8.0), both parties acted independently. Our audit procedures, including tests of transactions, were carried out independent of the investigation undertaken by representatives of the Mayor's Office. During the course of our audit work we did engage in informal discussions with the Mayor's Office representatives to clarify issues of mutual concern. However, we were not furnished with, nor did we review, the initial findings of the Mayor's Office representatives prior to the undertaking of our audit procedures.

Many of our findings parallel and validate initial discoveries made by the Mayor's Office representatives, of which we were not substantially aware until our fieldwork was completed. Our findings often expand on their discoveries and we encountered additional fiscal irregularities. They, in turn, examined areas that our audit did not, for example, proper authorization of event contracts. When requested by the Mayor's Office, in a letter dated December 10, 2002, to provide a formal progress report of our findings, we declined, in a further effort to maintain our independence in investigating these matters. Those interested in knowing the findings developed by the Mayor's Office prior to the commencement of our audit can examine the letters of demotion issued by the Community Services Director on November 7 and 8, 2002.

Mayor's/ Department's Comments continued…

On page iv, there is a statement that "it appears" that an event settlement statement was altered. Our finding is that the statement was altered. This is one of the actions that has resulted in the disciplinary actions that have been taken.

Auditor's response to Mayor's/ Department's comments – *Executive Summary, page v., third major finding.*

Consolidated finding - We identified approximately $9,500 worth of food and/or meals that were purchased either without proper authorization or otherwise inappropriately. …In another instance, ~~On another occasion, it appeared as if~~ an Event Settlement Statement was altered to indicate that the County had been reimbursed for purchases of food when, in fact, no such reimbursement was made.

Mayor's/ Department's Comments continued…
Also, on page iv there is a statement that drawing checks made out to individuals on the settlement account "should be discontinued." This practice was halted and corrected by the Mayor's Office staff prior to the receipt of this draft audit. Please make that correction.

Auditor's response to Mayor's/ Department's comments – *Executive Summary, page v., fourth consolidated finding.*

Large-dollar-amount event settlement checks, made payable to Fine Arts employees or to "cash," were used to pay cash settlements to entertainers or event promoters, without adequate controls in place.…The practice of making checks, drawn on the Settlement account, payable to employees has been ~~should be~~ discontinued ~~immediately~~. ~~In addition~~, However, a policy regarding payment of cash settlements to promoters, that outlines necessary controls, should still be developed and followed.

Findings and Recommendations, Action Taken, page 40, Section 1.2.

1.2 ACTION TAKEN:

1.2.1 Fine Arts has discontinued the practice of making checks drawn on the Settlement account payable to County employees.

Mayor's/ Department's Comments continued…
On page v it states the Auditor and Treasurer were not informed of the establishment of checking accounts by the Division. This should be corrected to reflect that neither the Department nor the Mayor's Office, in addition to those two offices, were informed.

Auditor's response to Mayor's/ Department's comments – *Executive Summary, page vi, first major finding, third paragraph.* Because ~~this~~ these procedures were ~~was~~ not followed in establishing these accounts and increasing the change funds, the Treasurer's and Auditor's offices were not aware of their existence/increase until our audit. Moreover, neither the Community Services Department nor the Mayor's Office was given notice of the establishment of the accounts or the imprest fund increase…

Mayor's/ Department's Comments continued…
Page vi contains a section dealing with Travel and GSA. It is clear in the County Policies and Procedures that the GSA guidelines are used to determine an advance payment. It is not meant to assert a limit of expenditure for specific per diem charges. The County has established a reconciliation process for each travel expense based on actual expenditures. This results either in a refund by the employee of advanced funds or an additional payment to the employee. The amounts advanced and the reconciliation that takes

place does so with the involvement of the Salt Lake County Auditor's Office. The subsequent section dealing with travel attempts to review why a specific cost might occur on a specific day in Las Vegas for example. The men's basketball tournament, in reality, would probably be one of the least influencing factors in that city. The hotel rates vary considerably based on a number of factors. We do not believe the speculation in the audit is sufficient to document this finding.

> **Auditor's response to Mayor's/ Department's comments** *Executive Summary, bottom of page vii through top of page viii.* ***~~Travel advance payments received by~~ The actual travel expenditures of some Fine Arts employees ~~for per diem~~ exceeded GSA guidelines~~, or were not computed accurately~~***. The Patron Services Manager and Division Director spent a total of $958 more on hotel rooms than the published GSA rates on four trips they made during 2001, three by the Division Director and one by the Patron Services Manager. In addition, the Division Director requested and received one more day's worth of per diem for meals and other expenses than she should have for each of her three trips, resulting in $450 of overpayments.
>
> ~~The~~ Community Services Department management should closely monitor travel expenditures to ensure that they are reasonable~~,~~ and appropriate~~, and that the per diem is within GSA guidelines~~. Although GSA standard is the guideline for the amount of the travel advance, it should also act as a benchmark for determining the reasonableness of actual travel expenditures.
>
> **See also auditor's response on page 32 of this appendix.**

Mayor's/ Department's Comments continued…

INTRODUCTION

In the first paragraph it states the District Attorney's Office knowledge "apparently" developed as result of contact from the Mayor's Office. This is a curious use of the word. The Mayor's Office notified the District Attorney's Office.

> **Auditor's response to Mayor's/ Department's comments –***Introduction, page 1, paragraph 1.* We have recently completed an extensive financial-related audit of the Salt Lake County Center for the Arts Division (Fine Arts). This audit was initiated in mid-November, at the request of the District Attorney, after they were informed of possible fiscal irregularities at Fine Arts. The District Attorney's Office~~'s knowledge~~ became aware of this situation after they were asked by the Mayor's Office to assist in determining the methodology for a review. Our Office's understanding of the focus of this review was that it was conducted to determine appropriate disciplinary actions with respect to certain Fine Arts employees. The Mayor's Office anticipated that the review would be conducted under the guidance of the District Attorney's Office. ~~apparently developed as a result of the Mayor's Office requesting legal counsel regarding soon-to-be commenced, disciplinary personnel actions against the Fine Arts Division Director and Fiscal Manager.~~

Mayor's/ Department's Comments continued…

In paragraph two, the audit notes that the Mayor's Office did not report the irregularities it was reviewing with the District Attorney's Office. That is incorrect. This was in essence the entire nature of our communication. Virtually every step taken by the Mayor's Office was in complete discussion and coordination with [a representative of the District Attorney's Office]. The inaccuracy of this statement cannot be stated in strong enough terms. No decisions were made without direct discussion of the on-going nature of the review.

> **Auditor's response to Mayor's/ Department's comments –***Introduction, page 3, paragraph 1.* It should be noted that the Mayor's Office did not directly report these financial irregularities to ~~either the District Attorney's or~~ the Auditor's Office. However, the Mayor's Office proceeded under Countywide Policy #1310, "Discovery and Reporting of Non-Criminal Wrongdoing," and thus was not compelled to report. It was from this context that we began our audit, with the primary objective of determining whether any fiscal irregularities had occurred and, if so, the nature and extent of those irregularities. ~~determining the existence and condition of financial controls.~~

Mayor's/ Department's Comments continued…

BACKGROUND

Page 3 includes a discussion of Y2K issue. This seems to be a little out of place in the audit. Nonetheless, the finding is partially incorrect. The County IS Division, in cooperation with the organizations, conducted an analysis of equipment and software. The Fine Arts division had one component of their system that did not comply. The vendor actually provided an updated software version that functioned properly.

> **Auditor's response to Mayor's/ Department's comments –***Background, page 6, bullet 6.*
>
> - **Despite the national attention given to Y2K compliance during late 1999, ~~neither the Fine Arts Director nor the Community and Support Services Fiscal Manager provided support or solutions to~~ the new Fiscal Manager received inadequate support to ensure Y2K systems compliance.**
>
> **See also auditor's response on page 17 of this appendix.**

Mayor's/ Department's Comments continued…
Also, on page 3 comments on the "untested assumption" have been previously noted.

> **Auditor's response to Mayor's/ Department's comments –** *Page 21, Section ix, heading.*
>
> **ix. The Community Services Department management's ~~untested~~ assumption and expectation regarding the Fine Arts Director's fiscal and budgetary oversight capabilities, in combination with the impact of the 2002 Winter Olympic events on the Director's focus, allowed the further deterioration of internal fiscal and budgetary controls.**
>
> *Section ix, page 21, paragraphs 3 through 4.* They explained that they were acting on the assumption that the Division Director was capable of supervising fiscal and budgetary matters due to her lengthy tenure at Fine Arts. This may have been bolstered, as noted in

the Mayor's/ Department's response, by the fact that during the time period covered by our audit, the Division Director was pursuing course work toward an MBA. Finally, they point out that the Mayor's Office relied on the merit system's presumption ~~presumed~~ that incumbent division directors possessed fiscal and budgetary competency, until proven otherwise. The merit system, defined in State statute, governs the assessment, treatment and retention of County employees.

In fairness, we acknowledge, that the Mayor's Office inherited the substance of the Fine Arts' "problem" when she took office in January 2001. This included unqualified personnel and the absence of controls and procedures, together with a lack of effective oversight. Unfortunately, the ~~erroneous assumptions made by~~ Community Services managers reliance on ~~regarding~~ the Division Director's fiscal and budgetary competency contributed to ~~fostered~~ the continuing ~~near-complete~~ breakdown of effective financial controls thereafter.

Mayor's/ Department's Comments continued…

The Olympics did not have an impact on the practices of the Division. Those were well entrenched. The Olympics did play a role in the timing of when those practices would be discovered by the Mayor's Office review team.

Auditor's response to Mayor's/ Department's comments – *Background, Section ix., page 22, middle of second paragraph.* … The hyper-activity around hosting out-of-town visitors and dignitaries put pressure on controls of day-to-day functions, like petty cash and purchasing management. These factors caused these areas to spin further out of control, and provided an array of challenges to an already unfocused Fiscal Manager. *In the Mayor's Office response to our audit, they dispute the characterization of the impact of the Olympics on Fine Arts practices, claiming these practices were "well entrenched."* We do not dispute that the practices had long existed. Our observation was that Countywide fiscal policies and procedures were further overlooked due to the activity and volume of transactions surrounding these events.

Mayor's/ Department's Comments continued…

Page 4 introduces [the former portfolio-managing Commissioner] into the discussion.. References will continue in subsequent pages. Either [the Mayor's Chief Administrative Officer] in his discussion with the audit teams did not accurately portray his feelings on the nature of [the Commissioner's] involvement or the audit team has overstated that which he tried to say. For purposes of clarification we request the audit be altered to reflect the following:

[The Commissioner] <u>did not</u> direct the day to day activities of [the former Fiscal Manager of Community and Support Services]. [The Commissioner] <u>did not</u> prohibit [the former Fiscal Manager of Community and Support Services] from performing any portion of his duties in respect to the Fine Arts Division. What should be reflected in the review is that [the former Director of Community and Support Services] expressed frustration to [the then Associate Department Director] that [the Division Director] often attempted to go around [the Director of Community and Support Services] with direct contact to [the Commissioner's Administrative Assistant] or [the Commissioner]. This was often successful in inhibiting [the Director of Community and Support Services'] ability to work with [the Division Director]. [The Director of Community and Support Services] expressed concern to [the Associate Department Director] that this did not allow her to fully believe she had the ability to do the things she desired to do as a manager. These items <u>did not</u> include discussions of accounting irregularities. They were most often policy and direction implementation. [The Associate Department Director] speculated that this might have had a dampening effect on further managerial efforts. At no time did [the Commissioner] fail to act or prevent action on accounting irregularities. In response to the work priorities issue, there were projects during this period that were very important to [the Commissioner]. These included the ZAP bonding and construction process. The expansions at the Salt Palace and the construction of Southtowne. There were issues with MBA bonds for the acquisition of South Mountain which also included components of Sheriff's facilities. [The former Fiscal Manager of Community and Support Services] and [the Associate Department Director] were well aware of the importance of these issues and they consumed a very large portion of time especially for [the Fiscal Manager of Community and Support Services]. As noted in the discussions with the Auditor, [the Fiscal Manager of Community and Support Services] was not supported with the type of infrastructure and resources he currently has under the new form of government [as the County's Chief Fiscal Officer]. The knowledge of the importance of the issues led to their prioritization, not any specific direction to avoid issues in the Fine Arts Division. In fact, many issues were being discussed with Fine Arts, some are specifically noted in your draft audit. Also, many of these items were discussed with members of the Auditor's staff. Please make the appropriate adjustments.

> **Auditor's response to Mayor's/ Department's comments** *Background, Section i., page 7, bottom paragraph through top of page 8.* The fiscal and budgetary functions of Fine Arts were the responsibility of the Fine Arts Accountant. ~~Under the~~ On its face, the Department's ~~County's~~ organizational structure would suggest that the Accountant would have ~~apparently~~ received at least dotted-line guidance and technical assistance ~~supervision~~ from the Fiscal Manager of Community and Support Services (Department Fiscal Manager). However, our further inquiries determined that the Department Fiscal Manager's priorities were focused on ~~attention was directed to~~ project management and bonding issues relating to the rapid expansion of Fine Arts and other County facilities. The Department Fiscal Manager characterized to us, during our interviews, that he carried out duties related to the priority projects of ~~as assigned by~~ the portfolio-managing Commissioner. These priorities *"consumed a very large portion of time especially for the [Department Fiscal Manager],"* according to the Mayor's Office response to our audit. ~~duties did not include~~ ~~direct supervision of the accounting staff at Fine Arts~~.
>
> In our interview with the Commissioner, he asserted that his priorities were not intended to, and did not, in his view, prevent the Department Fiscal Manager from dealing with fiscal problems at Fine Arts. The Commissioner further stated that he always assumed the Department Fiscal Manager dealt with oversight matters as required by his stated duties and responsibilities. In the Mayor's Office response to our audit, they asserted that the Department Fiscal Manager was not supported with the "*type of infrastructure and resources he has under the new form of government."* The structure of the Fiscal oversight both before and after the new form of government is discussed in greater detail in Section xi.

Mayor's/ Department's Comments continued…
Page 5. The report makes reference to competency of Division Directors under the new form of government. We do not desire to infer that this was not an expectation under the Commission form of government. It was stated specifically in the context of how the Mayor's Office has approached replacing departing Division Directors in the new form. We have chosen to install managers over Divisions more for these skills than a specific Division mission practitioner background. For example, the Health Director is not a Doctor, the new Library Director does not hold a Masters of Library Sciences degree.

We try to apply a balanced evaluation criteria. Again, this was not to infer that previous Division Director's were not expected to possess these skills.

Auditor's response to Mayor's/ Department's comments, *Background, Section ii, page 9, third full paragraph.* It is our observation that under the Commission form of government ~~Historically, many~~ division directors were selected for their technical operational expertise, and in certain cases were not required ~~expected~~ to demonstrate administrative, fiscal and budgetary competency. However, according to the former Community and Support Services Assistant Director (who is now the Mayor's Chief Administrative Officer), ~~since the change in the form of government from Commission to Council/~~ the Mayor's Office expects division directors ~~are expected~~ to have competency in administrative, fiscal and budgetary matters. In fact, the Mayor's Office response to our audit states that they have *"chosen to install managers over divisions more for these skills [budgetary and fiscal] than a specific division mission practitioner background. For example, the Health Director is not a doctor, the new Library Director does not hold a Masters of Library Sciences degree."* ~~this is one of the major initiatives of the Mayor's Office.~~

Mayor's/ Department's Comments continued…
Page 7. Please delete [the Commissioner] element per previous narrative. [The Commissioner] did not closely supervise [Department Fiscal Manager's] day to day activity.

Auditor's response to Mayor's/ Department's comments, *Section iv., page 11, bottom paragraph through first 2 paragraphs on page 12.* The Department Fiscal Manager asserted to us during our interviews that he had a sense that the new Fine Arts Fiscal Manager's qualifications were suspect when he asked her questions about governmental fund accounting and in his words, "she flopped." Whatever concerns he, the person best qualified to assess her technical skills, may have expressed to the Selection Committee went unheeded. She was hired. His further expression of concern to the Community and Support Services Director (Department Director) ~~apparently~~ was not acted upon. ~~due to the portfolio-managing Commissioner's insistence on providing autonomy to the Division Director. The then Community and Support Services Assistant Director (now Mayor's Chief Administrative Officer) indicated to us that the Commissioner tended to marginalize the Department Director's management input and override her and the Department Fiscal Manager in favor of the Division Director. This approach of isolating the Department Director and Department Fiscal Manager from fiscal matters at Fine Arts was a pattern of action that may have discouraged the Department Fiscal Manager from taking critical corrective action when he may have sensed that fiscal matters had gotten out of control.~~

Some guidance as to why the Department Fiscal Manager's warnings and concerns were ignored is provided in the response from the Mayor's Office. They state "*…[the Department Director] expressed frustration to [the then Associate Department Director] that [the Division Director] often attempted to go around [the Department Director] with direct contact to [the Commissioner's Administrative Assistant] or [the Commissioner]. This was often successful in inhibiting [the Department Director's] ability to work with [the Division Director]. [The Department Director] expressed concern to [the Associate Department Director] that this did not allow her to fully believe she had the ability to do the things she desired to do as a manager. These items did not include discussions of* *accounting irregularities. They were most often policy and direction implementation. [The Associate Department Director] speculated that this might have had a dampening effect on further managerial efforts. At no time did [the Commissioner] fail to act or prevent action on accounting irregularities."*

Thus, the Mayor's Office characterization of the "dampening effect" may be applied to explain why the Department Fiscal Manager's warnings to the Selection Committee and further expressions of concern to the Department Director, regarding the candidate's lack of governmental accounting knowledge, were ignored.

~~We further learned during interviews with the Mayor's Chief Administrative Officer, that the Commissioner's management style was to focus staff effort on projects of high priority to him. thus limiting personal initiative~~. ~~Indeed, the Commissioner closely directed the Department Fiscal Manager's day-to-day activities.~~ ~~In hindsight, the unintended consequence of this management style was to insulate Fine Arts from corrective action regarding fiscal and budgetary problems occurring there.~~

Mayor's/ Department's Comments continued…
Page 8. Again, as stated, [the Department Fiscal Manager] did not provide day to day supervision to all Division fiscal personnel within the Department prior to the change of form nor to all the Division fiscal personnel within the Mayor's portfolio now. That is an assignment of the Division Director. However, we are in agreement with the fact that the selection of this individual as Division Fiscal Manager did prove to be a problem and that it is now apparent that additional scrutiny of work product was needed at the Division level and/or Department level.

Auditor's response to Mayor's/ Department's comments, *Section iv., page 12, third and fourth full paragraphs*. The history of the Fiscal Manager's selection process is necessary to set the stage for a breakdown in the day-to-day fiscal and budgetary operations of Fine Arts over the next 36 months (August 1999 to August 2002). More disturbing is the fact that this breakdown occurred due, not only to the Fiscal Manager's lack of technical accounting skills, but also due to the Department Fiscal Manager's limited ~~exclusion from~~ ~~direct~~ technical oversight due to the organizational structure and his focus on other priorities. This left direct supervision solely to the Division Director, who lacked competency in these areas.

In fact, our examination of the oversight structure at the time, leads us to conclude that placing full responsibility on the Division Director was the intent of the organizational design. However, the Division Director did not take an active role in assessing the Fiscal Manager's abilities or providing effective transitional training. [Moved up from original section v., end of paragraph 5.] Furthermore, ~~In addition~~, the Division Director ~~had an apparent lack of appetite for oversight of~~ lacked the skill, and failed to demonstrate the necessary initiative to effectively oversee budgetary and fiscal functions at Fine Arts. The Department Fiscal Manager's limited level of technical oversight was the result of the County's structure and attendant job descriptions, as will be discussed in Section xi.

Mayor's/ Department's Comments continued…
Page 9. Authority and support of [the Commissioner] is incorrectly stated. The word apparent is used several times in this paragraph. [The Fiscal Manager of Community and Support Services] did not do day to day supervision or sampling of financial practices. [The Fiscal Manager of Community and

Support Services] conducted Fiscal Manager meetings. He worked with the staff on a number of issues. Some of these issues involved the Auditor's Office. It should also be noted, that on many occasions the response to [the Fiscal Manager of Community and Support Services] inquiries were that the personnel were working with [the Director and the Associate Director of the Accounting and Operations Division] of the Auditor's Office on this. The audit presents information that seems to support there were some attempts to work with the Auditor's staff by the Division personnel.

Auditor's response to Mayor's/ Department's comments

Section v., heading, top of page 13.

v. The Fiscal Manager of Community and Support Services may have been aware of the new Fiscal Manager's ineptness, but ~~was precluded from taking~~ due to the organizational structure and his focus on other priorities, did not take action to develop, train or hold her accountable. The unintended consequences included ~~was~~ continued and compounded errors in the reconciliation of the Fine Arts Depository account, an account through which $6 to 8 million passes annually.

Section v., top of page 14, three paragraphs. ~~Given the~~ The Department Fiscal Manager~~'s lack of authority and support from the~~, as previously stated, focused on the priorities and projects of the Commissioner. This may have limited his time ~~in matters relating to Fine Arts fiscal matters, he may have been frustrated in~~ ~~his attempts~~ to deal substantively with Fine Arts fiscal matters ~~these problems~~. ~~So apparently,~~ During our interviews with the Department Fiscal Manager, he stated that ~~from this point on~~, he rarely ~~never~~ engaged himself in day-to-day fiscal matters, such as examining the Depository or Event Settlement account reconciliation. Likewise, he never held regular meetings with the Fiscal Manager, or questioned her about her progress, and only met with her to review her cash-flow projections during the budget preparation period in the Fall. She did attend monthly Fiscal Manager meetings hosted by him and received some training in those settings.

As stated in the Mayor's Office response and as acknowledged in other sections of this report, the Department Fiscal Manager "*worked with the staff on a number of issues,*" including the correction of a $1.25 million revenue recognition error, as will be discussed shortly. We note here that the job description for the Department Fiscal Manager merely required that he "*coordinate with division directors to establish fiscal priorities, goals, and objectives; **provide technical assistance to divisions as requested** [Emphasis added].*" Thus, the Department Fiscal Manager was not compelled by the provisions of his job description to be proactively involved in the day-to-day fiscal operations of Fine Arts.

The Mayor's Office response indicated that the Division Fiscal Manager also gave assurances that she was working on problems with the Director and the Associate Director of the Accounting and Operations Division of the Auditor's Office. We verified that the Auditor's Office provided assistance in fiscal matters when requested by the Division Fiscal Manager. However, the Director and the Associate Director of the Accounting and Operations Division have never had responsibility for supervision of the Fine Arts Fiscal Manager. They do recall occasions when they acted as technical resources in meetings with the Fiscal Manager and answered her questions. *All substantial problems presented by the Division Fiscal Manager to the Accounting and Operations Division of the Auditor's Office, during the period relevant to this audit, are discussed in this report.*

Section v., Page 15, starting with second full paragraph. The Auditor's review of reconciling ~~iation~~ items consists of comparing the Treasurer's record of cash in the Fine Arts Fund, to the Auditor's AFIN Fine Arts Fund-cash. (*This process is in no way to be construed as an independent reconciliation of these cash balances. The Auditor's Accounting and Operations Division has never had the responsibility to reconcile the Fine Arts depository account.*) Therefore, if both the Treasurer's Fine Arts Fund cash balance, and the Auditor's AFIN Fine Arts Fund-cash balance were journal vouchered with identical, yet erroneous amounts, no reconciling item would appear. As a result, ~~Therefore~~ only the $1.25 million posting error was detected by this process prior to our audit.

Mayor's/ Department's Comments continued…

Page 9 fourth paragraph. [The Mayor's Office fiscal personnel assigned to troubleshoot fiscal problems at Fine Arts] has asked that the sentence beginning with "However" should be altered to read: However, the entry was only corrected in the Auditor's Advantage Financial Accounting System (AFIN) record, but not in the Treasurer's Depository cash balance.

Auditor's response to Mayor's/ Department's comments – *Section v., top of page 15.* The $1.25 million entry was discovered by the Auditor's Accounting Section when it appeared as a "reconciling item" on the Auditor/Treasurer Cash Reconciliation for the Fine Arts Fund during May 2000. The Auditor's Office staff accountant, charged with reviewing reconciling items, caught the error and brought it to the Fiscal Manager's attention. The discovery of the $1.25 million posting error was the result of the Fiscal Manager's attempt to correct the error. However, she only corrected the Auditor's Advantage Financial Accounting System (AFIN) record, but did not correct the error on the Treasurer's Depository cash balance. Thus, a reconciling item appeared during the Auditor's normal review process. The journal voucher correcting the $1.25 million error on the Treasurer's ledger was made in October 2000.

Mayor's/ Department's Comments continued…

Page 11. Refer to previous narrative on software and Y2K. The company that was doing Pacioli was providing support and did provide an update on the software. The company later went out of business.

Auditor's response to Mayor's/ Department's comments *Background, Section vi, top of page 17, full section.*

vi. Despite the national attention given to Y2K compliance during late 1999, ~~neither the Fine Arts Director nor the Community and Support Services Fiscal Manager provided support or solutions to~~ the new Fiscal Manager received inadequate support to ensure Y2K systems compliance.

Complicating matters further was the specter of Y2K compatibility of the Fine Arts general ledger software, Pacioli. The County's Information Services Division's survey of Y2K issues assigned the solution for this division-level application to in-house, Fine Arts

Division information systems personnel, with the expectation that they would contact the vendor for an appropriate solution. This contact apparently did not happen prior to the end of 1999.

~~When~~ On January 1, 2000 ~~approached,~~ the Y2K incompatibility of the Pacioli software became a critical issue. ~~was not only Y2K incompatible~~, ~~but was also no longer updated or supported by the developer, or any third party~~. The Fiscal Manager brought the problem to the attention of the Department Fiscal Manager, but no action resulted ~~was taken~~. Thus, after 2000 commenced, a rush to find a fix was undertaken and achieved, through an update from the developer sometime in March, with support from Fine Arts Information Services personnel. However, the time consumed~~, no doubt,~~ put the accounting further behind. ~~and the fix on the software system was only a band-aid solution~~. After resolving the Y2K problem, Pacioli was no longer updated or supported by the developer, or any third party.

Mayor's/ Department's Comments continued…

Page 13. The statement that [the former Fiscal Manager of Community and Support Services and current County Chief Fiscal Officer] was told that these would be resolved in due time is incomplete. [He] was specifically told that the Fine Arts Division was working with the Auditor's staff on this reconciliation.

Auditor's response to Mayor's/ Department's comments *Background, page 19, Section viii., paragraph 1.* The Department Fiscal Manager noted this consistent shortfall in the revenue transfer, compared to budgeted projections, when he reviewed the five-year cash flow projections with the Fiscal Manager and the Division Director. However, the Department Fiscal Manager stated that he did not get directly involved in reconciling the Depository account or in the event settlement process. When the Department Fiscal Manager voiced concerns about these matters to the Director of Community and Support Services or to the Division Director, he was told that these issues would be resolved in due time. According to the Mayor's Office response, he was also told that "*the Fine Arts Division was working with the Auditor's staff on this reconciliation.*" (Also, see our comments on page 15 concerning the role of Auditor's Office in the reconciliation process).

Mayor's/ Department's Comments continued…

Please delete reference to [the Commissioner]'s impact on "freedom" or management style.

Auditor's response to Mayor's/ Department's comments *Background, page 19, Section viii., paragraph 2.* The failure of the Division Director to request the assistance of the Department Fiscal Manager coupled with his lack of proactive involvement ~~The Department Fiscal Manager's lack of engagement~~ in Fine Arts fiscal and budgetary matters, ~~as previously stated, may have been caused by the freedom of action denied him under the Commissioner's management style. The impact spread to, and adversely affected other parts of the~~ allowed serious fiscal problems to go uncorrected ~~operations of Fine Arts,~~ as detailed in the remainder of this report. ~~But, perhaps~~ To an equally significant degree, this lack of oversight contributed to a tense and mistrustful atmosphere that has adversely impacted the morale of Fine Arts employees.

Mayor's/ Department's Comments continued…

Page 14. Paragraph 2 does not accurately reflect the situation with the "nothing" was done statement. This at a minimum, should reflect that previous efforts in 1999 to correct the problem had not resulted in satisfactory results. As noted in the Audit there was considerable activity from a number of Offices regarding the issues.

> **Auditor's response to Mayor's/ Department's comments –** *Background, Section v., top of page 16, middle of paragraph.* According to her day-planner entry of February 15, 2000, the Assistant Accountant, who was still working in the accounting group at this time, claims to have called both the $1.25 million and the $251,000 posting errors to the Fiscal Manager's attention, and to have also discussed the matter with the Division Director.~~to no avail~~.
>
> As previously noted, the Division Fiscal Manager prepared a partial journal voucher in February of 2000 to correct the $1.25 million error for the December accounting period. This journal voucher only corrected the error in the County's AFIN system, but not on the Treasurer's ledger. Perhaps this correction attempt was made as a result of the Assistant Accountant bringing this matter to the attention of the Fiscal Manager. When asked about this, *the Division Director denied that the Assistant Accountant ever reported this error or discussed it with her. No staff member at Fine Arts independently confirmed the Assistant Accountant's record on this matter.*
>
> *Background, Section vii, page 17, last paragraph.* Buried in backlogged work, the Fiscal Manager unwittingly committed another significant posting error. The journal vouchers to record the cash transfer of "net revenue" from the Depository account in the months of January, February, and March 2000, totaling $312,916, were not only recorded and transferred for those months, but also included in the cash transfer of "net revenues" for May 2000. This error, like the previous one, went undiscovered and uncorrected until our audit. The error might have been detected in the Auditor's reconciliation of the AFIN cash balance to the Treasurer's Fine Arts Fund –cash balance, had the Fiscal Manager attempted to correct the error in the way she did with the $1.25 million error, as previously discussed. But, she did not submit a similar, one-sided correcting entry ~~took no action~~.
>
> *Section viii, page 20, second full paragraph.* As previously stated, the Assistant Accountant's notes also indicate that she brought the duplicate revenue entries of $1.25 million and $251,000 to the attention of both the Fiscal Manager and the Division Director, during February 2000. Neither of these errors was investigated ~~Nothing was done to resolve the matter~~ until May 2000, when the $1.25 million error was discovered by the Auditor's Office. *The Division Director denies that the Assistant Accountant reported these errors to her.*

Mayor's/ Department's Comments continued…

The statement on budget requires correction. This should be altered to reflect that [the Department Fiscal Manager] was working on issues he knew were of importance to the Commissioner, not that he was being directed to neglect the other issues. It is an allocation of time and resource issue not a direct involvement by [the Commissioner].

Auditor's response to Mayor's/ Department's comments *Section viii, page 20, fourth full paragraph.* The Department Fiscal Manager's involvement with these issues was negligible by his own admission, his priorities being focused on ~~time being directed by the portfolio-managing Commissioner~~ ~~toward~~ budgetary matters, and project management related to completion of Rose Wagner Phase II, the South Town Convention Center, the County Emergency Operations Center and the new Adult Detention ~~Corrections~~ Center.

Mayor's/ Department's Comments continued…
Page 15. The change in form of government did not have an "immediate" impact on supervision of Division personnel. However, increased efforts at accountability were initiated and requests for information intensified. We believe that demand for accountability ultimately resulted in the initiative that brought us to the point where the County is today.

Auditor's response to Mayor's/ Department's comments *Section xi., page 34, last paragraph.* In fairness, we recognize the argument of the Mayor's Office that they were planning to act and, in that vein, continued to apply pressure, which may have resulted in the staff coming forward to disclose fiscal and budgetary problems. In the Mayor's Office response to our audit, they pointed out that *"increased efforts at accountability were initiated and requests for information intensified."* They argue that the discovery of the Fine Arts fiscal problems was inevitable once this process began. They state their belief *"that demand for accountability ultimately resulted in the initiative that brought us to the point where the County is today."* An option to this application of pressure, over time, would have been to act immediately on senior management's initial concerns.

This "accountability" initiative may have had the goal of continued division-level autonomy with minimal senior-level oversight, as in the Commission form of government. However, continuing this degree of autonomy had a potential downside, which the Fine Arts Division unfortunately suffered, as evidenced by the further breakdown of management controls.

Mayor's/ Department's Comments continued…
The word "naturally" is a curious selection to describe the Division Director's behavior. We do not concur that this is natural behavior for a manager. To the contrary, a good manager would seek assistance and not be obstructionist in the attempts of the Mayor's Office and Department to obtain accountability and information. The Director's actions were anything but "natural" for a Division Director concerned with the well-being of their organization. We do not consider "flight" to be the natural response at all.

Auditor's response to Mayor's/ Department's comments *Section ix., page 22, top of paragraph 2.* This cascade of events may have focused more of the Division Director's ~~naturally turned~~ ~~full~~ attention on ~~to~~ her long-developed strengths, event booking and promotion, and public relations…

Mayor's/ Department's Comments continued…
Page 16. [The Ticketing Services Manager]'s letter was presented after the review had begun. The Mayor's Office had been increasing the pressure for the delivery of information that the Division could not provide. We do believe this pressure had an impact on the subsequent information that began to come forward from the employees. Prior to this letter, [the Ticketing Services Manager]'s complaints were focused on personnel and personality issues as well as one specific Journal Voucher for which he

did not feel he had sufficient information. In fact, during the review, it was determined the Journal Voucher issue was not a significant issue. Also, subsequent information provided to the Department Director via email and other interactions with the personnel led us to believe there was an improving atmosphere in regards to the personnel/personality issues. While the financial audit of the Auditor's team focuses rightfully on financial issues, a great deal of effort and attention has been given by the Mayor's Office and the Department to the organizational behavior issues. [The Ticketing Services Manager] did not bring forth specific examples of financial irregularities, with the exception of his issue with the Journal Voucher. The Department's response to the complaints was sufficient, in our opinion, given the nature of the issues presented it at the time. It is difficult to assess whether there should have been specific concern given the actual information received at the time. This and the fact that subsequent information was provided that indicated they were working together resolving the issues presented. It would be simplistic to look at a letter presented after the investigation has begun as being a statement of what was actually presented prior to that time.

Auditor's response to Mayor's/ Department's comments *Page 23, Section x., heading.*

x. **Management at Community Services, as well as the Mayor's Office, had ample warnings of, and admit to growing concerns regarding, the fiscal problems at Fine Arts from the period of September 2001 through September 27, 2002. However, they failed to act until a formal employee complaint was aired to the County's Employee Assistance Program Coordinator. Within six days of the Mayor's Office commencement of its review ~~Fine Arts' lack of focus on management, administrative, and fiscal matters, in the year leading up to and during the hosting of the 2002 Winter Olympic Games~~, ~~resulted in a further breakdown in employee teamwork and morale, potential violations of the Fair Labor Standards Act (FSLA)~~, ~~among other personnel issues, and the filing of~~ an official, written "whistle-blower" complaint was also filed. The Mayor's Office view of these events differs from this characterization.**

Section x., page 24, first full paragraph through the top of page 25. Also in the June 7, 2002 e-mail, he goes on to state to the Fiscal Manager that, " *I have just been informed that you have not been able to reconcile the American Express deposits and the Tickets.com transfers to our bank account. When we reclassified the ARtTiX Systems Administrator and the Accountant position we separated the duties. [The ARtTiX Systems Administrator] makes sure on a weekday basis that all credit card batches for us and our clients balance to the Prologue system and that the batch has been sent to the bank. It is your responsibility to reconcile the bank statements, as it separates the duties and we do not receive the bank statements, the credit card statements, nor the County Treasury Office Statements."*

He ends the e-mail *"The only transfer I know did not go thru was during the Olympics from a foreign bank, and that issue was resolved. If you need help tracking these funds and reconciling, please let me know.* ***I must assume the funds are in the bank because from the ticketing side it looks fine, and… [the former Accountant] was able to reconcile the American Express when he was here*** *[Emphasis added].***"**

In the Mayor's Office response to our audit, they state, *"it would be simplistic to look at [the whistle-blower letter,]… presented after the investigation has begun, as being a statement of what was actually presented [by the whistle-blower] prior to that time [delivery of the letter]."* Thus, the Mayor's Office challenges the credibility of the Ticketing Services Manager's assertions in his whistle-blower account of what he had reported to the Department Director prior to filing of his letter and the near-simultaneous commencement of the Mayor's Office investigation. We feel that the appropriate issue is the whistle-blower's credibility, not the timing of his report. To that very point, the veracity of the Ticketing Services Manager's assertions in his whistle-blower letter is bolstered by the fiscal concerns he set forth in his e-mail of June 7, 2002, and by subsequent findings set forth in our audit.

The Ticketing Services Manager claims that he sent blind copies of this, and other similar e-mails to the Department Director, out of fear that if he indicated the "cc:" on the e-mail, the Fiscal Manager, for example, would go to the Division Director and a reprisal would result. In follow up discussions with the Department Director, she confirmed receiving a "blind copy" of the June 7th e-mail, contrary to her recollection during our prior interview. She explained that she may not have paid close attention to the last part of the e-mail, concerning the American Express charges and the *Tickets.com* posting error, thinking that these problems related primarily to the Ticketing Services Manager's ticket management responsibilities.

In the Mayor's Office response to our audit they state that the whistle-blower did not bring forth specific examples of financial irregularities prior to October 2002, with the exception of an issue involving a specific journal voucher related to ticket sales. Clearly, the content of the Ticketing Services Manager's June 7th e-mail refutes this contention. To illustrate, ~~Notwithstanding~~, in the referenced ~~above~~ e-mail, the Ticketing Services Manager points directly to problems in the reconciliation of the American Express deposits and in the *Tickets.com* transfers that were confirmed by our audit. For example, in Section 8.11 of this report, we discuss how American Express merchant discounts were recorded inconsistently in the month-to-month reconciliation, as part of the Depository account reconciliation.

Background, Section x., page 28, bottom paragraph through the middle of page 29. Despite the ample warnings and admitted growing concerns regarding the fiscal problems at Fine Arts from the period of September 2001 through September 27, 2002 the Mayor's Office failed to act. In the Mayor's Office response they state, *"The Department's response to the complaints was sufficient, in our opinion, given the nature of the issues presented it at the time. It is difficult to assess whether there should have been specific concern given the actual information received at the time. This and the fact that subsequent information was provided that indicated they were working together resolving the issues presented."*

The Mayor's Office response goes on to assert that *"subsequent information provided to the Department Director via email and other interactions with the personnel led us to believe there was an improving atmosphere in regards to the personnel/personality issues*." Our audit inquiries could not validate or confirm such a contention on the part of the Mayor's Office. In fact, this characterization is counter to the concerns expressed in the whistle-blower's e-mail of June 7, 2002.

We have difficulty reconciling conflicting characterizations of what the Mayor's Office could reasonably have known about fiscal problems at Fine Arts. On one hand, the Mayor's Chief Administrative Officer claims to have been *"uncomfortable with response received to requests for information, the manner in which the Division Director and other employees reacted when information was requested, and ...the accuracy of the information."* He states that he *"had approached the Mayor with these problems…and we were going to do a more thorough review of the division."* He refers, in the Mayor's Office response, to *"actual information received at the time,"* without any degree of specificity. He then claims, with regard to personnel matters at Fine Arts, that *"there was an improving atmosphere in regards to the personnel/personality issues."*

We acknowledge that the Mayor's Office focus, during this period, was on personnel/personality issues and accept their judgment that, from their perspective, there was an apparent improvement in this area. However, the repeated warnings of potential fiscal and budgetary problems were an entirely separate matter, with respect to which, we conclude, they gave inadequate attention.

All things considered, in our opinion, the Mayor's Office assessment, made prior to the Olympics, that circumstances at Fine Arts required an internal review, was an accurate assessment. In light of the continuing warnings that occurred thereafter, the Mayor's Office delay until September 27, 2002, to undertake such review does not reconcile with their earlier assessment.

Mayor's/ Department's Comments continued…

Page 18. Initially [the Director of Community Services] was met with resistence in her attempts to have regularly scheduled accountability meetings. Her attendance at Fine Arts staff meetings was questioned. However, when informed that these would be mandatory, [the Director of Community Services] and [the Division Director] did have regular meetings. These meetings focused on event type issues. Fiscal information was not the primary objective of the meetings.

As has been cited, the hesitancy or inability of Fine Arts staff to provide fiscal information requested by the Department and [Chief Fiscal Officer] was initially viewed as a reflection of resistence to oversight. Discussions with [the Accountant and Fiscal Manager] seemed to indicate that they were conforming to the instructions of their supervisor [the Division Director]. There was no information presented by [the Accountant and Fiscal Manager] that they could not provide the information requested.

[The Director of Community Services] requests that the phrase "reigned in" be altered. At that point in time, the desire was to obtain information.

Auditor's response to Mayor's/ Department's comments *Section x., page 26, first three paragraphs.* Moreover, the Department Director and the Mayor's Chief Administrative Officer asserted to us that the Division Director continued to frustrate their attempts to obtain information ~~rein her in~~ and hold her accountable. Initially, the refusal to be held accountable was viewed as reluctance by the Division Director to accept new leadership. The Mayor's Office response to our audit further states, *"Discussions with [the Accountant and Fiscal Manager] seemed to indicate that they were conforming to the instructions of their supervisor [the Division Director]. There was no … [indication from the Accountant and Fiscal Manager] that they could not* *provide the information requested."* Only later did they recognize the Fiscal Manager and the Division Director lacked the necessary ~~her managerial~~, fiscal and budgetary competence to respond to their requests.

The Department Director and the Mayor's Chief Administrative Officer went on to assert that the Division Director attempted to circumvent the chain of command, as she had been able to do in the Commission form of government, but failed. This behavior was gradually less acceptable to the Department Director and the Mayor's Chief Administrative Officer.

The Mayor's Office response to our audit characterizes these issues in the following way: *"Initially [the Department Director] was met with resistance in her attempts to have regularly scheduled accountability meetings. Her [the Department Director] attendance at Fine Arts staff meetings was questioned. However, when informed that these would be mandatory, [the Director of Community Services and Division Director] did have regular meetings. These meetings focused on event type issues. Fiscal information was not the primary objective of the meetings."* This is contrary to the characterization made by the Department Director in her demotion letter of November 7, 2002, to the Division Director in which she stated, *"Over the last year I discussed with you [the Division Director] on multiple occasions concerns with fiscal management…Time and again, I was informed that matters upon which I inquired were being handled according to policy."*

Mayor's/ Department's Comments continued…

In the discussion of the performance evaluations, there is brief mention of the new evaluation criteria. This reflected the Department and Mayor's Offices concerns over the information we were unable to obtain from the Division. [The Division Director]'s evaluation of [the Fiscal Manager] did not provide the Department with any indication of competency issues. At that time, there was a full expectation that specific performance goals could be met. The goal to "review revenue projections and expenditures on a monthly basis" was [the Division Director]'s own self-stated objective.

Auditor's response to Mayor's/ Department's comments *Section x, page 27, fourth paragraph through bottom of page.* These expectations were indicative of senior management's ~~uncertainty~~ inability to obtain ~~about~~ revenue projections and their uncertainty about reporting at Fine Arts and their efforts to correct those problems. However, they do not appear to cover all of the areas of concern that would have addressed the problem more comprehensively. We note in the Mayor's Office response, their observation that the Division Director's authorship of the goal to "*present monthly revenue reports*" provided them with a level of comfort that the Director was responding to their efforts to establish accountability.

In the Mayor's Office response, they further observe that the Division Director's evaluation of the Division Fiscal Manager *"did not provide the Department with any indications of competency issues [with the Fiscal Manager]. At that time, there was a full expectation [that the Division Director could meet] the specific performance goals…"* with full reliance on the capabilities of the Fiscal Manager.

However, we discovered within the first hour of specific inquiries of the Fiscal Manager into her principle role regarding the reconciliation of the Fine Arts Depository account, that she had not obtained a functional understanding of this reconciliation and the related revenue recording process. In hindsight, the potential existence of significant Fine Arts fiscal problems would have been readily visible to the senior-level management of the Community Services Department, anytime during the three years of the Fiscal Manager's employment, had they made similar inquiries of the Fiscal Manager to test their reported level of discomfort.

Mayor's/ Department's Comments continued…

Page 19. The Olympic contracting issue is incorrectly stated. [The Mayor's Chief Administrative Officer] was not concerned that these had not been run by him. The contracts had been negotiated prior to the change in form in government to the best of our knowledge. What was of concern is that [the Division Director] had not followed the County/Commission policy of charging full rate for the services that were provided to SLOC. She had used her authority to negotiate the contracts as if this was a normal non-profit organization.

Auditor's response to Mayor's/ Department's comments *Section ix, page 22, last paragraph*. Our interviews with the Mayor's Chief Administrative Officer and the Department Director bolstered this view regarding the Division Director's lack of inclusive planning for Olympic events. The Mayor's Chief Administrative Officer indicated that he was concerned ~~upset~~ when he discovered that ~~the Division Director had moved ahead with the Olympic event contracting without consulting him.~~ the Division Director chose to deal with these Olympic events using her normal ~~accustomed~~ event-contracting procedures. The consequence of her independent action was that a "non-commercial," "not-for-profit" rate was negotiated with SLOC, which negatively impacted the potential Fine Arts revenue from hosting *the Cultural Olympiad*. The Commission's policy, still in place at that time, was to charge full rate for services provided to SLOC. It is interesting to us that the Mayor's Chief Administrative Officer's concern, as stated in the Mayor's Office response, focused on the outcome of the Division Director's action, i.e. the less-than favorable not-for-profit rate, but not on the process by which these important contracts were reviewed and approved to ensure compliance with Commission guidelines.

Mayor's/ Department's Comments continued…

Page 20. [The Accountant's] discussions expedited the manner in which the anticipated review moved forward. [The Ticketing Services Manager]'s letter came after the fact and did not substantially alter the process that had already begun.

Auditor's response to Mayor's/ Department's comments *Section x, top of page 28, paragraphs 1 through 3.*

In their response to the audit report, the Mayor's Office stated that the events leading up to and surrounding the 2002 Winter Olympic Games *"did play a role in the timing of when [the Division's] practices would be discovered by the Mayor's review team."* We take this to mean that the Mayor's Office opted to defer acting at that time, despite their concerns, and their expression of confidence that, had they taken action on their concerns at that time, they would have discovered the problems. Indeed, prior to the Olympics, the Mayor's Chief Administrative Officer asserts that he *"approached the Mayor with these problems as known at that time and a determination had been made that 'after the*

Olympics' …[they] were going to do a more thorough review…" This makes clear the affirmative decision by the Mayor's Office to delay action until after the Olympics.

~~In May 2002, a member of the Mayor's fiscal and budgetary team was sent on a familiarization tour of Fine Arts. However, the Division Director's two-and-a-half month convalescence from a serious automobile accident, the passing of the Fiscal Manager's mother and the Operations Manager's passing, delayed her assignment. No concrete action was taken until the Accountant (who had replaced the Assistant Accountant) made further complaints in late September 2002.~~ …[The middle of this paragraph was moved to the last paragraph in Section x.] ~~The Accountant's complaint, in combination with the Ticketing Services Manager's "whistle blower" letter, dated October 2, 2002 resulted in the Mayor's Office initiating an investigation of these allegations.~~

It was not until May of 2002, some two months after the Olympics, that, according to the Mayor's Office response, *"plans were being prepared to move [a member of the Mayor's Office fiscal and budgetary team] into the review process."* By that time *"[The Mayor's Chief Administrative Officer and Chief Fiscal Officer] were specifically concerned with a feeling that the Division could not provide cash positions and five year projections of estimated budgets."* Further, they describe an inability by Fine Arts *"to project [required] TRCC Fund transfers …[as a] particular concern."* The Division Director's lengthy convalescence from a serious automobile accident, which occurred shortly after the conclusion of the Olympic events, may have contributed to delaying the Mayor's Office review until early May 2002. At that time, the member of the Mayor's Office fiscal and budgetary team was, in fact, sent on a short familiarization tour of Fine Arts.

The Department Director and the Mayor's Chief Administrative Officer indicated in our interviews that during the time between May and September 2002 they continued to have doubts regarding fiscal matters at Fine Arts. However, the passing of the Fiscal Manager's mother coupled in time with the Operations Manager's unexpected death, may have also presented hurdles to the review of fiscal operations by the member of the Mayor's Office fiscal and budgetary team. However, events of this nature would typically be resolved in a matter of days and are not credible reasons for the lengthy delay from May 2002 to September 27, 2002. Notwithstanding the unresolved doubts and concerns, the evidence is clear, and supported by the District Attorney's Office, that no action was taken until the Fine Arts Accountant (who had replaced the Assistant Accountant) made further complaints on September 27, 2002. ~~When the Accountant's and Ticketing Services Manager confirmed these doubts, they acted with dispatch. Their immediate action argues that their prior state of knowledge may not have reached the threshold for such action.~~

Auditor's response to Mayor's/ Department's comments *Section x, page 29, fifth paragraph.* [New paragraph starts in the middle of the original paragraph.] On September 25, 2002, the Accountant reported her concerns regarding accounting procedures at Fine Arts to the County's Employee Assistance Program Coordinator ~~Personnel Ombudsman~~, who brought in the EEO Manager. They contacted the Department Director, who directed the Accountant to meet the next day with the fiscal person that had gone on the earlier familiarization tour. As described in the introduction, the Mayor's Office commenced their internal review of fiscal practices at Fine Arts on September 27, 2002, as a result of the Accountant's concerns. The Accountant's complaint was closely followed by ~~in combination with~~ the Ticketing Services Manager's "whistle blower" letter, dated October 2, 2002, which added an urgency and a better framework to ~~resulted in~~ the Mayor's Office ~~initiating an~~ investigation ~~of these allegations~~, which had already commenced.

Mayor's/ Department's Comments continued…

FINDINGS AND RECOMMENDATIONS

We appreciate the findings and recommendations of the Auditor. We look forward to working cooperatively to implement the needed changes. A significant effort has begun to implement the recommendations in this report.

Again as stated previously, we do not believe that the draft report sufficiently details the cooperative nature of the two teams in this process. The Mayor's Office team found items that were turned over to the Auditor's team which followed them through and vice versa. Other than the depository account follow-up, one might read the draft and assume these are unilateral findings by the Auditor's team. This was clearly not the case.

> **Auditor's response to Mayor's/ Department's comments-** ***See end of page 6 through end of page 7 of this Appendix, comments were inserted into both the Executive Summary and Scope and Objectives.***

Mayor's/ Department's Comments continued…

Page 28. We are clearly in agreement with the Auditor's findings and recommendations concerning the security as it relates to tenant shows. The methods are incompatible with County Policy as they relate to the "Sheriff's Secondary Employment program."

However, the component regarding the Olympics is incorrect and requires correction in the draft report. The original plan submitted by SLOC for the Cultural Olympiad contained different security standards than were eventually implemented after 9/11. The issue of what was "behind the fence" and who was responsible for security changed. As a result of 9/11, the Symphony musicians and others were concerned about what security would be available. Security "in front of the fence" in Salt Lake City (SLC) was the responsibility of the SLC Police Department. 9/11 changed the plan removing SLC as the primary authority responsible for security.

When the event centers were put "behind the fence," this became the responsibility of Salt Lake County. The Fine Arts Division did not procure the security. The Sheriff requested and received funding in the Protective Services budget to patrol and protect these assets. SLOC did not consider these "venues" and did not wish to reimburse the County for these expenses. Nonetheless, the County made provision for the security. The comment on lack of planning does not reflect the intensity and activity regarding Olympic security issues and the events that shaped them. Security was a planning effort that involved the Federal Government, State Government, County Government, and City Government. Lack of planning was never remotely an issue.

> **Auditor's response to Mayor's/ Department's comments –** *Findings and Recommendations, page 44, Section 1.10, paragraph omitted.* ~~In addition, in the case of the 2002 Winter Olympics, the Division Director indicated that private security~~

~~companies were already fully booked, and did not have any security personnel available. This further reflects the lack of planning around Olympic events.~~

Mayor's/ Department's Comments continued…
Page 33. As stated, this section should reflect that these events without the knowledge of the Department or Mayor's Office in addition to the Offices noted. Also, the findings do not reflect that [the Patron Services Manager] has informed the Mayor's Office team and the District Attorney's Office that the account was set up at the direction of [the Division Director].

> **Auditor's response to Mayor's/ Department's comments –** *Findings and Recommendations, page 49, Section 2.8, paragraph 1.* In order to give patrons change for the coat check services described previously, change funds, in the amount of $25 each, were established for Rose Wagner and Abravanel Hall. Capitol Theatre's coat check change fund was initially established in the amount of $75, which was later reduced to $25. These funds were established without the knowledge or assistance of the Treasurer's or Auditor's Office, and without notice to, and approval of, the Community Services Department or Mayor's Office.
>
> *Findings and Recommendations, Section 3.1, page 50, paragraph 2 and 3.* In November 2000, a joint checking account under the names of the Accountant and the Patron Services Manager was opened using the tip monies that had accumulated. The Patron Services Manager indicated that the account was set up at the Division Director's direction, and this is confirmed in the Mayor's Office response. During our interviews with the Division Director, we did not question her on her involvement in the establishment of the account…County policy dictates that all depository accounts be established through the Treasurers Office. . . Moreover, neither the Community Services Department nor the Mayor's Office were given notice of the establishment of the account.
>
> *Findings and Recommendations, Section 4.1, page 55, first full paragraph.* The County Treasurer and Auditor were not aware of, or consulted about, the establishment of the account. Section 3.1, Countywide Policy #1062 states that only the Treasurer has the authority to establish new accounts. In addition, neither the Community Services Department nor the Mayor's Office were given notice of the establishment of the account.

Mayor's/ Department's Comments continued…
Page 39. [The Fiscal Manager]'s claim regarding [the Department Fiscal Manager's] alleged instruction regarding art is incorrect. During the budget preparation periods FY 2001 and FY 2002, the Division was given specific instruction by [the Mayor's Chief Administrative Officer and Chief Fiscal Officer] that art related funding should be done within the Facilities Management Division. Budget line items had been established there. [The Division Director, Accountant and Fiscal Manager] were specifically aware of this requirement. The recent budget adjustment that was prepared and presented to the Council for the art catalog grant clearly reflected account numbers for revenue and expenditure. This was not specifically a FY 2003 budget issue. In addition, [the County's Art Specialist] had direct and on-going activity in area of the County's gift policy. She had filled out numerous gift forms in the performance of her duties. She was well aware of the process for receiving donations and the requirements of Salt Lake County. We consider the establishment of a separate account to be a direct and specific act of insubordination on the part of the Division and its employees.

Auditor's response to Mayor's/ Department's comments –*Findings and Recommendations, Section 4.1, page 55, last paragraph.* Moreover, in the Mayor's Office response they assert that *"The Fiscal Manager]'s claim regarding [the Department Fiscal Manager's] alleged instruction regarding art is incorrect.*

Further, the Mayor's Office response asserts that *"During the budget preparation periods FY 2001 and FY 2002, the Division was given specific instruction by [the Mayor's Chief Administrative Officer and Chief Fiscal Officer] that art related funding should be done within the Facilities Management Division. Budget line items had been established there. [The Division Director, Accountant and Fiscal Manager] were specifically aware of this requirement… We consider the establishment of a separate account to be a direct and specific act of insubordination on the part of the Division and its employees."*

Findings and Recommendations, Section 4.1, page 56, third paragraph through next two paragraphs. It is evident from the check dates discovered in our audit, as indicated in brackets above, that the Art Specialist misrepresented the facts by her statement in the e-mail that *"I recently received **word** that we **will be** receiving the following amounts."* In the case of the State grant, those monies were received nearly 18 months prior and deposited in an "invisible" account. In addition, she may have received one or more of the other checks some days before she composed the e-mail. In light of the Mayor's Office representations, regarding the instructions provided by the Mayor's Chief Administrative Officer during the budget process, the Specialist's e-mail characterization is all the more serious.

The e-mail goes on to request an equivalent increase in the 2003 budgeted expenditures, and anticipates that the new catalogue would be printed by February 2003. No budgetary line item was set up for either the grant monies or the contributions in the original Facilities Management 2003 budget.

The Mayor's Office response to our audit provided the following observation regarding this matter, *"…[the Art Specialist] had direct and on-going activity in [the] area of the County's gift policy. She had filled out numerous gift forms in the performance of her duties. She was well aware of the process for receiving donations and the requirements of Salt Lake County."*

Mayor's/ Department's Comments continued…
Page 51. The following are current implementations that have been made to the Division purchasing activities.

Auditor's response to Mayor's/ Department's comments –*Findings and Recommendations, Section 7.0, page 69, paragraph following bulleted findings.* We acknowledge the recent, yet substantial efforts of the Mayor's Fiscal staff in implementing improved processes with regard to purchasing and receiving procedures. We have included in this section of the report a concise description of the actions taken in this area, as indicated in the Mayor's Office response.

Mayor's/ Department's Comments continued…
Approximately 4/10/03, files of the paper requisition forms are maintained numerically as well as by vendor name. The original requisition sheet is filed numerically to allow for quick research of basic purchase information. A separate file by vendor name is maintained of the duplicate requisition sheet with all supporting documentation. This second file allows for more in-depth research of purchases made with a specific vendor.

Auditor's response to Mayor's/ Department's comments- *Findings and Recommendations, Action Taken, page 75, Section 7.17.3.*

7.17.3 Requisition forms are maintained numerically as well as by vendor name.

- ***The original requisition form is maintained numerically to allow for quick research.***
- ***The duplicate requisition form is maintained in a separate file, along with the supporting documentation by vendor.***

Mayor's/ Department's Comments continued…
Approximately 4/28/03, employees at each Fine Arts facility were provided with delivery confirmation stamps to be used when purchased item(s) were received in a facility. The stamp specifies two signatures are required on the NCR requisition form to confirm that what was approved/ordered from the requisition form was exactly what was received. This is to ensure that the County gets what it pays for and it doesn't disappear between the vendor's location and the facilities. Once the form is signed off, it is submitted to the fiscal section to await payment from the invoice.

Auditor's response to Mayor's/ Department's comments- *Findings and Recommendations, Action Taken, page 71, Section 7.7.2.*

7.7.2 Two signatures are required on a delivery confirmation stamp that is imprinted on the NCR requisition form to indicate receipt of items that are ordered. The signed requisition is forwarded to Fine Arts fiscal section.

Mayor's/ Department's Comments continued…
Effective 5/1/03, tracking numbers are assigned to every purchase made from a countywide or blanket purchase order. This assists the fiscal section in tracking orders and monitoring the purchases themselves. The use of tracking numbers ensures appropriate documentation is available for every purchase.

Auditor's response to Mayor's/ Department's comments- *Findings and Recommendations, Action Taken, page 75, Section 7.17.1.*

7.17.1 A tracking number is assigned to every purchase made from a Countywide contract and blanket order to assist the fiscal section in monitoring purchases.

Mayor's/ Department's Comments continued…
Effective 5/1/03, all invoices must be reviewed and initialed by supervisor and/or fiscal manager prior to release for payment. This ensures that the division pays only for appropriate services/items.

Auditor's response to Mayor's/ Department's comments- *Findings and Recommendations, Action Taken, page 73, Section 7.11.1.*

7.11.1 All invoices are reviewed and initialed by a supervisor and/or fiscal manager prior to release for payment.

Mayor's/ Department's Comments continued…
Effective 5/5/05, all purchases must be processed/approved through the fiscal section *no matter the dollar amount* prior to ordering the item(s) or service(s). This includes anything purchased on a blanket, county or state contract, small cost purchase order, etc. The fiscal manager must now sign off of every purchase before the item(s) or service(s) are ordered. The only caveat to this are those purchases of an emergency nature on weekends or after regular business hours. These emergency purchases are reviewed by the fiscal manager the following business day.

Auditor's response to Mayor's/ Department's comments-- *Findings and Recommendations, Section 7.1, page 69, last paragraph.* During the past few months, purchasing procedures have changed at Fine Arts. A supervisor must sign all requisitions. The Fiscal Manager examines and signs all requisitions over $500 before the item is purchased. If a purchase is less than $500, the item may be obtained before the Fiscal Manager approves the requisition. However, the Fiscal Manager does examine all requisitions. As noted below, this transitional policy has been discontinued and every purchase is approved as described in Section 7.2.1.

Findings and Recommendations, Actions Taken, pages 70 and 74, Section 7.2.1 and duplicate 7.14.1.

7.14.1 The Fiscal Manager approves and processes every purchase before the item or service is ordered (regardless of purchase amount or type.) The only exception is purchases of an emergency nature on weekends or after regular business hours. The Fiscal Manager reviews the emergency purchases the following business day. (See Action Taken 7.2.1)

Mayor's/ Department's Comments continued…
Effective 5/6/03, the old requisition form is replaced with a new form. This new form must be filled out for each and every purchase purchase. This new form is physically larger and requires additional information relating to purchases, including model numbers, complete descriptions, signatures, processing dates and initials, etc

Auditor's response to Mayor's/ Department's comments- *Findings and Recommendations, Action Taken, page 71, Section 7.7.1.*

7.7.1 A newly designed requisition form is completed for all purchases. The form requires model numbers, complete descriptions, signatures, processing dates, initials, etc.

Mayor's/ Department's Comments continued…
On 5/6/03, employees were notified of the necessity to submit all packing slips, delivery confirmations, etc. to the fiscal section. Their submittal had been sporadic in the past. Now employees are aware of the expectation that they submit all paperwork related to purchases to fiscal. This paperwork is used by the Accountant to compare what was ordered and what was received. Release for payment requires the paperwork matches up.

Auditor's response to Mayor's/ Department's comments- *Findings and Recommendations, Actions Taken, page 71, Sections 7.7.3 and 7.7.4 and duplicate 7.11.2 on page 73.*

7.7.3 Employees are required to submit packing slips and delivery confirmations to the fiscal section.

7.7.4 The Accountant compares the requisition, packing slip/delivery confirmation, and invoice prior to payment.

Mayor's/ Department's Comments continued…
On 5/6/03, a new filing system was implemented to improve tracking of payment of invoices. Whenever possible, multiple invoices from the same vendor are combined into one payment release. A cover sheet is used to consolidate invoice information and to improve payment tracking. The use of a "received" date stamp for incoming invoices is implemented to ensure that payments are processed timely.

Auditor's response to Mayor's/ Department's comments- *Findings and Recommendations, Action Taken, page 73, Sections 7.11.3.*

7.11.3 A new filing system is used to track payment of invoices. Multiple invoices from the same vendor are combined into one payment release. A cover sheet is used to consolidate invoice information and to improve payment tracking. The use of a "received" date stamp for incoming invoices is implemented to ensure that payments are processed timely.

Mayor's/ Department's Comments continued…
On 5/6/03, requisition numbering system was converted from a paper/handwritten based system to an electronic system. This is to reduce the possibility of errors in assigning requisition numbers, including duplicating requisition numbers or skipping numbers. The correct assignment of requisition numbers enhances monitoring of purchases for accuracy and timeliness.

Auditor's response to Mayor's/ Department's comments- *Findings and Recommendations, Action Taken, page 75, Sections 7.17.2.*

7.17.2 An electronic system is used to assign requisition numbers.

Mayor's/ Department's Comments continued…
Page 53. Either the Department Director or the Associate Department Director now sign meal forms.

Auditor's response to Mayor's/ Department's comments- *Findings and Recommendations, Action Taken, page 70, Sections 7.5.1.*

7.5.1 The Department Director or Associate Department Director signs all meal forms.

Mayor's/ Department's Comments continued…
Page 55. The Mayor team's review of the radio issue seems to indicate that the purchases were simply not coordinated among the various users. For example, the stage crew's radios were considered

separately from the event staff crew. This is one case where we believe it was an error of coordination not an attempt to circumvent the purchasing system.

Page 56. We are in receipt of the letter from the employee. This is currently under review.

Page 58. See previous comments on travel.

Auditor's response to Mayor's/ Department's comments- *Findings and Recommendations, Section 7.19, page 76, first full paragraph.* However, during our examination we found that the warrant for the per diem was issued on February 20, 2001, approximately one month before the conference. Through further research, we also found that the Mountain West Conference Basketball Championship occurred March 8-10, 2001, at the Thomas and Mack Center in Las Vegas. This was about one week before the seminar that the Patron Services Manager attended. The NCAA Basketball Tournament occurred March 15 – April 2, 2001, but none of the games were played in Las Vegas. Therefore, the high hotel price was not due to the tournaments occurring in Las Vegas while she attended the seminar. We agree with the observation in the Mayor's Office response that hotel rates vary based on a number of factors. In this case, however, rather than engaging in speculation regarding the cause of room rate fluctuations, we were testing the assertion made by the traveler.

Findings and Recommendations, Section 7.19, page 76, last paragraph. Countywide Policy #1019, Section 3.0, states, *"…It shall be the responsibility of the traveler's organization to review the itemized expenditure report and verify the propriety of each receipt, i.e. to determine the receipt is for the amount claimed, it is an authorized expenditure, it is reasonable in amount and nature, and it does not violate provisions of this procedure or other County policies and procedures [Emphasis added]."* Although GSA standard is the guideline for the amount of the travel advance, nonetheless, it also should act as a benchmark for determining the reasonableness of expenditures.

The Auditor's Office is involved in the issuance of travel advances, however, their involvement is limited to receipt of excess travel advances remitted back to the County. If expenditures exceed the amount advanced, responsibility for reconciliation rests with the organization, and reimbursement by the employee is received through payroll.

Mayor's/ Department's Comments continued…
Page 63. There are errors in the chart. For example the $23,000 number is not a positive number. The unknown number in 8.2.1 is dated. We would request the final version of the report be done after coordination with [the Mayor's Office Fiscal troubleshooter].

Auditor's response to Mayor's/ Department's comments- *Findings and Recommendations, Section 8.1, Table 2, page 81.*

Summary of Revenue Misstatements		
1999	Contribution recorded as revenue	$251,000
1999	Excess cash transferred	$120,683
2000	Jan., Feb. & March revenue recorded twice	$312,916
2000	Excess cash transferred	$84,689
2001	Excess cash transferred	$184,676
2002	Shortage of cash transferred	($188,582)
2000-2002	Overstatement from *Tickets.com*	$312,207
1999-2002	Shortage of cash transferred (over & short)	($23,351)
	Unknown difference (Yet to be identified)	$100,738
	Total	**$1,154,975**

Findings and Recommendations, page 82, Section 8.2.1.

8.2.1 Reconciling items for the $1.155 million shortage in the Treasurer's Depository account have been isolated, except for an unknown difference of $100,738. An accounting journal voucher has been prepared and processed, reducing the Fine Arts Fund balance by $1.155 million, and restoring this amount to the Depository account.

Findings and Recommendations, page 82, Section 8.3.1.

8.3.1 The Auditor and the Mayors Office undertake a joint effort to further identify the $100,738 of unreconciled items.

Mayor's/ Department's Comments continued…
Page 66. 8.5.2 The team has involved [the acting Fiscal Manager, the Mayor's Office Fiscal troubleshooter and the Associate Director of Community Services Department]. [The Associate Department Director] is a seasoned manager of event type facilities and is providing day to day on-going management and intervention.

Auditor's response to Mayor's/ Department's comments- *Findings and Recommendations, page 85, Section 8.5.2.*

8.5.2 The Mayor's Office has hired an Associate Community Services Director to provide additional support to the ~~temporarily assigned an~~ Mayor's Office fiscal troubleshooter and the acting Fiscal Manager of Fine Arts ~~seasoned administrator~~ to ~~provide transitional support~~, in identifying problems, and improving processes and procedures.

Mayor's/ Department's Comments continued…
Page 70 8.10.2. This has been done. We would suggest the recommendation be that it "verification of account balances be performed annually."

Auditor's response to Mayor's/ Department's comments- *Findings and Recommendations, page 88, Section 8.10.2 and following paragraphs.*

8.10.2 The Auditor's Office undertake ~~a joint effort with the Mayor's Office~~ an independent confirmation of accounts receivable balances.

In the Mayor's Office response, they state that an accounts receivable confirmation *"has been done."* The Mayor's Office troubleshooter, who performed this work, explained that the process involved mailing letters, setting forth accounts receivable balances, to all tenant organizations, all ARtTiX ticketing outlets, and three or four other event promoters that had used Fine Arts facilities, for a total of about 15 letters. He and the Accountant reviewed all accounts receivable balances, and made changes and fixed problems in accounts as deemed necessary. They then sent confirmation letters to other organizations that had stopped making payments on their accounts, but not to those that were continuing in their payments, assuming that these organizations, since they were paying, knew the correct amount of their balance. By their admission, they did not confirm 100 percent of accounts receivable.

In addition, the response process involved phone calls, and not the physical receipt of a letter or document from respondents. One or two merely sent in a check to pay their outstanding balance. The process did not entail a positive confirmation statement by the organization, and was more of an informal exercise to shore up accounts receivable. Clearly, this "confirmation process" was not what would be considered a procedure conducted according to professional standards.

Our recommendation envisions the mailing of confirmation letters to all parties that have outstanding accounts receivable, and requesting that they return the letter, verifying or disputing the purported balance contained in it, as a positive statement of their obligation.

Mayor's/ Department's Comments continued…

Page 73. We do not see the Arts Center discussion as a component of the audit. These were formally Commission and Attorney approved acts by the County approved through appropriate means including notification to the Auditor. It serves no purpose in the report.

Auditor's response to Mayor's/ Department's comments- *Findings and Recommendations, Section 8.15, page 92, new last paragraph.* We conclude that this transaction was ill advised. This contract resulted from a failure to secure payment for a growing account receivable. Further, there remains a question as to whether the Arts Center ever had the capacity to pay rent. This case is presented as a warning against allowing accounts receivable to drift.

Mayor's/ Department's Comments continued…

Page 76. There needs to be a distinction drawn between the practices of the Commission and the methodology the Mayor has employed as it relates to tickets. Also, the practices have been altered due to Commission vs. Short. Under the Mayor's direction, use of complimentary tickets is monitored by [the Community Affairs Director] as a central point for requests. We are aware of one request by the Department in the time since the change of form. Some tickets are available as conditions of contractual agreements or at times when the "contracting agencies" wish to "paper the house" because of unsold tickets. We dispute the finding that last minute requests by the Mayor or Department are "short noticing" the Fine Arts Division and causing the forms not to be completed.

Auditor's response to Mayor's/ Department's comments- *Findings and Recommendations, Section 9.0, bottom of page 94 to 95, paragraphs following bulleted findings.* In the Mayor's Office response to our report, they call for "*a distinction between … the practices of the Commission and the methodology the Mayor has employed as it relates to [complimentary] tickets*" and the acknowledgement that the practice has changed since the issuance of the opinion in Commission vs. Short. However, we did not examine requests for complimentary tickets issued prior to the change in form of government.

The issue of touring company complimentary tickets has also been raised in the Mayor's Office response. We, therefore, feel obliged to note that the number of complimentary tickets issued for these non-tenant productions are contractually stipulated with the touring production promoter. This category of tickets will normally have a monetary value at least equal to the retail price of the ticket, although, unlike tickets for tenant events, the value of these tickets is not credited to promoters. This means that these tickets are provided to the County at no cost. We also did not examine complimentary tickets issued for these non-tenant, touring productions, during the course of our fieldwork.

Even though these tickets are provided, through contractual agreement, at no cost to the County, they constitute a valuable County asset, which places the recipient in a position of trust, and their control and issuance should be closely monitored. In the Mayor's Office response, they state that, "use of complimentary tickets is monitored by [the Community Affairs Director] as a central point for [ticket] requests." An effective system would both control requests for tickets and distribute such tickets according to an established County policy that assures that this valuable County asset is devoted to an identified public purpose. This level of monitoring does not appear to be even informally well established currently.

Complimentary tickets are also issued when contracting agencies wish to "paper the house" when a performance fails to produce substantial ticket sales. There is no written policy on the issuance of, and crediting for, complimentary tickets. It is our intent to perform follow-up audit work, to broaden our view of Fine Arts complimentary ticket issuance practices.

Findings and Recommendations, Section 9.3, page 96, paragraph 2 through 5. The Fine Arts Division has provided blank Complimentary Ticket Approval Forms to these organizations and asked that they complete and forward them to Fine Arts when these short-notice requests are made. However, ~~to date~~ these forms are often ~~have~~ not ~~been~~ completed, according to the Special Events Coordinator.

In the Mayor's Office response to our report, they claim that they *"are aware of one request [for comp tickets] by the Department in the time since the change of form [of government.]"* Our review of this assertion shows otherwise. For the 2002 production of The Nutcracker alone, according to ticket office reports, and when completed, Complimentary Ticket approval forms, there were five requests, for a total of 16 tickets, made by the Mayor's Office or Community Services Department. One of these requests, for four tickets, was not documented by a request form, but only by an e-mail, indicating a potential short-notice request. Another request for four tickets had no accompanying request documentation, again indicating the possibility of short notice. This lack of request accounts for the difference between the number of tickets requested and the number of tickets actually issued for the Nutcracker, as shown in Table 3, page 92.

In addition, one of the Ticket Office Supervisors related the following incident, during our recent follow-up interviews. The Mayor's Office requested eight tickets for the Jerry Seinfeld production on April 4, 2003. The recipient of two of the tickets was specified. However, the remaining six tickets were sent to the Mayor's Office. To date the ultimate recipients of the six tickets have yet to be reported to the Ticket Office.

Moreover, the Ticket Office Supervisor indicated that as recently as April 27, 2003 she was asked to set aside the twenty complimentary tickets contractually provided by the promoter of the Les Miserables production, scheduled for June 4, 2003. These requests, according to the Ticket Office Supervisor, normally come from the Mayor's Office through either the Division Director or her Assistant (the Special Events Coordinator). The Ticket Office Supervisor noted on the Prologue ticketing system under this transaction the following: "Getting names from the Mayor's Office is difficult." In both of these cases, the ticket request forms have not been completed."

Mayor's/ Department's Comments continued…

Page 78. Further review has provided the location of the five lap tops. The mini towers have been located. Documentation can be provided. This should be deleted in the final report. The Auditor's team did not receive information from the appropriate personnel. For example, one of the "missing" machines currently in use in [the Associate Department Director]'s office.

Auditor's response to Mayor's/ Department's comments- *Executive Summary, Findings and Recommendation, page vii, major finding 2.*

~~***We were unable to verify that a significant number of recently purchased assets were actually received and accounted for at Fine Arts.*** For example, five Dell Notebook laptop computers were purchased in December 2001, but we were able to account for only four of them. Likewise, five Optiplex Mini-tower PC's were purchased in the spring of 2002, but we were able to locate only two of them.~~ ***The receipt of a significant number of recently purchased assets could not be verified, nor were the purchased items properly accounted for on the Fine Arts inventory of these assets.*** Because so many assets had not been tagged, were not included on the controlled asset lists, or the invoice copies lacked adequate identification, we could not verify that all controlled assets purchased during 2001 and 2002 were received and on-site. For example, various tools were purchased during that timeframe. While we were able to locate some tools, they were of such variety, not properly tagged, and at so many locations, that we could not determine which items were recently purchased.

Findings and Recommendations, Section 10.3, page 98, last paragraph. For example, five Dell Inspiron 8100 Notebook laptop computers were purchased on December 26, 2001. We were able to account for four of them at Fine Arts locations. The other laptop is reported to be in the possession of the Division Fiscal Manager. ~~Five Optiplex GX240~~

~~Mini tower PC's were purchased, two on March 20, 2002 and three on May 28, 2002. We were able to locate two of them.~~ Various tools were purchased over the two-year period, some we could locate, but they were of such variety, without I.D. tags, and at so many locations, that we could not determine which were the recent purchases. Other items like vacuums, hand trucks and specialty equipment were untagged and so vaguely described on the invoices that, again, we could not make a confirmation. Also, packing slips, with identifying information, were not kept with the purchase files, making it difficult to identify specific items. Assets need to be accounted for as soon as they are purchased.

Mayor's/ Department's Comments continued…

Page 81. The Jay Leno show's impact is being overstated. Post 9/11 it was immediately communicated that they would not use our facilities. The Division Director was specifically queried by the Department Director on how overtime would be handled in the Olympic period. The response was that they would use their normal overtime policy. No complaints were received by either the Department or the Mayor concerning overtime practices during or immediately following the Olympics. No unusual overtime practices were noted on payroll. Only at the point of the Mayor staff's review were any comments made on this item.

Auditor's response to Mayor's/ Department's comments- *Findings and Recommendations, Section 11, top of page 103.* The Event Manager asserts that she worked numerous overtime hours during *the Cultural Olympiad* events at Abravanel Hall for which she was only partially paid. This, according to the Event Manager, entailed working a 2,800-seat theatre for 22 straight days, putting on 17 *James Beard Dinners*, nine shows/special events, and hosting 21 straight days of piano gallery and the viewing of the *Chihuly Exhibits*. She also claims that staff at Rose Wagner had numerous "dark days," but were not assigned to Abravanel Hall to fill the gap. This seems to contradict the assertion of the Special Events Coordinator, who stated that Rose Wagner did have down time ~~because of the cancellation of the *Jay Leno Show*,~~ during the Olympics, and that staff was, indeed, rotated to cover events at Abravanel Hall. Despite the above, the Event Manager has made no claim for payment of the excess overtime.

Mayor's/ Department's Comments continued…

Page 82. The comment regarding volunteers is stated too broadly. What [the Department Director] specifically stated was that it was her understanding that the Chihuly Exhibit had a large number of volunteers. It was not a reflection that there would be minimal overtime because the "staffing demands during the Olympiad were largely carried out by SLOC volunteers." As cited earlier, [the Department Director] specifically had inquired concerning the policies the Division would employ as it related to over-time. She was specifically informed that normal overtime practices would be applied.

Auditor's response to Mayor's/ Department's comments- *Findings and Recommendations, Section 11, page 103, third paragraph.* In this regard, the Community Services Director asserted her understanding that the staffing demands during the Olympiad were largely carried out by SLOC volunteers. According to the Mayor's Office response to our audit, *"The Division Director was specifically queried by the Department Director on how overtime would be handled in the Olympic period. The response was that they would use their normal overtime policy. No complaints were received by either the Department or the Mayor concerning overtime practices during or immediately following the Olympics. No unusual overtime practices were noted on payroll. Only at the point of the Mayor staff's review were any comments made on this item."* This response confirms that the actual overtime requirements for the Olympic period were never assessed through any in-depth analysis. Had such action been taken, the need to address subsequent employee comments and complaints regarding overtime may have been avoided.

Mayor's/ Department's Comments continued…
Again, the Department and Mayor's Office appreciate the efforts of the Auditor's Office. We believe there were deliberate attempts to conceal long entrenched practices from the Department Director and Department Fiscal Manager. The uncashed personal check in the file, for example. Many of these were only discovered when actual transactions were reviewed on a case by case basis. There is every indication that the Division Director and the Division fiscal personnel knew of the inappropriateness of at least some of their acts. Many of the errors required substantial effort to conceal. The movements of payments from account to account is an example of these complicated attempts.

There were system failures. The Auditor had conducted a review of the box office in 1998. Clearly the accounting for revenue in that function became a review point in this audit. The Department, Auditor, and the Treasurer, as reflected in the report, knew of some of the depository account issues. There were attempts to "fix" the problem but ultimately there was no coordinated effort to ensure that the corrections had in fact been made. The Department Fiscal Manager had concerns about the competency of the Division Fiscal Manager and felt the staff was not forthright in their provision of information. These all should have led to greater scrutiny.

Staff seem to have only come forward when the pressure to provide information and accountability grew too strong. There were numerous opportunities prior to that, but they chose not to do so.

Auditor's response to Mayor's/ Department's comments- *Scope and Objectives, final paragraph, page 5.* On another matter, in the Mayor's Office response to our audit, they state, *"The Auditor had conducted a review of the box office in 1998. Clearly the accounting for revenue in that function became a review point in this audit."* It is not clear to us whether *"this audit"* in the Mayor's Office comment above is referring to the 1998 audit or the current audit. If the reference is addressing the 1998 audit, we would like to clarify that we did not review accounting for box office revenue and its impact on the Event Settlement account, the Depository account, or the Fine Arts Fund Balance-Cash during the 1998 audit. The scope of our review of the box office during the 1998 audit was limited to determining if cash handling procedures (such as timeliness of deposits and check acceptance procedures) were being completed in accordance with Countywide Policy #1062, "Management of Public Funds."

Mayor's/ Department's Comments continued…
Again we wish to thank the Auditor for its team's efforts in review. We appreciate the sound recommendations. The recommendations set forth in the audit clearly will establish clearer trails of accountability. They will be utilized by the Mayor's Office in working with other organizations.