

**EDUCATION, ARTS & CULTURE
DEPARTMENT
CIVIC FACILITIES CONCESSIONS
AUDIT 09-16
DECEMBER 15, 2009**



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

January 11, 2010

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

RE: Civic Facilities Concessions, Audit 09-16

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit Division's report on the Civic Facilities Concessions.

The Civic Facilities management has already taken positive actions in response to our recommendations. 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
Daisy Madison, City Finance Officer
Audit Committee Members
Missy Crutchfield, Administrator EAC Department

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Pamela A. Swinney

Auditor

[Signature]

Audit Director

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INTRODUCTION

The Tivoli Theatre and Soldiers and Sailors Memorial Auditorium (described as the “Civic Facilities”), are both operated by the Education, Arts, and Culture Department. The Civic Facilities meet community needs by offering Broadway and family shows, concerts, and student events. The North River Civic Center was not included in this audit. Management has traditionally treated the North River Civic Center as an educational and recreational facility, as well as a senior center, whereas the Tivoli Theatre and Soldiers and Sailors Memorial Auditorium have been treated as entertainment facilities.

Both the Memorial Auditorium and Tivoli Theater have concession stands which sell drinks, snack foods, and candy. The majority of the concession sales occur during the 20 minute intermissions. Food and drinks must be consumed during intermission. No food or drinks (except water) are allowed inside the auditoriums. The City operates the concessions through the use of part-time employees. A part-time concessions supervisor handles the inventory purchases and supervises the cashiers for both Memorial Auditorium and Tivoli Theater.

STATISTICS

	<u>FY 2008</u>	<u>FY 2009</u>
Revenues	\$ 85,057.38	\$ 71,802.64
Labor	18,981.03	16,086.47
Direct Expenditures	<u>40,260.23</u>	<u>34,864.02</u>
Net Concessions Income	<u>\$ 25,816.12</u>	<u>\$ 20,852.15</u>

Note: Actual figures from BANNER for organization code N00302.

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. Tennessee sales & use tax returns have been filed as required by State Law.
2. Internal controls are adequate to properly safeguard inventory items and cash collections.
3. Concession sales are properly accounted for.

STATEMENT OF SCOPE

Based on the work performed during the preliminary survey and the assessment of risk, the audit will cover civic facilities concession operations from July 1, 2008 to June 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 Memorial Auditorium to gain an understanding of the concession operations. In addition, we reviewed the Internal Control Compliance Manual for Tennessee Municipalities, applicable State laws, and 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 performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT CONCLUSIONS

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

1. The Tennessee sales and use tax returns have been filed timely for the Civic Facilities. However, we noted several returns were not completed properly.
2. The internal controls surrounding the concessions operations are not adequate to properly safeguard inventory items and cash collections.
3. Concession sales have been properly accounted for.

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

LACK OF RECONCILIATION AND REVIEW OF SALES TAX RETURNS

We reviewed three sales tax returns (2 for Memorial Auditorium and 1 for Tivoli Theater) and noted several errors in the returns. We compared the sales reported on the sales tax returns to the gross sales reported in the City's accounting system. We found one month in which taxable sales were overstated resulting in an overpayment of sales tax and two months in which taxable sales were understated resulting in an underpayment of sales tax.

Based on discussions with staff and a review of written policies/procedures, we found the sales tax return preparation lacks a revenue reconciliation function as well as an appropriate management review prior to the return being filed with the State.

RECOMMENDATION 1

We recommend a revenue reconciliation process be included in the Civic Facilities sales tax return preparation procedures. Further, we recommend management review the sales tax return prior to the return being filed with the State.

AUDITEE RESPONSE

A procedure to balance oracle collections will be implanted with the December 2009 reports. Sales tax returns are currently reviewed by management prior to remittance to the state. This however was not the practice prior to January 2008.

RECEIPTS ARE NOT ISSUED

During the process of the audit, we determined that receipts were not provided to customers. Neither Memorial Auditorium nor the Tivoli Theater use cash registers at the concession stands. Due to time constraints, written receipts are not given to customers unless requested.

In accordance with T.C.A. 9-2-103, "Each state, county and municipal official who receives any sum or sums in such official's capacity shall issue to the payer thereof a receipt and shall retain a duplicate thereof in the office of such official..."

RECOMMENDATION 2

We recommend cash registers be purchased and utilized for concession sales at the Civic Facilities. Further, we recommend a detailed cash register receipt be provided to any purchaser of goods and services.

AUDITEE RESPONSE

Prices are being obtained for cash registers.

TRANSFER OF FUNDS NOT DOCUMENTED

Per discussions with Civic Facilities staff, we found daily collections from the concession stands are not counted by the cashier at the end of the night. The cashier places the cash and the inventory sales sheet in an unlocked cash bag and gives the cash bag to the supervisor on duty. Neither the cashier nor the supervisor counts and documents the transfer of funds.

The Internal Control and Compliance Manual For Tennessee Municipalities, Title 5, Chapter 13, Section 2 states “anytime custody of money changes from one employee to another, the money should be counted by both employees. A prenumbered receipt or other document recording the count should be prepared and signed by BOTH employees indicating concurrence with the amount transferred. This document should be retained by the individual turning the money over.”

RECOMMENDATION 3

We recommend both employees count the concessions cash collections and document the exchange when the custody of money changes hands.

AUDITEE RESPONSE

Cashiers will be identified and will count sales funds collected at the end of each performance. These will be verified in the presence of the concession manager. The concessions manager will be responsible for placing the collections in the locked safe in the presence of management. Collections will be verified by management the next day when the collection report is prepared.

CASH COLLECTIONS NOT RECONCILED BY CASHIER

As noted previously, the concession cashiers do not reconcile daily collections. The Internal Control and Compliance Manual For Tennessee Municipalities, Title 5, Chapter 13, Section 5 states “at the end of the day, the cashier counts the cash and checks on hand, leaving only the predetermined amount for change.”

RECOMMENDATION 4

We recommend each cashier perform and document a daily reconciliation of cash collections.

AUDITEE RESPONSE

Cashier will count all monies collected at the end of each performance and a signed and verified reconciliation sheet will be prepared and included with the collections.

CASH COLLECTIONS NOT DEPOSITED INTACT

The Internal Control and Compliance Manual for Tennessee Municipalities Title 5, Chapter 13, Section 9 states “collections are deposited intact” and “intact means that collections are deposited in the form and amount in which they are collected. Employee and third party checks must not be cashed through the cash drawer.” During the review of a sample of collection reports, we noted several third party checks that were cashed through the cash drawers. Further, we noted payments were made for purchases of concession items that were reimbursed through the cash drawer.

RECOMMENDATION 5

We recommend cash collections be deposited in the form and amount in which they are collected.

AUDITEE RESPONSE

Employee and third party checks are not cashed from the cash drawer. City of Chattanooga checks related to the event are currently cashed from the cash drawer. This is due to the lack of available petty cash funds. In order to avoid this practice petty cash which is currently \$100.00 will need to be raised to \$1,000.00. Purchases for products from various vendors are often made on Saturdays, Sundays and evenings. Payment for items such as pizza must be made at the time of product delivery. Currently the purchasing card will not allow such purchases to be authorized even though they are for City business and accounted for in concession inventory and are approved by management prior to ordering. In order to avoid payment from the cash drawer for such items petty cash will need to be raised and/or the purchasing card opened up to allow concession product purchases.