

Metro
**Metropolitan Exposition-
Recreation Commission**
Portland Center for the Performing Arts

***Event Settlement Activities:
System Works, Some Enhancements Are Needed***

June 2002

A Report by the Office of the Auditor



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PEOPLE PLACES
OPEN SPACES

Alexis Dow, CPA
Metro Auditor



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Office of the Auditor

June 19, 2002

To the Metropolitan Exposition-Recreation Commission and Metro Council:

The Portland Center for the Performing Arts (PCPA) hosts about 900 arts and cultural performances each year. Its theaters and other spaces are rented to commercial promoters, nonprofit arts groups and others. In fiscal year 2001, rental revenue from events totaled about \$3.2 million, or 70 percent of the PCPA's operating revenue. The PCPA is owned by the City of Portland and operated by the Metropolitan Exposition-Recreation Commission (MERC), a unit.

We studied the process used to determine the amount promoters and groups owe for using the PCPA's facilities – a process known as event settlement - and to evaluate related management systems. Overall, event settlement is functioning. Management processes are in place to ensure that settlements are accurate and complete, appropriate rental and labor rates are applied, and deposits are sent to the bank and recorded in a timely manner. Even so, opportunities for improvement exist in the following three areas:

- streamlining information systems
- developing additional policies and procedures
- investigating and resolving discrepancies in bank balances

Specific recommendations for making these improvements are detailed in the report.

We reviewed a draft of this report with the Metropolitan Exposition-Recreation Commission Chair, Judy Rice and General Manager, Mark Williams. The last section of this report presents the written response from Chair Rice.

We appreciate the cooperation and assistance provided by MERC and Metro management and staff during this review.

Very truly yours,

A handwritten signature in black ink, appearing to read "Alexis Dow". The signature is fluid and cursive, written over a faint, large watermark of the METRO logo in the background.

Alexis Dow, CPA
Metro Auditor

Auditor: Douglas U'Ren, Certified Internal Auditor

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Executive Summary

The Portland Center for the Performing Arts (PCPA), located in downtown Portland, hosts about 900 music, drama, dance and cultural performances each year. Its theaters and other spaces are rented to commercial promoters, nonprofit arts groups, and other organizations. The PCPA is owned by the City of Portland and operated by the Metropolitan Exposition-Recreation Commission (MERC), a Metro unit.

This audit studied the process by which the PCPA and MERC Administration determine the amount promoters and groups owe for using the PCPA's facilities - a process known as event settlement. In fiscal year 2001, revenue from this process totaled about \$3.2 million, or about 70 percent of the PCPA's operating revenue.

Overall, event settlement is functioning well. Management processes are in place to ensure that settlements are accurate and complete, appropriate rental and labor rates are applied, and deposits are sent to the bank in a timely manner.

Even so, opportunities for improvement exist in the following three areas:

- **Streamlining information systems.** Current systems for managing and communicating billing information require some event data to be entered into computers two or three times. Consolidating or connecting these systems would save administrative time, eliminate human data entry errors and provide the PCPA managers with better, timelier information about financial results. Direct electronic up-loading of summary financial data from MERC's systems to Metro's PeopleSoft financial information system could further streamline the process.
- **Developing additional policies and procedures.** These policies and procedures are needed to improve internal controls, better ensure that event transactions are handled in the way management and the Commission intended, and help train new employees. For example, we found no policy in place defining how funds in an event settlement bank account may be used.
- **Investigating and resolving discrepancies in bank balances.** In a number of cases, discrepancies between bank statements and MERC's records went unreconciled, sometimes for a year or more. Not correcting them and the underlying conditions that cause them in a timely manner can erode the credibility of financial reports that managers and others use in monitoring operations. Also, resolving bank account discrepancies will help ensure that any unauthorized activity, such as fraud, is brought to light.

Our more specific recommendations for addressing these matters are on the next page.

Summary of Recommendations

Streamlining Information Systems

1. MERC's Director of Administration should assign a person or team to fully investigate options for improving MERC's event management information system and assess potential costs/benefits of integrating it with Metro's PeopleSoft-based financial information system. The improvements should be aimed at (1) performing event settlements - and accounting for revenues, expenses, ticket sales and deposits - more efficiently, and (2) providing event-specific profitability reports to the PCPA managers. This person, or at least one member of the team, should have experience in systems analysis. Once an option is chosen, the team should identify the individual projects that need to be done to carry out the chosen option or strategy.
2. After a decision is made about the option to be used, MERC and the PCPA should pursue a structured approach toward making event management information system improvements. They should develop a written work plan that will clearly define what the goals of each improvement project are, what tasks need to be done to complete each project, who will do them, and how project efforts and results will be monitored.
3. If the work plan developed by the PCPA and MERC calls for expanded use of ConCentRICs, the event management software currently in place, the PCPA and MERC should ask for help from someone who has actual experience implementing and operating ConCentRICs' event settlement and accounting features at another performing arts center. If ConCentRICs is used for the accounting function at either the PCPA or MERC, MERC should take steps to (1) improve data security, including access to applications and backup and recovery of data, and (2) ensure that the system can be operated when its primary administrators are on vacation or absent for other reasons.

Developing Additional Policies and Procedures

4. MERC and PCPA staff should develop additional written policies that:
 - identify the required frequency of event revenue transfers to Metro and how the transfer amounts should be calculated.
 - formally establish the type of disbursements may be made out of special deposit accounts – the bank accounts that receive event-related deposits and revenues and are used to pay event-related expenses.
 - identify when aging accounts receivable should be written off and how such write-offs should be authorized and reported.

These policies should be reviewed and approved, as appropriate, by either the MERC Commission or its General Manager.

5. The MERC Director of Administration or his designee should ensure that new procedures in the areas identified below are completed and all procedures – including existing ones – are reviewed and approved by the appropriate manager.
 - Procedure to ensure that the PCPA staff sends billing information to MERC Administration promptly so all events can be settled in a timely manner.
 - Procedure on how staff should follow-up on overdue accounts.
 - Procedure that assigns responsibility for initiating rental rate updates and ensuring that the new rates are promptly communicated to staff who need to know about them.
 - Procedure to ensure the PCPA staff adequately documents all services before billing paperwork is forwarded to MERC Administration.
 - Procedure that describes the process for charging interest on overdue accounts and for booking the interest revenue.
6. MERC’s Director of Administration or his designee should assign a qualified employee to organize policies and procedures so that staff can more easily apply them.

Investigating and Resolving Discrepancies in Bank Balances

7. MERC’s Director of Administration and Metro’s Accounting Manager should formally identify their respective responsibilities for reconciling the balance in the event settlement bank account, and develop a procedure to ensure that the reconciliation is adequately done and reconciliation issues are corrected in a timely manner.

Introduction and Background

What is the Portland Center for the Performing Arts?

The Portland Center for the Performing Arts (PCPA) consists of three buildings located in downtown Portland. These buildings contain four theaters and other spaces that are used to host about 900 music, drama, dance and cultural performances each year. The performances are financed and produced by commercial promoters, nonprofit arts presenters and producers, and resident companies – the primary tenants who produce theater, symphony, ballet, opera and children’s programs. Unlike some performing arts centers around the U.S., the PCPA does not produce its own performances.

The PCPA has 26 employees who market, book and manage the facilities, coordinate ticket sales and maintain the equipment and buildings. A large contingent of volunteers and part-time staff supplements this in-house staff. The PCPA’s budget for the current fiscal year, including capital expenditures, is approximately \$9.9 million.

The PCPA’s operations are financed by a combination of earned revenues and public subsidies.

How is the PCPA managed?

The PCPA’s three buildings are owned by the City of Portland and managed by the Metropolitan Exposition-Recreation Commission (MERC) based on intergovernmental agreements approved by the City and the Metro Council.

MERC is a unit of Metro established to operate, maintain and renovate Portland-area convention, trade and spectator facilities. It oversees the Oregon Convention Center and the Portland Metropolitan Exposition Center, as well as the PCPA. MERC has its own budget and policies, but some Metro policies apply to MERC operations as well. MERC is governed by a seven-member board (the Commission) appointed by several local governments and approved by the Metro Council.

The PCPA itself is managed by a Director who reports to MERC’s General Manager. Its budget is funded through a combination of rent revenues, hotel/motel taxes, government contributions, and a number of smaller revenue sources. The PCPA is organized into five departments: Booking and Sales, Ticket Services, Event Services, Operations, and Administration.

What is an event settlement?

An event settlement is the process by which MERC Administration determines the amount owed to or by a promoter for usage of the

PCPA facilities. Typically, the promoter will owe the PCPA for renting the facility and some equipment, and for the cost of providing staff to take tickets, operate equipment, and establish security. After an event, the PCPA will credit the promoter for ticket sales held in its bank account and for any prepaid rent deposit. The funds collected by the PCPA are netted against charges owed by the promoter. Facility rent, labor charges and ticket sales are all detailed on a settlement statement. After the settlement statement has been prepared, if the PCPA owes the promoter, it sends the promoter a check. If the promoter owes the PCPA, the settlement statement serves as an invoice and the promoter has 30 days to remit the balance due to the PCPA.

The timing of the event settlement process varies somewhat and is governed by contracts or license agreements signed by the PCPA Director and the promoter. Events are often settled the day after the performance, or the day after the last performance if the license agreement covers more than one performance. Touring shows often negotiate an “on-site” or preliminary settlement that takes place the evening of the performance. Final settlement typically takes place the next day. Weekly settlements are done for two of the PCPA’s resident companies - Portland Center Stage and the Tygres Heart Shakespeare Company.

Why are event settlements important?

Event billings are a key source of revenue for the PCPA. During FY 2001, event-related revenues totaled about \$3.2 million and constituted approximately 70% of the PCPA’s \$4.6 million in operating revenues. In addition, event-related revenues and disbursements flow into and out of a bank account that, because of its specific purpose, has a different set of internal controls than the controls applied to a bank account used to pay ordinary MERC expenses. Finally, event settlements sometimes reflect cash advances paid to facility promoters for pre-event ticket sales. Cash advances could expose MERC to financial losses if appropriate internal controls are not in place to prevent the theft or inappropriate use of the cash. We were told that such cash advances are common in the performing arts industry.

What are the key roles and responsibilities in event settlements?

Event settlement involves staff and management at both the PCPA and MERC Administration, with MERC Administration responsible for handling most of the actual event settlement processing, as well as the handling of moneys involved.

Event Settlement Roles and Responsibilities	
PCPA Departments	MERC Administration
<ul style="list-style-type: none"> • Schedule and book events • Prepare contracts (facility license agreements) for promoters • Ensure that promoters sign license agreements and provide proof of liability insurance policies before events take place • Plan and manage events, track and record the amounts to be billed, forward billing information to MERC administration. • Assist MERC Administration in following-up on overdue accounts 	<ul style="list-style-type: none"> • Prepares final event settlement statements based on event billing information received from the PCPA departments • Sends/provides settlement statements to promoters • Processes advanced deposits and settlement funds, and deposits them in a bank account (known as the ‘special deposit account’) • Prepares event accounting entries that are recorded in Metro’s PeopleSoft management information system • Reconciles the PCPA accounts and initiates adjustments to general ledger balances if necessary • Writes monthly checks from the special deposit accounts to transfer earnings from events into a Metro-controlled investment account • Follows up on overdue accounts

The PCPA Director and MERC General Manager review and approve labor and equipment rates to ensure the PCPA’s costs are recovered. They also develop business plans and policies. MERC establishes user fees and other MERC facility policies through the use of formal resolutions.

What information systems are used for event settlements?

The PCPA and MERC Administration use three different systems to develop all the information needed for event settlements.

- ConCentRICs (**Convention Center Resource Information and Control System**). This is the primary information system used to track and transmit event information among the PCPA staff. It is a set of software applications developed by the Resource

Information and Control Corporation of Indiana. Convention centers, theaters and conference centers use it to help manage their facilities and events and reduce paperwork. ConCentRICs is capable of managing information for all phases of facility operations from event scheduling and administration to billing and accounting. The PCPA primarily uses it only to book events and communicate event-specific information across its departments.

- PeopleSoft. This is Metro's financial management information system. PeopleSoft is used to book deposits, ticket sales, rent revenues and associated event expenses. It is also used to develop the PCPA's financial reports.
- In-house spreadsheets. While the PCPA and MERC staff uses information from the ConCentRICs and PeopleSoft systems in conducting event settlements, the actual statements for event settlement are produced separately from either system, using spreadsheets developed by MERC Administration staff. These spreadsheets are separately prepared using Microsoft Excel.

What did our audit cover, and how did we do the work?

The purpose of our audit was to determine if management systems are adequate to ensure that:

- events are settled and invoiced promptly, accurately and efficiently,
- amounts owed by event promoters are collected and promptly deposited and recorded in Metro's accounting system,
- the PCPA policies related to license agreements, deposits and facility rates are being followed, and
- PCPA's managers receive information they need to adequately monitor and control the financial performance of the facilities.

We carried out our work by:

- interviewing PCPA, MERC and Metro managers and staff.
- performing comprehensive testing of 15 randomly selected events out of the 57 that were held in July and October of 2001. The total revenue the PCPA earned from these events was about \$370,000.
- reviewing MERC resolutions, business plans, event settlement procedures, financial reports, and account reconciliations.
- discussing the capabilities and performance of the ConCentRICs software system with users at three other performing arts/theater facilities to assess potential for streamlining settlement processes through expanded use of ConCentRICs.

- reviewing reports on other performing arts centers prepared by other audit offices to identify settlement-related risks and controls.
- determining that a sample of advanced rent payments and collected receipts were deposited in the PCPA's special deposit (bank) account and recorded in the financial records.

This audit was performed between December 2001 and May 2002 in accordance with generally accepted government auditing standards. Audit survey work was conducted during October and November 2001.

The Event Settlement System Is Functioning, But Opportunities Exist For Improvement

Based on an assessment of PCPA and MERC internal controls and extensive testing of 15 events, we concluded that the current system for billing events is adequate and is generally performing satisfactorily.

- All events in our sample were settled. Four settlements took more than five days to complete, but these delays were largely due to temporary factors that have since been addressed.
- Signed contracts, rent prepayments (when required) and insurance certificates were received prior to performances.
- The PCPA billed promoters for all services provided.
- The PCPA staff accurately applied the rent, labor and equipment rates to settlements in compliance with policies approved by the MERC Commission.
- Generally, rent prepayments and receipts on account were deposited in the PCPA special deposit (bank) account promptly after receipt.
- Billed services were adequately supported.
- Appropriate measures were taken to safeguard and control payments made to promoters for ticket sales and to settle events.

Although results were generally favorable, some opportunities exist for improvement. These are explained in the findings that follow.

Improve efficiency of event settlement and provide better management information

What is the problem?

Although settlement billings are accurate, the process used to gather information for event settlements is inefficient. Information needed to schedule, manage and settle the PCPA events resides on multiple databases associated with three different software applications - the ConCentRICs facility management system, Metro's PeopleSoft financial management information system, and Microsoft Excel spreadsheets created separately by MERC staff. For the most part, information in these applications cannot be transferred. As a result, some event information must be entered into computer programs two or more times in order to settle events and make the appropriate journal entries into Metro's financial accounting and reporting system.

Here are examples of multiple entries of the same or similar data:

- Event staff labor information must be recorded at least three times - once into a Kronos time-keeping system that captures labor data and downloads it into a separate PeopleSoft payroll system, once more into

paper timesheets that are used to prepare event billings, then again into Excel spreadsheets that are used to prepare and support event settlement statements.

- Facility rent charges must be recorded twice - once in the ConCentRICs facility management system when the event is booked, and again on Excel spreadsheets that are used to produce the event settlement statements sent to promoters.
- The labor time of contract security personnel is first handwritten on paper sign-in sheets, and then summarized on an Excel spreadsheet by a PCPA house manager. An accounting technician from MERC Administration includes the security charges on the event settlement statement, which is produced using a second Excel spreadsheet.
- Journal entries needed to record event deposits and revenues are prepared first on Excel spreadsheets, and then input into Metro's financial system.

Besides requiring multiple entries of the same data, the current approach lacks an important capability - providing the PCPA's managers the ability to determine whether individual events are making a profit. They receive monthly revenue and expense reports, but the current system does not enable them to review all costs associated with individual events.

Why is dealing with the problem important?

Both aspects of this problem - duplicate entry of information and lack of a profit statement - have negative implications.

- Duplicate entry of some event information and handling of unnecessary paperwork wastes staff time. In addition, MERC Administration staff must recheck event settlement information due to the risk of errors arising from the use of information from multiple computer programs and data sources.
- The absence of profit-and-loss statements for individual events diminishes internal control by not allowing management to match costs with revenues and thereby assure that all event services have been billed. The availability of profit-and-loss statements for individual events would better enable the PCPA managers to schedule the most profitable events if two or more commercial promoters desire to hold shows in the same time period.

What issues need to be addressed in dealing with this problem?

MERC and the PCPA have been trying to consolidate and improve the event management system for several years. Staff turnover and other priorities have limited their success. To make greater progress, the PCPA and MERC Administration will need to address the following issues:

- The project to improve the event management and billing system has

lacked continuous dedicated leadership - someone who can devote substantial time to learning the ConCentRICs applications and the other components of the event management process, put together a work plan, solve implementation problems, train staff, and be accountable for specific results and empowered to make decisions that affect multiple PCPA and MERC departments.

- A written plan for implementing improvements to the PCPA events management system has not been developed and distributed to affected staff. Management assured us that an informal plan has been discussed in meetings, but it has not been documented. A written plan would identify the goals and priorities of system improvements, communicate them to staff, identify tasks and resources that are needed to achieve goals and priorities, assign specific task and responsibilities to individual managers and staff and catalyze MERC administrative staff and the PCPA staff to work cooperatively toward building a better event management system that they both desire.
- One matter that will need to be decided is what software to use as the basis for a streamlined event settlement process. The PCPA could either expand its usage of the ConCentRICs' features or transition to a different software package. Our survey of performing arts centers outside of Oregon indicated that the PCPA could use the event settlement and accounting features of ConCentRICs even though the ConCentRICs system was developed for use by convention centers. Two other performing arts centers we contacted use ConCentRICs to settle events, and have begun using it to perform financial accounting functions as well.
- Additional issues that will need to be addressed should the PCPA and MERC decide to expand the use of ConCentRICs include evaluating data security and training additional staff. Security issues that will need to be addressed include access to the ConCentRICs' applications as well as backup and recovery of data. Additional staff will need to be trained in administering the software, because only one staff member is trained to perform this role currently. MERC has no trained back-up.

Recommendations

- MERC's Director of Administration should assign a person or team to fully investigate options for improving MERC's event management information system and assess the potential costs and benefits of integrating it with Metro's PeopleSoft-based financial information system. The improvements should be aimed at (1) performing event settlements - and accounting for revenues, expenses, ticket sales and deposits - more efficiently, and (2) providing event-specific profitability reports to the PCPA managers. This person, or at least one member of the team, should have experience in systems analysis. Once an

option is chosen, the team should identify and document the individual projects that need to be done to carry out the chosen option or strategy. This investigation and decision-making should include input from Metro's Accounting Services Division and Information Technology Department to assure that Metro's budgeting, financial reporting and data security needs will be met once the planned changes are implemented.

- Once a decision is made about the option to be used, MERC and the PCPA should pursue a structured approach toward making event management information system improvements. They should develop a written work plan that will clearly define what the goals of each improvement project are, what tasks need to be done to complete each project, who will do them, and how project efforts and results will be monitored.
- If the work plan calls for expanded use of ConCentRICs, the PCPA and MERC should ask for help from someone who has actual experience implementing and operating ConCentRICs' event settlement and accounting features at another performing arts center. Also, if the use of ConCentRICs is expanded to include the accounting function at either the PCPA or MERC, MERC should (1) evaluate existing data security, including access to applications as well as backup and recovery of data, and (2) ensure that the system can be operated when its primary administrators are on vacation or absent for other reasons.

Additional policies and procedures need to be developed and communicated

What is the problem?

While MERC and the PCPA have some written policies and procedures in place, other policies and procedures remain undocumented. Written and approved policies and procedures help ensure that an organization's activities are carried out consistently and in accordance with management's intent. The agencies have taken some steps in this regard. For example, written policies are in place for such matters as charging interest on balances more than 30 days old and allowing MERC staff to set rates that ensure actual labor and equipment costs are recovered. MERC also recently developed procedures for settling events, monitoring receivables, and depositing event funds. These procedures represent a major step forward toward achieving a solid core of procedures.

Policies that are not documented relate to following matters:

- Making event revenue transfers to Metro - how frequently this should be done, and how the amounts to transfer should be calculated.
- Making disbursements from special deposit accounts (the bank accounts that receive event-related deposits and revenues and are used to pay event-related expenses).

- Determining when aging accounts receivable should be written off and how such write-offs should be authorized.

Procedures that are not documented relate to the following matters:

- Sending billing information from the PCPA to MERC so that events can be settled in a timely manner.
- Identifying how MERC and the PCPA staff should follow up on overdue accounts.
- Updating rent rates and ensuring that staff knows about the updates.
- Ensuring adequate support for billed services.
- Charging interest on overdue accounts and booking the interest revenue.

Those policies and procedures that already exist in written form can also be made more useful. These policies and procedures have not been codified - that is, gathered together and made readily accessible. As a result, we found it difficult to identify which policies approved by MERC apply to particular PCPA functions. In order to determine which policies applied to the event settlements and collections processes, we had to scan through a list of ten years' worth of Commission resolutions. In some cases it was also difficult to determine which resolutions were still in force and which were superseded by subsequent resolutions. In addition, most of the existing written procedures have not been reviewed and approved by management. As a result, it is unclear whether they primarily reflect existing practices or if they correctly represent how management wants processes to be carried out.

Why is dealing with the problem important?

We found specific indications that a more complete and management-approved set of policies and procedures is needed. For example:

- Two key PCPA and MERC employees were unaware of a 1996 resolution passed by MERC that spelled out how overdue accounts should be managed. One requirement in the resolution is to charge 1.5% monthly on accounts outstanding for more than 30 days. Although MERC Administration has been charging this interest rate, interest revenue is recorded only if payments are received, not when billed. The lack of a written procedure increases the risk that interest may not continue to be charged if staff turnover occurs.
- Management gave us a list of bank account signers that did not match a list of bank account signers authorized by the MERC Commission. The Commission last updated the signature list in March 1998. Without a clear policy and procedure for delegating signature authority, there is

increased risk that unauthorized signers could make unauthorized or inappropriate disbursements from MERC's event settlement bank accounts.

- Recommendations*
- MERC and PCPA staff should develop additional written policies that:
 - identify the required frequency of event revenue transfers to Metro and how the transfer amounts should be calculated.
 - formally establish the type of disbursements may be made out of special deposit accounts - the bank accounts that receive event-related deposits and revenues and are used to pay event-related expenses
 - identify when aging accounts receivable should be written off, and how such write-offs should be authorized and reported.

These policies should be reviewed and approved, as appropriate, by either the MERC Commission or its General Manager.

- The MERC Director of Administration or his designee should ensure that new procedures in the areas identified below are completed and all procedures - including existing ones - are reviewed and approved by the appropriate manager.
 - Procedure to ensure that the PCPA staff sends billing information to MERC Administration promptly so all events can be settled in a timely manner.
 - Procedure on how staff should follow-up on overdue accounts.
 - Procedure that assigns responsibility for initiating rental rate updates and ensuring that the new rates are promptly communicated to staff who need to know about them.
 - Procedure to ensure the PCPA staff adequately documents all services before billing paperwork is forwarded to MERC Administration.
 - Procedure that describes the process for charging interest on overdue accounts and for booking the interest revenue.
- The MERC Director of Administration or his designee should assign a qualified employee to organize MERC's policies so MERC and the PCPA staff can more easily apply them.

**Differences
between book and
bank balances**

Reconciliation of bank statements, a key control over cash, is not being adequately performed. Reconciliations help ensure all bank account activity is reflected accurately in the general ledger and can prevent losses by detecting errors and omissions made by the bank or MERC staff.

need to be investigated and resolved more quickly

Although MERC Administration staff has taken steps to reconcile MERC's event settlement bank accounts every month, differences are not always adequately investigated or corrected. Our review of the December 2001 bank reconciliation showed the following:

What is the problem?

- The bank recorded 3 automated teller machine cash orders (ATM machine replenishment orders) totaling \$60,000 that had not been accounted for. One of these orders dated back to August 2000 and another occurred in September 2001. The decision to run ATM activity through the PCPA event settlement bank account was made by a previous MERC Administration management team. The current management team told us they plan to move all ATM transactions into a separate bank account by the end of June, an action we support.
- Seventeen deposits totaling \$107,000 were recorded by the bank but were not posted to the general ledger. Management said this issue involved advanced ticket sales and the problem that caused this discrepancy has been addressed.
- Bank interest earnings of \$6,700 and fees of \$6,000 had not been recorded to the general ledger.
- For reasons that had not been identified, the book balance continued to be \$10,680 lower than the bank balance, as it was at June 30, 2001, the prior fiscal year end.

In April 2002 MERC Administration staff prepared a journal entry to correct the unrecorded deposits, bank fees and interest earnings. However, the ATM-related discrepancies remain unresolved.

Why is dealing with the problem important?

Unrecorded transactions and errors that are not corrected can erode the accuracy and credibility of monthly financial reports that managers and the Commission rely on to monitor operational results. Although reconciling items as of December 31, 2001 were not material in relation to the PCPA's overall revenues or event settlement bank account balances, they could eventually become significant in time if their underlying causes are not addressed. Unrecorded transactions that show up in bank reconciliations can also be a sign of bigger problems, such as fraud.

What issues need to be addressed in dealing with this problem? Roles, responsibilities and procedures surrounding the event settlement bank account have never been clearly defined, communicated, and enforced. For example, it is unclear whether MERC Administration is responsible for investigating bank reconciliation issues or if responsibility for this activity lies with Metro's Accounting Services Division. Every quarter Metro Accounting Services staff reviews reconciliations prepared by MERC, and every month MERC and Metro accounting staff meet to discuss issues that impact both of them, but these processes have not yet cleared up continuing problems that the bank reconciliations highlight.

Recommendations

- MERC's Director of Administration and Metro's Accounting Manager should meet and formally identify their respective responsibilities for the event settlement account reconciliation and develop a procedure to ensure that the reconciliation is adequately done and reconciliation issues are corrected in a timely manner. The responsibilities and procedures should be reduced to writing. If they are unable to agree on a logical division of responsibilities or the procedure, or if one of the parties fails to comply with the agreed-upon procedure, the issues should be elevated to others who can resolve the logjam.

Response to the Report



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METROPOLITAN EXPOSITION-RECREATION COMMISSION

June 11, 2002

Honorable Alexis Dow, CPA, Metro Auditor
Metro Regional Center
600 NE Grand Avenue
Portland, OR 97232-2736

Re: Portland Center for Performing Arts Settlement Account Audit

Dear Auditor Dow:

On behalf of the Metropolitan Exposition-Recreation Commission (MERC), thank you for the work you and your staff did on the Portland Center for the Performing Arts (PCPA Settlement Account Audit) and for allowing us the time to meet with you and discuss the audit findings personally.

MERC strives to operate the facilities entrusted to it in a cost effective, entrepreneurial, and accountable manner, as provided by the Metro Code. "Event settlement" (as we call it) at PCPA is the process by which we determine the amount promoters and groups owe MERC for using PCPA's facilities, or, in some cases, how much we owe them. This is a process that must be handled quickly and efficiently in order to assure that the proper funds are directed to the appropriate accounts.

We are very pleased that your audit found that:

"Overall, event settlement is functioning well. Management processes are in place to ensure that settlements are accurate and complete, appropriate rental and labor rates are applied, and deposits are sent to the bank in a timely manner."

We also appreciate the recommendations you have made for making further improvements to our system. We agree with your recommendations and intend to implement them as follows:

1. Streamlining Information Systems

Proposed Plan and Timetable for Implementing Recommendations:

MERC is recruiting a qualified person to assist it in improving MERC facilities IT services. This individual will initially be dedicated to exploring the advantages and costs/benefits of implementing the expanded capabilities of the current event management system, Concentrics, or recommending alternative measures. It is anticipated that this position will be hired by the first of the fiscal year. Following a management decision regarding implementation, a written work plan will be developed to delineate the tasks to improve PCPA's event management system.



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It is expected that the system will take the fiscal year. The process will include:

- Exploring the advantages of expanding Concentrics usage
- Identifying parameters
- Developing parameters
- Implementing operations functions of system
- Run operations function in parallel
- Operations function on-line
- Implementing accounting functions
- Run accounting functions in parallel
- Accounting functions online

If MERC moves forward with expanding the use of Concentrics it may call upon managers at comparable facilities with actual Concentrics implementation and operating experience. In anticipation of expanding Concentrics, MERC has had management from comparable facilities with actual experience implementing and operating Concentrics event settlement and accounting features provide orientation to PCPA staff. These contacts have agreed to be called upon on an as needed basis.

2. Developing Additional Policies and Procedures

Proposed Plan and Timetable for Implementing Recommendations:

The Director of Administration will review the objective and scope of the tasks involved with the event settlement process with the primary objective to: assist staff in performing their role and ensuring effective internal controls. The Director will design policies that will help ensure accountability of results, and include appropriate, cost-effective controls. The standard of controls will include:

- Compliance with law
- Reasonable assurance and safeguards
- Proper delegation of authority
- Separation of duties
- Access to and accountability for resources
- Adequate recording and documentation

The Director will hire a temporary staff to assist in the process of developing and organizing these policies and procedures.

It is anticipated that these tasks will be completed by March of 2003.

3. Investigating and Resolving Discrepancies in Bank Balances:

Proposed Plan and Timetable for Implementing Recommendations:

MERC is currently working to resolve outstanding known discrepancies in bank balances. It is anticipated that the ATM reconciliation will be completed by this current fiscal year end. In addition, as part of recommendation number 2, MERC will implement procedures to ensure reconciliations are adequately done and reconciliation issues are corrected in a timely manner

Thank you once again for all of the hard work that you and your staff put in to this audit. Please feel free to call our General Manager, Mark Williams, if you or your staff have any further comments or suggestions.

Sincerely,



Judy Rice
MERC Chair

JR/ks

cc: MERC Commissioners
MERC Management Team



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Metro Auditor Report Evaluation Form

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Our mission at the Office of the Metro Auditor is to assist and advise Metro in achieving honest, efficient management and full accountability to the public. We strive to provide Metro with accurate information, unbiased analysis and objective recommendations on how best to use public resources in support of the region's well-being.

Your feedback helps us do a better job. If you would please take a few minutes to fill out the following information for us, it will help us assess and improve our work.



Metropolitan Exposition-Recreation Commission Portland Center for the Performing Arts *Event Settlement Activities: System Works, Some Enhancements are Needed*

Please rate the following elements of this report by checking the appropriate box.

	Too Little	Just Right	Too Much
Background Information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Details	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Length of Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Clarity of Writing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Potential Impact	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Suggestions for our report format: _____

Suggestions for future studies: _____

Other comments, ideas, thoughts: _____

Name (optional): _____

Thanks for taking the time to help us.

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Suggestion Hotline: 503.230.0600, MetroAuditor@metro.dst.or.us