



City Auditor

Date: February 2, 2006

To: Christopher Brady, City Manager
Debbi Dollar, Deputy City Manager

From: Gary Ray, Acting City Auditor *AR*

Subject: Mesa Arts Center, Adult Class Program Cost

Transmitted with this letter are the Final Audit Report and two Corrective Action Plans from our audit of the Art Studios Adult Class Program Cost. We have discussed our findings with Gerry Fathauer and Rob Schultz, and their detailed responses have also been attached. They have agreed with our recommendations, and plan to implement them June 1, 2006. Early next year, we will perform a brief follow-up review to determine whether changes were implemented as planned and whether new procedures are being followed.

We would like to express our appreciation to the staff members at the Mesa Arts Center for their assistance and cooperation during the audit. If you have any questions, or if we can be of further assistance, please don't hesitate to call me.

xc: Gerry Fathauer, Arts and Cultural Director
Rob Schultz, Arts Administrator

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Audit Report

Department: Community Services – Arts & Cultural Division
Audit Subject: Mesa Arts Center – Art Studios Classes
Date Completed: December 12, 2005

Title: Audit of Adult Class Cost and Cost Recovery

Objectives: This audit was conducted to determine:

- What costs are included in the Mesa Arts Center staff's calculation of class Program cost.
- Whether additional costs should be added to the calculation.
- What level of cost recovery is currently being achieved.

Scope: To accomplish these objectives we:

- Reviewed budget reports, the class catalog, RecTrac system reports, MAC staff internal calculations and other relevant documents.
- Interviewed key personnel.
- Reviewed available current data and made projections.
- Reviewed Council meetings, minutes and reports.
- Performed other tests or inquiries as necessary.

Conclusion: In our opinion:

- The Art Studios adult class cost and cost recovery reported by Mesa Arts Center staff is incomplete and inaccurate.
- Additional direct costs and labor charges should be included in the calculation. The allocation of costs between adult and youth classes should be related to how the costs are incurred.
- The level of cost recovery currently being achieved differs from the amount reported to council.

Comments: During the audit:

- Determined that a clearly defined, consistent method for calculating and presenting class cost and cost recovery information has not been established.
- Staff members expressed confusion regarding the definition of direct costs, allocation methodologies and the desired report format.

Significant Recommendations: Please see the two attached Corrective Action Plans (CAPs).

Management Response: Management has agreed to implement all recommendations. Detailed responses and implementation dates are included with the individual CAPs.

Corrective Action Plan #1

Audit Subject: Mesa Arts Center, Art Studios Class Costs

Title: Complete and accurate data entry in all accounting systems

Observations: The Art Studios class information in the RecTrac system is not accurate or complete. Employee time is not allocated accurately in the Payroll system.

Many reports were generated from the City of Mesa's RecTrac and Payroll systems for use in the cost and cost recovery calculations. While performing calculations necessary to arrive at a cost amount, determined that 11% of the class information data we looked at was entered incorrectly, and 16% of the adult instructor listings were missing or inaccurate.

Discussions with Mesa Arts Center staff revealed that those involved with entering, tracking, recording, and ultimately reporting Art Studios class costs, fees, and related information are unaware of the importance and uses of this data. When the data entered into a system is inaccurate and incomplete, the reports generated from that system cannot be relied upon.

The largest direct cost associated with the Art Studios classes is labor. In order to determine the direct cost of labor to include in the total class cost, some employees' time should only be partially allocated. However, the amount of time actually spent on different areas is not documented or broken out in the Payroll system. Without written documentation, the cost and cost recovery calculations are more subjective, inconsistent, and less reliable.

Risks:

- Lack of accurate reporting
- Inability to rely on system-generated reports
- Decisions based on inaccurate reports

Recommendation: We recommend that staff be trained sufficiently on the accounting systems and reminded of the importance of accurate and complete data entry. Employees and supervisors that spend time on different programs or projects should be instructed to keep track of their time by Work Order #, and the time then entered into the Payroll system accordingly.

Corrective Action Plan #2

Audit Subject: Mesa Arts Center, Art Studios Class Costs

Title: Calculation and presentation of adult program cost and cost recovery

Observations: The Mesa Arts Center staff calculation and presentation of adult class program cost and cost recovery is incomplete and inaccurate.

Determined that some direct costs are not included in the MAC staff calculation. Some costs, which are, by accounting definition, direct costs, are not considered costs of the Arts Studios classes by MAC staff and are therefore not included in their calculation and presentation. Labor costs are also understated, and there is no documentation to support the amount included by MAC staff. The exclusion of some direct costs and the understatement of labor costs results in Program cost being understated and the related cost recovery percentage being overstated.

In addition to excluding and/or understating direct costs, the allocation percentage of costs between adult and youth classes used by MAC staff is not correct. Costs should be allocated between adult and youth classes based on how the majority of those costs are incurred, which is by hour of instruction offered. The allocation ratio used by MAC staff is based on number of classes. Calculations should not be made based on "classes", as "classes" range from 1.5 hours to 39 total hours of instruction and cannot be uniformly compared. The incorrect allocation of costs between adult and youth resulted in the understatement of adult class cost.

Risks:

- Lack of accurate reporting
- Inconsistent calculation methods and reports
- Decisions based on inaccurate reports

Recommendation: We recommend that direct costs be clearly defined and calculated consistently. The allocation of costs between adult and youth classes should be based on how the costs are incurred and the resulting ratio should be applied consistently. A format for calculating this ratio and for calculating the cost and cost recovery of the adult art classes should be developed and used for future reporting.



Date: January 30, 2006
To: Gary Ray, Acting City Auditor
Through: Gerry Fathauer, Arts and Cultural Director *GF*
From: Robert Schultz, Arts and Cultural Assistant Director *RS*
Subject: Arts Classes Audit Response

Please find below responses and implementation dates for the two Corrective Action Plans that resulted from your recent audit.

Corrective Action Plan #1

Title: Complete and accurate data entry in all accounting systems

Client Response to Recommendation: All staff that have responsibility for input of data will receive additional training and be reminded of the importance of accurate and complete data entry. Arts Classes employees and supervisors will track their time worked via Work Orders, which will be entered into the Payroll system accordingly.

Implementation Date: Employees and supervisors will begin tracking their time via Work Order on June 1, 2006. This date corresponds approximately to the start of the Summer Session of classes. Starting then will avoid future accounting confusion when comparing cost recovery rates with future class sessions.

Corrective Action Plan #2

Title: Calculation and presentation of adult program cost and cost recovery

Client Response to Recommendation: Client agrees with all three points made in this recommendation.

Implementation Date: June 1, 2006.