

**EDUCATION, ARTS & CULTURE
DEPARTMENT
HERITAGE HOUSE REVENUES
AUDIT 09-14
OCTOBER 21, 2009**



City of Chattanooga

Stan Sewell
Director

INTERNAL AUDIT
City Hall
Chattanooga, Tennessee 37402

Ron Littlefield
Mayor

November 13, 2009

Mayor and City Council
City of Chattanooga
City Hall
Chattanooga, TN 37402

RE: Heritage House Revenues, Audit 09-14

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit Division's report on Heritage House Revenues.

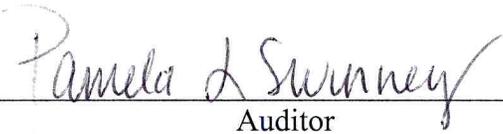
We thank the management and staff of the Education, Arts & Culture Department for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM
Director of Internal Audit

cc: Dan Johnson, Chief of Staff
Audit Committee Members
Missy Crutchfield, EAC Administrator
Chris Holley, Heritage House Director

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Auditor



Audit Director

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INTRODUCTION

Located in Heritage Park, Heritage House is an Arts and Civic Center. Once the estate of the Henshell Family, the park and house have been transformed for the benefit of the community. Classes in art, music, film, acting, sculpting, jewelry making, dance and chess are offered throughout the year. Such classes are often conducted by independent instructors that receive 75% of the registration fees. In addition, free seminars, concerts, art shows, recitals and other events are held at the Heritage House.

Heritage House may be rented for private events and meetings between the hours of 8:00 am and 11:00 pm. Per City Ordinance 12040, the house rental fee is \$50 per hour or \$500 for a 12 hour period. A \$150 refundable damage deposit is also required with the rental payment. A discount of 25% off the hourly rate is available for reoccurring meetings (minimum of 3 bookings).

STATISTICS

	<u>FY08</u>	<u>FY09</u>
Revenues	\$23,440	\$21,715
Labor	40,113	46,151
Direct Expenditures	<u>19,420</u>	<u>7,522</u>
Net	<u>\$ (36,093)</u>	<u>\$ (31,958)</u>

Note: Banner Organization N00403 Budget Summary, Actual.

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Division's 2009 Audit Agenda. The objectives of this audit were to determine if:

1. Cash collections were properly documented and submitted to the Treasurer's office within the required three day period.

2. Proper rental payments and deposits are being received for all scheduled events.
3. Damage deposits were properly approved and refunded to customers.

STATEMENT OF SCOPE

Based upon the work performed during the preliminary survey and assessment of risk, the audit period covered revenues that occurred from July 1, 2008 to September 30, 2009. Source documentation was obtained from the Education, Arts & Culture Department as well as the Finance department. Original records as well as copies were used as evidence and verified through physical examination.

STATEMENT OF METHODOLOGY

We reviewed the written policies/procedures and interviewed staff at the Heritage House to gain an understanding of the collection process. In addition, we reviewed the Internal Control Compliance Manual for Tennessee Municipalities, the Chattanooga City Code and relevant City ordinances. We reviewed detail documentation for a sample of transactions.

The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

STATEMENT OF AUDITING STANDARDS

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

AUDIT CONCLUSIONS

Based upon the test work performed and the audit findings noted below, we conclude that:

1. Cash collections were properly submitted to the Treasurer's office within the required three day period.

2. It appears rental payments and deposits have been received for all events that took place. However, rental reservations have been confirmed and placed on the online calendar prior to receipt of payment.
3. Damage deposits were properly approved and refunded to customers.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Heritage House, they do present risks that can be more effectively controlled.

NONCOMPLIANCE WITH DEPARTMENT RESERVATION POLICIES

The Education, Arts, and Culture Department maintains a website calendar of scheduled events. We learned events are placed on the calendar prior to payment and completion of contracts. Also, scheduled events that are sponsored by the department are marked as “paid” on the calendar even though no rental payments are received.

The department’s reservation policy states “citizen must complete and return the agreement along with payment of fees and deposit within 7 days of the date of the agreement” and “reservations are confirmed and placed on the calendar when payment is received.” Further, we noted per the rental agreement form “all rental fees must be paid in full when making the reservation.”

We selected a sample of 43 events scheduled on the calendar to verify proper payments were collected and reservation policies were adhered to. We found two (2) events listed as paid on the calendar without a corresponding deposit and one (1) event listed on the calendar (indicating no payment), that never occurred per Heritage House staff.

In addition to providing staff with a tool to effectively manage reservations, the on-line calendar provides a valuable internal control over cash collections. The calendar should be used to provide the Education, Arts & Culture Department management with information to reconcile events placed on the calendar to monies deposited per the collection reports. In addition, the practice of placing unpaid events on the calendar may decrease interest from prospective renters since it appears the facility is booked.

RECOMMENDATION 1

We recommend reservations be placed on the on-line calendar only after the contract is completed and full payment has been received.

AUDITEE RESPONSE

The Departmental Reservation Policies sited are from the Department of Parks and Recreation who previously managed the house. The department of Education Arts and culture will work with the legal department to develop a set of reservation policies specific to the Heritage House Facility.

AUDITOR COMMENT

During the initial audit meeting, the auditor requested a copy of any policies and procedures used by Heritage House staff. The reservation policies sited were provided to Internal Audit by Heritage House staff.

RECOMMENDATION 2

We recommend that Education, Arts & Culture department sponsored events be noted as such on the calendar rather than using the “paid” notation.

AUDITEE RESPONSE

We agree with the recommendation and will no longer mark department sponsored events as “paid”.

SERVICE PROVIDER CONTRACT AGREEMENT NOT ADHERED TO

Classes are offered at the Heritage House through a contract with a third party (instructor). On the first day of class, participants register for the current session and make payment directly to the service provider (instructor).

We reviewed the contract terms and noted the City is required to collect the activity fees and submit payment of 75% to the class instructor at the end of the first class. However, when we reviewed the collection reports for two class sessions offered during the audit period, we found that the instructor completed the participant registration form and submitted 25% of the class fees collected to the City. This remittance, along with supporting documentation, was not submitted until approximately one month after the first day of class.

Since the class participants are not completing the registration form, the City is unable to verify the accuracy of activity fees collected. Further, the current contract methodology is administratively impossible due to the inability to submit payment to the service provider on the first day of class.

RECOMMENDATION 3

We recommend the class participants register with City staff prior to or on the first day of class. Further, we recommend City staff reconcile the fees received from the service provider to the participant registration form.

AUDITEE RESPONSE

We agree with recommendation #3 and will work with the legal department to ratify the current instructor contract to reflect the changes.

RECOMMENDATION 4

We recommend the service provider contract agreement be updated.

AUDITEE RESPONSE

We will work with the legal Department to update the instructor contract to reflect the changes in procedure which will correct the methodology which is currently “administratively impossible”.