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**Office of the City Auditor**

**Audit Report**

**AUDIT OF BUSINESS PARTNERS OVERSIGHT –  
ARTS DISTRICT**  
(Report No. A17-010)

**August 25, 2017**

**City Auditor**

Craig D. Kinton

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## Executive Summary

The Office of the City Auditor’s risk evaluation<sup>1</sup> identified various concerns related to financial viability for two business partners: (1) the AT&T Performing Arts Center (ATTPAC) which is legally known as the Dallas Center for the Performing Arts Foundation, Inc; and, (2) the Dallas Black Dance Theatre, Inc. (DBDT). As a result, these business partners warrant closer monitoring by the Office of Cultural Affairs (OCA) and may require additional financial support from the City of Dallas (City) in the future.

It is important to note that these two business partners have strong City and community support and have managed to fulfill their mission for many years despite these issues. Since Fiscal Year (FY) 2014, the City Council has passed resolutions providing additional funding to these two business partners<sup>2</sup> in the amount of \$1.5 million to ATTPAC and \$77,000 to DBDT.

While OCA performs various oversight / monitoring activities related to the Arts District business partners, areas for improvement were identified. Specifically, OCA’s:

### Background Summary

The City of Dallas (City) currently has long-term facility agreements with four entities (business partners) in the Arts District. The City receives little, if any, revenues from the business partners. The City is obligated, contingent on City Council annual funding resolutions, to reimburse certain business partners for utilities, operating, and ordinary maintenance costs in accordance with the agreements.

The Office of Cultural Affairs (OCA) is responsible for contract oversight / monitoring of the long-term facility agreements in the Arts District for the following business partners:

Business Partners	Date of Organization
1 AT&T Performing Arts Center (ATTPAC), legally known as the Dallas Center for the Performing Arts Foundation, Inc.	2000
2 Dallas Black Dance Theatre, Inc. (DBDT)	1977
3 Dallas Museum of Art (DMA)	1940
4 Dallas Symphony Association, Inc. (DSA)	1945

**Source:** Business partners’ IRS Forms 990

<sup>1</sup> The risk evaluation was based on analysis of financial and operational information for FY 2014 through FY 2016 including: (1) audited financial statements, general ledger trial balances, and Federal tax returns (Internal Revenue Service Form 990), if available; (2) analysis of key non-profit financial ratios; and, (3) survey information (see Appendix III).

<sup>2</sup> (1) ATTPAC – The ATTPAC requested the City provide certain additional funding to ensure ATTPAC can continue performing its central role in supporting the performing arts in the City. On October 26, 2016, the City Council approved the Third Amendment to the Use Agreement (Council Resolution 16-1750) to reimburse ATTPAC an additional \$1.5 million annually for ten years, subject to annual appropriations, for the promotion and support of nonprofit arts and cultural organizations. The ATTPAC’s success in meeting the necessary performance criteria to receive this \$1.5 million annual payment was not included in the scope of this audit as sufficient time had not passed since the Third Amendment was signed. Prior to the Third Amendment, the City reimbursed the ATTPAC \$2.5 million annually for utility and operating expenses. The City’s \$2.5 million annual funding to ATTPAC is a significant revenue source ranging from nine percent in FY 2014 to approximately seven percent in FY 2016. (2) DBDT – At the beginning of FY 2014, the City increased the amount it reimbursed DBDT for utility and operating expenses by approximately 83 percent (\$77,000). On October 23, 2013, the City Council passed a resolution (Council Resolution 13-1889) to raise the DBDT annual utility and operating expense reimbursement cap to \$170,000; however, the agreement which reflects an annual cap of \$93,000 was not amended.

- Cost reimbursements to ATTPAC, DBDT and Dallas Museum of Art do not comply with agreement terms
- Monitoring of City-owned artwork housed and exhibited at Dallas Museum of Art is inadequate
- Review procedures of business partners' facility operations' invoices submitted for reimbursement are not adequate or have control weaknesses
- Contract oversight / monitoring is insufficient for 21 key ATTPAC use agreement sections and did not identify DBDT's noncompliance with insurance requirements<sup>3</sup>

Finally, the following Dallas Symphony Association (DSA) agreement shortcomings were noted:

- Absence of a facility fee charge included in DSA's ticket price which is not consistent with other City-owned facilities and is a common industry practice for funding facility maintenance and capital improvements on an ongoing basis
- Facility booking requirements prevent maximum utilization of the Morton H. Meyerson Symphony Center and Annette Strauss Artists Square

We recommend the Director of OCA improves contract oversight / monitoring controls by addressing the recommendations made in this report. We also recommend the Director of OCA works with the City Attorney's Office and DSA to modify the agreement to address the noted shortcomings.

Management's response to this report is included as Appendix V.

## **Auditor Follow-Up Comments**

While management agreed with the recommendations in this report, their action plans are not specific and the implementation dates, set for June 30, 2019 (with one exception), are lengthy. Without specific action plans, including interim milestones to demonstrate progress towards implementation, accountability for the

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<sup>3</sup> *The Audit of Fair Park Business Partners Oversight* (Report Number 16-009, issued May 13, 2016) identified contract oversight / monitoring as an area for OCA improvement. The OCA agreed to the recommendations related to OCA included in the report and gave a recommendations implementation date of March 31, 2018. As a result, additional recommendations for OCA oversight / monitoring are not included in this report; however, the auditors will follow-up to verify recommendations implementation for both audits.

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control improvements is unclear and the risk is increased that the deficiencies in the OCA's contract oversight / monitoring controls will remain.

The audit objective was to evaluate the financial, operational, and other risks for the major business partners operating facilities in the Arts District and the City's oversight / monitoring controls. The audit focused on four Arts District business partners and the associated oversight / monitoring responsibilities provided by OCA. The audit scope included management operations from FY 2014 through FY 2016; however, certain other matters, procedures, and transactions outside that period were reviewed to understand and verify information during the audit period.

# AUDIT RESULTS

## Section I – Risk Evaluation of Arts District Business Partners

### Financial Viability of Two Business Partners Warrants Closer Monitoring

The Office of the City Auditor's (Office) risk evaluation<sup>4</sup> identified various concerns related to financial viability for two business partners: (1) the AT&T Performing Arts Center (ATTPAC) which is legally known as the Dallas Center for the Performing Arts Foundation, Inc.; and, (2) the Dallas Black Dance Theatre, Inc. (DBDT). As a result, these business partners warrant closer monitoring by the Office of Cultural Affairs (OCA) and may require additional financial support from the City of Dallas (City) in the future.

It is important to note these organizations have strong City and community support and have managed to fulfill their mission for many years. Since Fiscal Year (FY) 2014, the City Council has passed resolutions providing additional funding to these two business partners<sup>5</sup>.

#### Financial Viability of Non-Profit Organizations

Ability of the non-profit organization to:

- Pay its bills
- Secure reliable and diverse sources of income
- Balance income and expenses

Non-profit organizations that strive to be financially viable need to have good practices and management processes in place that directly influence their financial health, such as: (1) financial planning; (2) budgeting; (3) managing costs; (4) managing cash; (5) managing grants; (6) diversifying sources of funding; (7) selling products and services; (8) building up reserve funds; and, (9) managing performance.

**Source:** *Building Capacity through Financial Management*, John Cammack; Klaus Boas – *Indicators of Financial Sustainability* and *Establishing Good Financial Management*

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<sup>4</sup> The risk evaluation was based on analysis of financial and operational information for Fiscal Year (FY) 2014 through FY 2016 including: (1) audited financial statements, general ledger trial balances, and Federal tax returns (Internal Revenue Service Form 990), if available; (2) analyses of key non-profit financial ratios; and, (3) survey information (see Appendix III).

<sup>5</sup> (1) ATTPAC – The ATTPAC requested the City provide certain additional funding to ensure ATTPAC can continue performing its central role in supporting the performing arts in the City. On October 26, 2016, the City Council approved the Third Amendment to the Use Agreement (Council Resolution 16-1750) to reimburse ATTPAC an additional \$1.5 million annually for ten years, subject to annual appropriations, for the promotion and support of nonprofit arts and cultural organizations. The ATTPAC's success in meeting the necessary performance criteria to receive this \$1.5 million annual payment was not included in the scope of this audit as sufficient time had not passed since the Third Amendment was signed. Prior to the Third Amendment, the City reimbursed ATTPAC \$2.5 million annually for utility and operating expenses. The City's \$2.5 million annual funding to ATTPAC is a significant revenue source ranging from nine percent in FY 2014 to approximately seven percent in FY 2016. (2) DBDT – At the beginning of FY 2014, the City increased the amount it reimbursed DBDT for utility and operating expenses by approximately 83 percent (\$77,000). On October 23, 2013, the City Council passed a resolution (Council Resolution 13-1889) to raise DBDT's annual utility and operating expense reimbursement cap to \$170,000; however, the agreement which reflects an annual cap of \$93,000 was not amended.

The concerns related to financial viability for each of these two business partners are described below.

### **AT&T Performing Arts Center**

The ATTPAC does not meet certain key non-profit financial ratios (benchmarks) as follows:

- Fundraising Efficiency – A measure of how much an organization spends to generate \$1 in charitable contributions

The ATTPAC spent \$0.42 to \$0.63 in fundraising expenses for every \$1 of contributions generated which exceeds the benchmark of \$0.35, considered reasonable for most charities<sup>6</sup>.

- Program Efficiency – A measure of the extent to which an organization spends its funds for programming versus fundraising or administrative functions

The ATTPAC program expenses, as a percentage of total expenses, ranged from approximately 37 percent to 41 percent. These percentages are well below the benchmark of 80 percent, as well as the 67 percent actually achieved by the average nonprofit as noted on CharityNavigator<sup>7</sup>. The ATTPAC does not believe program efficiency accurately reflects its mission since ATTPAC has assumed the cost to: *“...provide, maintain, and operate premier performing arts venues for our five resident companies<sup>8</sup>...so the resident companies would not have to. The Center feels those costs should be included (sic) the scope of our program expenses.”* (Note: The auditor’s calculation of this benchmark was based upon programming expenses initially provided by ATTPAC and supported by the programming expenses shown in the FY 2014 through FY 2016 audited financial statements).

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<sup>6</sup> Cathedral Consulting Group, LLC TOPIC Cash vs. Accrual, April 2011

<sup>7</sup> Cathedral Consulting Group, LLC TOPIC Cash vs. Accrual, April 2011

<sup>8</sup> Dallas Opera, Dallas Theater Center, Dallas Black Dance Theatre, Texas Ballet Theater and Anita N. Martinez Ballet Folklórico



- Cash On-Hand – A measure of the number of days an organization can operate if no additional funds are received

As of July 31, 2016, ATTPAC's operating cash divided by cash expense per day was 75 days which is below the benchmark of 90 to 180 days' cash on hand<sup>9</sup>.

Analysis of ATTPAC's FY 2014 through FY 2016 audited financial statements, including footnote disclosures, also identified various concerns related to financial viability. Specifically:

- Bond Related Activities

A January 28, 2016 bonds payable restructuring<sup>10</sup> resulted in ATTPAC committing to redeem approximately \$50 million in bond principal through 2026 that initially did not mature until September 1, 2041. Approximately, \$3 million and \$5 million of bonds must now be repaid by December 31, 2016 and 2017, respectively. The ATTPAC pledged gross revenues, accounts receivable, bond funds, and related investments as security for payment of the bonds payable. According to ATTPAC: *"The Center has already met the 2016 commitment outlined above. The Center's capital campaign success has us on track to meet the 2017 commitment as well, assuming the City continues its committed participation."*

- Contribution Activities

Collecting contributions pledged over several years is unpredictable. As of July 31, 2016, ATTPAC has an allowance for uncollectable receivables of \$746,206, or approximately seven percent, of the gross contribution receivable balance of \$10,343,946. While only \$10,000 of contributions receivable were written-off as uncollectible in FY 2016, \$8,953,823 was written-off in FY 2015 and \$4,620,987 was written-off in FY 2014. According to ATTPAC: *"The amounts written off in FY 2014 and FY 2015 related primarily to the pledges made during the original capital campaign."*

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<sup>9</sup> How to Assess Non-Profit Financial Performance, Reading 5 NASAA Training 09/10/2008, Analyzing Financial Information Using Ratios and accompanying worksheet, Non-profits Assistance Fund © 2008-2014.

<sup>10</sup> Bank of America, NA and JP Morgan NA (the Banks) issued letters of credit to back the \$151 million of variable rate, tax exempt demand bonds (bonds) issued in 2008 by ATTPAC. On January 28, 2016, ATTPAC and the Banks reached an agreement to restructure the terms of the outstanding bonds as follows: (1) ATTPAC is required to redeem a minimum amount of bonds each year ending December 31 through 2026; (2) beginning January 31, 2019 and continuing annually each year, the Banks will make matching redemptions in the amount of 50 percent of ATTPAC's redemptions in the prior calendar year, up to a cumulative amount of \$45 million; and, (3) the agreement's expiration date is automatically extended through September 1, 2026 if ATTPAC meets the minimum redemption requirements through December 31, 2021.

- Related Party Activities

Contributions from related parties, which include members of the Board of Directors, represent 49 percent, 21 percent, and 12 percent of total contributions for FY 2014, 2015, and 2016, respectively. The decrease in contributions from related parties from FY 2014 through FY 2016 can be interpreted as a positive trend that ATTPAC is broadening its donor base, or as a negative trend that the Board of Directors is not as supportive of ATTPAC as in the past years. According to ATTPAC: *“The ATTPAC is making a concerted effort to diversify the Board composition and donor base. As of June 5, 2017, approximately \$22.6 million of the \$26 million current capital campaign goal has been pledged, of which approximately \$16.5 million is from seven board members and approximately \$6.1 million from eight non-board members.”*

### **Dallas Black Dance Theatre, Inc.**

The DBDT does not meet certain key benchmarks as follows:

- Cash On-Hand – A measure of the number of days an organization can operate if no additional funds are received

As of May 31, 2016, DBDT’s operating cash divided by cash expenses per day was 0.38 of a day which is below the previously noted benchmark of 90 to 180 days’ cash on hand. This ratio continued an unfavorable trend which was below the benchmark as of May 31, 2014 and 2015 at 10.81 days and 5.31 days, respectively.

- Current Ratio – A measure of financial strength that shows the extent an organization can take care of its short-term liabilities with the cash and cash equivalents it owns

Current assets divided by current liabilities was 0.99 as of May 31, 2016 which means there are not enough current assets to pay-off current liabilities. The benchmark is greater than one<sup>11</sup>.

Analysis of DBDT’s audited financial statements, including footnote disclosures, also identified various concerns related to financial viability. Specifically:

- A limited number of donors provide a significant amount of DBDT’s pledges, grants, and other receivables. Total pledges, grants, and other receivables were from one donor (approximately 35 percent), two donors

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<sup>11</sup> Cathedral Consulting Group, LLC TOPIC Cash vs. Accrual, April 2011

(approximately 46 percent), and three donors (approximately 60 percent) for the years ended May 31, 2014, 2015, and 2016, respectively.

- The DBDT derives most of its revenue from private donations and in-kind donations and the level of funding from these sources is dependent on various factors, such as economic conditions, compliance with grant provisions, donor satisfaction, and public perception of mission effectiveness and relative importance
- In FY 2015, the Executive Director and a Board Member made a short-term loan to DBDT and during FY 2013 DBDT incurred significant losses and cash flow constraints

As noted from DBDT's website along with DBDT's responses to the Office's survey, the Founder who retired in May 2014 is still actively involved in DBDT and the Executive Director has worked for DBDT for 30 years. While the Board of Directors approved a strategic plan in June 2016 that included key employee and management succession, there is increased uncertainty for DBDT's future success when the Founder and the long-time Executive Director are no longer actively involved in DBDT's operations.

According to DBDT: *"DBDT... has not missed a payroll, made a public crisis appeal for funds, reduced programing, implemented layoffs, or experienced a work disruption. . .In addition, the organization has maintained its financial equilibrium while operating on a cash basis and consistently balancing its budget."*

The *State of Texas Contract Management Guide*, which provides contract managers with recommendations on improving existing contract management processes and practices, identified Financial Capability as one of the contract monitoring activities. Organizations which the City contracts with to provide services should be financially capable and viable of handling a project of a specific size and scope and operate in a manner that reduces the risk that the organization will not be able to meet the contract requirements.

## **Recommendation I**

We recommend the Director of OCA implements procedures to more closely monitor the financial viability of these two business partners.

Please see Appendix V for management's response to the recommendation.

## SECTION II – Contract Oversight / Monitoring of Arts District Business Partners

### Office of Cultural Affairs Cost Reimbursements Do Not Comply with Agreement Terms

The OCA is not complying with agreement terms for expense reimbursements to the following Arts District business partners:

- AT&T Performing Arts Center (ATTPAC) which is legally known as the Dallas Center for the Performing Arts Foundation, Inc.
- Dallas Black Dance Theatre, Inc. (DBDT)
- Dallas Museum of Art (DMA)

If the agreement terms had been followed, the annual expense reimbursement amount for each of the three business partners would have changed annually instead of remaining constant<sup>12</sup>.

In addition, OCA did not perform the Consumer Price Index (CPI) adjustment calculation to the ticket surcharge of \$1.00 per ticket for events at the Performing Arts Center on the required five-year anniversary of the Rent Commencement Date of December 22, 2014. The ticket surcharge is used for capital maintenance. See Appendix I for the

#### Contract Oversight / Monitoring

Contract oversight / monitoring is the process that ensures contracted organizations comply with contract terms, performance expectations are achieved, and any problems are identified and resolved.

Best practices for contract oversight / monitoring include the following.

- Responsibility and authority should be clearly assigned to one or more staff with the proper skillset, time, and resources
- Procedures (such as a synopsis of contract performance requirements, checklists, inspection reports, or other methods) should be established to ensure that deliverables are received on time, comply with the contract performance requirements, and properly document the acceptance or rejection of deliverables
- Contract documentation should be well organized in a centralized location accessible to authorized staff and cover all aspects of the contract relationship, such as general correspondence; compliance with contract performance requirements; performance reviews; and, approved / verified payments made to / from the organization contracted with
- Periodic performance reviews of the contracted organization should be completed and the results of the review reported to the proper level of management
- Sufficient ramifications for non-compliance with contract performance requirements, such as withholding payments and / or assessing penalties, should be available and used

**Source:** National State Auditors Association and the Office of the City Auditor

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<sup>12</sup> The auditors did not perform a calculation of the annual reimbursement amount for each of the three business partners due to the lack of all the necessary documents and the time periods involved.

specific contract sections and the associated requirements.

The National State Auditors Association's (NSAA) Best Practices Document, *Contracting for Services*, states: "Monitoring should ensure that contractors comply with contract terms.... To properly monitor a contract, the agency should: .... 3 ..... compare invoices and charges to contract terms and conditions."

The *Standards for Internal Control in the Federal Government by the Comptroller General of the United States* (Green Book)<sup>13</sup> states management should establish and operate monitoring activities to monitor the internal control system and evaluate the results. Management should remediate identified internal control deficiencies on a timely basis.

## **Recommendation II**

We recommend the Director of OCA complies with the cost reimbursement terms for each Arts District business partner's agreement. If OCA determines the retroactive calculations needed to gain compliance with the terms of each agreement are too onerous, we recommend OCA works with the individual business partners and the City Attorney's Office to align each agreement with current expense reimbursement practices.

## **Recommendation III**

We recommend the Director of OCA develops procedures to ensure the CPI adjustment calculation is performed when and as required by the agreement with ATPAC.

Please see Appendix V for management's response to the recommendation.

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<sup>13</sup> As required by City Council Resolution 88-3428, departments will establish internal controls in accordance with the standards established by the Comptroller General of the United States ... which are stated in the *Standards for Internal Control in the Federal Government* established by the United States Government Accountability Office in September 2014 (Green Book).

## Office of Cultural Affairs Is Not Adequately Monitoring City-Owned Artwork Housed and Exhibited at the Dallas Museum of Art

The OCA is not adequately monitoring City-owned artwork, valued at \$645 million as of January 22, 2014, housed and exhibited at the Dallas Museum of Art (Museum). The OCA last inventoried the City-owned artwork on that valuation date. In addition, neither OCA nor the Office of Risk Management has a copy of the insurance policy DMA is required to purchase to insure City-owned artwork. Section 4.1 of the agreement with DMA requires DMA to keep the City's artwork insured for a reasonable amount at all times. The City's artwork housed and exhibited at the Museum may not be adequately insured given the absence of: (1) a current inventory and valuation; and, (2) documentation that the DMA has current artwork insurance coverage and the amount of the coverage.

According to DMA, artwork insurance<sup>14</sup> that adequately insures the City's artwork, is in effect and DMA's artwork inventory system properly accounts for the City's artwork as well as DMA's artwork.

Administrative Directive 6-01, *Control of City Property* (AD 6-01) Section 4.2.6 states: "Each Department Director is responsible for conducting an annual inventory of personal property assigned to that department". The NSAA's Best Practices Document, *Contracting for Services*, states: "Monitoring should ensure that contractors comply with contract terms...."

The Green Book states management should establish and operate monitoring activities to monitor the internal control system and evaluate the results. Management should remediate identified internal control deficiencies on a timely basis.

### Recommendation IV

We recommend the Director of OCA complies with AD 6-01 Section 4.2.6, and Section 4.1 of the DMA agreement by:

- Performing an annual inventory of the City-owned artwork housed and exhibited at the Museum and valuing the artwork as considered appropriate to obtain adequate insurance coverage
- Obtaining an artwork Certificate of Insurance from DMA

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<sup>14</sup> On June 29, 2017, DMA provided a copy of the Certificate of Insurance, effective July 1, 2017 to July 1, 2018, showing the City as a named insurer on an artwork insurance policy with a combined liability limit of \$400 million at the Museum and \$100 million away from the Museum for DMA's and the City's artwork.

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- Verifying the DMA has adequate artwork insurance coverage for the City's artwork housed and exhibited at the Museum

Please see Appendix V for management's response to the recommendation.

## Office of Cultural Affairs Does Not Have Adequate Review Procedures for the AT&T Performing Arts Center Payment Certificates

The OCA's invoice processing and approval of ATPAC's quarterly Payment Certificates for reimbursement of utility and ordinary maintenance and repair expenses has control weaknesses. Without adequate invoice processing controls, including proper invoice approval, there is an increased risk of reimbursing unallowable expenses. Reimbursing unallowable ATPAC expenses sets a precedent that could be difficult to correct if, in the future, ATPAC wanted to dispute submitted expenses the City declined to reimburse.

### Invoice Processing

Invoice processing is the procedures followed by an organization to pay only the organization's bills and invoices that are legitimate and accurate. To safeguard the organization's cash and other assets, invoice processing should have internal controls that:

- Prevent paying a fraudulent invoice
- Prevent paying an inaccurate invoice
- Prevent paying a vendor invoice twice
- Ensure that all vendor invoices are accounted for

**Source:** AccountingCoach.com and the Office of the City Auditor

The OCA is not:

- Performing an adequate review of each Payment Certificate and the associated supporting documentation. The OCA's current procedure of reading the expense description on the Payment Certificate and randomly spot checking supporting documentation is not adequate to find all the unallowable expenses submitted by ATPAC. For example, the City has:
  - Reimbursed sales taxes on gas utility invoices, estimated at \$2,557, from October 1, 2013 through June 30, 2014 when ATPAC found the gas company was billing sales taxes and had the sales taxes billing stopped
  - Reimbursed operating expenses of \$1,113 without: (1) supporting documentation; and, (2) identifying the evidence ATPAC provided to demonstrate the vendor was paid had a check date earlier than the date of the vendor's invoice
- Documenting OCA's review of the Payment Certificates and supporting documentation to demonstrate the performance and the extent of the reviews

In addition, the OCA has not established any criteria for acceptable supporting documentation for submitted expenses from purchases that the ATPAC Director of Facilities made using his personal credit card. This increases the risk that



unallowable expenses will be reimbursed to ATTPAC and increases the time required to review the Payment Certificate supporting documentation.

According to OCA, a detailed review of the quarterly Payment Certificates is not efficient since OCA believes ATTPAC has enough utility and ordinary maintenance and repair expenses to reach the annual \$2.5 million reimbursement cap; thus, any unallowable expense OCA found would be replaced with an ATTPAC allowable expense.

The Green Book states management should establish and operate monitoring activities to monitor the internal control system and evaluate the results. Management should remediate identified internal control deficiencies on a timely basis.

## **Recommendation V**

We recommend the Director of OCA improves internal controls over the invoice processing and approval of ATTPAC's quarterly Payment Certificates by:

- Reviewing the Payment Certificates to ensure the information included is correct
- Ensuring each reimbursement expense amount listed on the Payment Certificate is adequately supported
- Establishing the criteria for acceptable supporting documentation required for OCA to reimburse ATTPAC for purchases made with personal credit cards
- Documenting unallowable costs that are identified and not reimbursed to ATTPAC
- Documenting OCA's review and approval of each Payment Certificate

Please see Appendix V for management's response to the recommendation.

## **Office of Cultural Affairs Invoice Review Procedures for the Dallas Black Dance Theatre, Inc. Utility and Operating Expenses Reimbursement Have Control Weaknesses**

The OCA's invoice review procedures for DBDT's utility and operating expenses reimbursement invoices have control weaknesses. Specifically, OCA does not require:

- The DBDT to submit evidence of vendor payment, such as a canceled check with each invoice. The majority of invoices reviewed did not include evidence of payment prior to OCA's reimbursement of the associated expenses.
- The DBDT to submit the complete vendor invoice. Instances were noted where incomplete invoices were submitted to OCA and reimbursed based on "total current charges". A complete invoice detailing "total current charges" showed the amount reimbursed included sales tax and late fees which are unallowable expenses.

In addition, OCA does not have a procedure in place to ensure that the City does not issue duplicate reimbursements. While no duplicate reimbursements were noted, there were several months where DBDT submitted vendor invoices for services that were provided several months earlier making it more difficult for OCA to detect potential duplicate invoices.

As a result, DBDT could be reimbursed: (1) for expenses the DBDT did not pay; (2) unallowable expenses per the agreement, such as sales taxes and late payment fees; and, (3) more than once for the same invoice.

The Green Book states management should establish and operate monitoring activities to monitor the internal control system and evaluate the results. Management should remediate identified internal control deficiencies on a timely basis.

### **Recommendation VI**

We recommend the Director of OCA improves the DBDT's invoice review and approval procedures to ensure:

- The DBDT submits evidence DBDT paid the vendor (preferably a canceled check) with each invoice
- The DBDT submits the complete vendor invoice

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- The OCA reimburses DBDT only once for each vendor invoice submitted

Please see Appendix V for management's response to the recommendation.

## **SECTION III – Agreement Modification Considerations for Arts District Business Partners**

### **Absence of a Facility Fee Charge Requirement in Dallas Symphony Association’s Agreement Is Not Consistent with Other City-Owned Facilities**

The Dallas Symphony Association’s (DSA) use agreement does not require a facility fee charge (used for funding facility maintenance and capital improvements on an ongoing basis) to be part of the ticket price for DSA performances. All other major City performance hall agreements include a facility fee charge as part of the ticket price. Also, it is a common industry practice to have a facility fee charge for funding maintenance and capital improvements on an ongoing basis as part of the ticket price for entertainment venues. Absent a facility fee charge as part of DSA’s ticket price, the City may not have sufficient funds available when maintenance and capital improvements are needed on the Morton H. Meyerson Symphony Center (Meyerson).

According to DSA, while not labeled as a facility fee: “... *there has been a facility fee in place for some time. While its previous uses may not meet some of the requested parameters going forward, the revenue collected has been used for Meyerson repairs that will benefit all users.*” According to OCA, DSA was not requesting prior approval for the repairs made to the Meyerson, as required by the agreement; therefore, OCA was unaware that DSA was using a portion of the ticket sales to make Meyerson repairs.

The NSAA’s Best Practices Document, *Contracting for Services*, states: “*Contracts should protect the interests of the agency*”.

### **Recommendation VII**

We recommend the Director of OCA works with the City Attorney’s Office and DSA to modify the use agreement to include a facility fee charge as part of the ticket price for DSA performances.

Please see Appendix V for management’s response to the recommendation.

## Facility Booking Requirements Prevent Maximum Utilization of the Morton H. Meyerson Symphony Center and Annette Strauss Artists Square

The City is not able to fully and effectively utilize the Meyerson and the Annette Strauss Artists Square (Strauss Square) due to DSA's use agreement requirements<sup>15</sup> and certain DSA practices. According to OCA, the City could have increased revenues from the Meyerson by approximately \$250,000 per year. The following are examples of DSA's use agreement requirements and practices that restrict the City's ability to maximize revenue and facility use:

- The one year advance scheduling requirement prevents the City from:
  - Scheduling revenue generating events beyond one year
  - Developing relationships with organizations that schedule events beyond one year
- The DSA does not incur a penalty when hold dates are not used
- The DSA is not required to notify the City when hold dates are released, thereby limiting the City's ability to schedule other organizations in the Meyerson on the dates released
- The use agreement's broad definition<sup>16</sup> of DSA's activities allows DSA to promote, not just stage, events preventing the City to schedule revenue generating events on those dates
- The Booking Agreement with ATTPAC restricting the use of the Strauss Square impacts both the City's and ATTPAC's ability to fully use a prime asset in the Arts District due to noise concerns by DSA

According to OCA, the DSA has also attempted to replace the City as the event scheduler (using its hold dates) with organizations that have a long-standing relationship with the City and the Meyerson such that the organization would be able to stage the event without having to pay the City's rental fees.

According to DSA: *"We have been in discussions with the Director of Cultural Affairs regarding holding dates, and we have made every effort to be diligent about holds and releases... There are times that holds can't be released easily or quickly."*

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<sup>15</sup> The lease requires DSA submit a schedule to the City in September for the following September 1 through August 31.

<sup>16</sup> Section 2. Lease of Symphony Center broadly defines the activities DSA can conduct at the Meyerson "including but not limited to performances, rehearsals, auditions, social and fund-raising activities, meetings, administration, ticket and merchandise sales, library, dressing and storage".

*...some examples below: Rehearsal time:... Practice time:...Instrument tuning:... we have committed to being good partners and looking at our release times more vigilantly going forward.”*

The NSAA’s Best Practices Document, *Contracting for Services*, states: “Contracts should (1) protect the interest of the agency.... Specifically, the contract should: 1. Clearly state and define... contract terms.”

### **Recommendation VIII**

We recommend the Director of OCA works with the City Attorney’s Office and the DSA to modify the use agreement to allow for full utilization of the Meyerson and Strauss Square.

Please see Appendix V for management’s response to the recommendation

Cost Reimbursement Agreement Sections in Noncompliance

Business Partner	Relevant Agreement Sections in Noncompliance	Current Office of Culture Affairs' Procedures Related to the Agreement Sections
<p>1 AT&amp;T Performing Arts Center (ATTPAC), legally known as the Dallas Center for the Performing Arts Foundation, Inc.</p>	<p><b>ARTICLE 8 City Funding Obligation</b></p> <p><b>8.1 Annual City Operating Expense.</b> The ATTPAC shall be responsible for any, and all, operation, management, ordinary maintenance, repair, and utilities (“<u>Operation and Utilities Costs</u>”) for the Center. The City of Dallas (City) as the property owner and in consideration of the historic and magnanimous construction of the Center by the ATTPAC, the professional services rendered by the ATTPAC for the Center, and the management of the Center as provided in this Agreement shall pay a portion of the Operation and Utilities Cost of the Center (“Annual City Operating Expenses”). The Annual City Operating Expenses to be paid by the City (subject to the Annual Cap defined below and annual appropriation) shall be the amount of said expenses evidenced by ATTPAC’s paid receipts and / or invoices (or such other reasonable evidence of payment as the City shall deem appropriate) for the following category of expenses: (i) water, sewer, gas, and electric utility costs (“<u>Utility Costs</u>”) and (ii) ordinary maintenance and repair (including, but not limited to, landscaping). The City shall pay or reimburse said amounts on a quarterly basis within 30 days of the end of each such calendar quarter.</p> <p><b>8.2 Annual Cap.</b> Notwithstanding anything herein to the contrary, the Annual City Operating Expenses shall be limited to and shall under no circumstances exceed \$2,500,000 per calendar year (“<u>Initial Annual Cap</u>”); provided, however, that the Initial Annual Cap will be adjusted on an annual basis as follows: The City shall pay or reimburse the ATTPAC for the actual annual amount paid by the ATTPAC for Utility Costs for each of the first three full years of operation of the Center, subject to the Initial Annual Cap. After the end of the first three full years of operation, the average annual amount of the actual Utility Costs for such three-year period shall be the “<u>Baseline Utility Cost</u>.” Thereafter, the Initial Annual Cap shall be increased annually (on a cumulative basis) by the actual increase in Utility Costs over the Baseline Utility Cost based on the increase (if any) in utility rates paid by the ATTPAC for such (but not by increases in usage by the ATTPAC during such year). During the first three full years of operation of the Center, the amount of the Annual City Operating Expense available to the ATTPAC for permitted uses other than Utility Costs shall be an amount equal to \$2,500,000 minus the actual Utility Cost for such year. Beginning in the fourth full year of operation and at all times thereafter during the Term of this Agreement, the amount of the Annual City Operating Expense available to the ATTPAC for permitted uses other than Utility Costs shall be an amount equal to \$2,500,000 minus the Baseline Utility Cost as determined at the end of the third full year of operation (such amount the “<u>Baseline Other Operating Cost</u>”). The Baseline Other Operating Cost shall not thereafter be decreased by increases in the Baseline Utility Cost that are calculated based on rate increases.</p>	<p>Subject to the annual \$2.5 million cap, the Office of Cultural Affairs (OCA) pays utility and ordinary maintenance and repair expenses submitted by ATTPAC without regard to a "Baseline Utility Cost" and "Baseline Other Operating Cost". If the procedures stated in paragraph 8.2 had been followed, the \$2.5 million Initial Annual Cap would have been increased on an annual cumulative basis for utility rate increases, and the portion of the Initial Annual Cap that should have been designated for permitted uses other than utility costs (a set unchanging amount) would not be used to pay both utility rate and usage increases as well as permitted uses other than utility costs. Instead, the \$2.5 million Initial Annual Cap has not changed.</p>

Business Partner	Relevant Agreement Sections in Noncompliance	Current Office of Culture Affairs' Procedures Related to the Agreement Sections
2	<p><b>Article 3 Rent</b></p> <p><b>3.4 Ticket Surcharge.</b> As further and additional rent, the ATTPAC shall collect and deposit into an escrow account (as agreed upon by the parties) (the "<u>Surcharge Reserve Account</u>"), for the use by the ATTPAC or the City (as provided below) a ticket surcharge of \$1.00 per ticket for events at the Center ("<u>Initial Surcharge</u>"). The ATTPAC shall deposit the surcharge into the Surcharge Reserve Account on a quarterly basis within 30 days of the end of each calendar quarter. Beginning five (5) years after the Rent Commencement Date, the surcharge will be adjusted on each five (5) year anniversary of the Rent Commencement Date (the "Surcharge Adjustment Date") to reflect increases in the Consumer Price Index for "All Urban Consumers, U.S. City Average, All Items," issued by the Bureau of Labor Statistics of the United States Department of Labor. Adjustments will be determined by multiplying the Initial Surcharge by a fraction, the numerator of which is the index number for the last month before the Surcharge Adjustment Date and the denominator of which is the index number for the month of the Rent Commencement Date; provided, however, that each adjustment shall be to the nearest twenty-five cents (\$.25) increment so that each surcharge will at all times be increased or decreased only by multiples of twenty-five cents (\$.25). As an example and for illustration purposes only, if the adjustment on the first Surcharge Adjustment Date would increase the Initial Surcharge by thirty-six cents (\$.36), then the surcharge beginning on the five (5) year anniversary of the Rent Commencement Date would increase to \$1.25 and if the adjustment on the first Surcharge Adjustment Date would increase the Initial Surcharge by thirty-eight cents (\$.38), then the surcharge beginning on the five (5) year anniversary of the Rent Commencement Date would increase to \$1.50. If the product is greater than the Initial Surcharge, the ATTPAC will collect and deposit this greater amount into the Surcharge Reserve Account as the surcharge until the next Surcharge Adjustment Date. The surcharge will never be less than the Initial Surcharge. The City will notify the ATTPAC of each adjustment to the surcharge no later than sixty days after the Surcharge Adjustment Date. If the index is converted to a different standard reference base or otherwise revised, the determination of the index shall be made with the use of such conversion factor, formula or table for converting the index that may be published by the Bureau or, if the Bureau does not publish the same, then with use of such conversion factor, formula or table as is published by any nationally recognized publisher of similar statistical information. If the index ceases to be published, then the City may substitute for it any independently published index of a reasonably comparable type. The ATTPAC or the City shall thereafter retain and expend the amounts in such capital maintenance account only as Surcharge for Capital Maintenance (defined below) and for no other purpose.</p>	<p>The Consumer Price Index adjustment calculation to the ticket surcharge of \$1.00 per ticket for events at the Performing Arts Center (Initial Surcharge) has not been performed to reflect changes in the Consumer Price Index. The adjustment is to be made at each five-year anniversary of the Rent Commencement Date (December 22, 2009) based on procedures outlined in paragraph 3.4. The first adjustment should have been made no later than February 20, 2015 and would have resulted in no adjustment to the ticket surcharge of \$1.00 per ticket.</p>



Business Partner	Relevant Agreement Sections in Noncompliance	Current Office of Culture Affairs' Procedures Related to the Agreement Sections
3 Dallas Black Dance Theatre, Inc. (DBDT)	<p><b>ARTICLE 9 City Contribution to Operations and Utilities Costs During Occupancy</b></p> <p><b>9.1 Annual City Operating Expenses.</b> DBDT shall be responsible for any and all operation, management, ordinary maintenance, repair, and utilities costs (“<u>Operation and Utilities Costs</u>”) for the Premises. Beginning with the first year after Occupancy by DBDT, the City as the Premises owner and in consideration of the donation of the Premises to the City and DBDT’s operations of same, subject to annual appropriation by the City’s City Council, shall pay a portion of the annual Operation and Utilities Costs of the Premises up to, but not exceeding <b>\$93,000</b> per calendar year after Occupancy (“<u>Annual City Operating Expenses Cap</u>”). The Annual City Operating Expenses Cap shall be subject to periodic adjustment as follows:</p> <ul style="list-style-type: none"> <li>a) DBDT’s annual utility usage for the first three years of operation after Occupancy shall be averaged to establish an “<u>Annual Utility Usage Amount</u>.”</li> <li>b) The Annual Utility Usage Amount shall be multiplied by the utility rate in effect for each applicable utility provider at the end of the third year after Occupancy began. The resulting product shall be known as the “<u>Initial Utility Cost</u>.”</li> <li>c) Commencing at the end of the fourth year after Occupancy began and again every year thereafter (the “<u>Adjustment Date</u>”), the utility rate then in effect will be multiplied by the Annual Utility Usage Amount. The resulting produce will be known as the <u>Current Utility Cost</u>. If the Current Utility Cost Calculated on an Adjustment Date is greater than or less than the Current Utility Cost calculated on the immediately prior Adjustment Date (the Initial Utility Cost in the case of the first such adjustment at the end of the fourth year after Occupancy), the Annual City Operating Expense Cap shall be increased or decreased by said difference as applicable: provided, however the Annual City Operating Expense Cap shall never be adjusted by this procedure below the initial \$93,000 amount.</li> </ul> <p>This procedure is intended to allow for changes in the Annual City Operating Expense Cap due to changes in the utility rates charged DBDT but not for changes due to fluctuations in usage by DBDT.</p> <p>For purposes of this adjustment calculation, “Utility” shall be defined as all charges, fees, costs and assessments charged by applicable providers for gas, electricity, water, sewer, telephone, telecommunications, and cable.</p>	<p>Subject to the Annual City Operating Expenses Cap, OCA pays utility and operating costs submitted by DBDT without regard to an “Annual Utility Usage Amount”, “Initial Utility Cost”, and “Current Utility Cost”. Utility usage changes after the third year of the contract are being paid.</p> <p>The \$93,000 Annual City Operating Expense Cap was increased to \$173,000 in Fiscal Year 2014 for reasons other than increases in utility rates.</p> <p>The City is paying for an offsite storage facility and utility expenses that are not related to the Premises</p>

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Business Partner	Relevant Agreement Sections in Noncompliance	Current Office of Culture Affairs' Procedures Related to the Agreement Sections
4	<p><b>ARTICLE 10 Insurance and Indemnification</b></p> <p><b>10.2 <u>DBDT's Insurance Obligation</u>.</b> As Additional Rent for the Premises, DBDT shall, at DBDT's sole cost and expense, procure and maintain, or cause to be procured and maintained during the term of this Agreement, the insurance described in this Section (or if not available, then its available equivalent), issued by an insurance company or companies licensed to do business in the State of Texas.</p> <p>a) <u>Liability Insurance</u>. DBDT agrees, at its sole expense, to obtain and maintain public liability insurance at all times during the Term of this Agreement with responsible insurance companies, legally authorized to transact business in the State of Texas for bodily injury (including death) and Premises damage with minimum limits of \$10,000,000 Combined Single Limit protecting the City and DBDT against any liability, damage, claim or demand arising out of or connected with the condition or use of the Premises. Such insurance shall include....</p> <p>b) <u>Worker's Compensation Insurance</u>. DBDT agrees, at its sole expense, to obtain and maintain workers' compensation insurance, as required by applicable law, during the Term, and if so required, with statutory limits and employer's liability with limits of \$100,000 each accident, \$100,000 disease each employee and \$500,000 disease per policy. The policy will be endorsed to provide a waiver of subrogation as to the City.</p> <p>c) <u>Premises Insurance</u>. At all times during the Term of this Agreement, DBDT shall, at its sole expense, keep all of its personal Premises located in the Premises insured against "all risk" of loss for full replacement cost coverage, to include....</p>	<p>The City is paying a portion of the insurance that is the responsibility of DBDT as outlined in paragraph 10.2 <u>DBDT's Insurance Obligation</u>. In addition, finance charges are included in the insurance portion the City pays.</p> <p>The DBDT does not have liability coverage that meets the \$10,000,000 Combined Single Limit requirement.</p>

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Business Partner	Relevant Agreement Sections in Noncompliance	Current Office of Culture Affairs' Procedures Related to the Agreement Sections
<p>5 Dallas Museum of Art (DMA)</p>	<p><b>SECOND AMENDMENT</b></p> <p><b>9. City's Funding Obligations:</b> Section 4.12 of the Contract is deleted in its entirety and the following substituted:</p> <p>"4.12. Subject to the provisions of Section 4.10...</p> <p>B. (1) In accordance with the procedures set out in the subparagraph C. below, the City agrees, subject to the approval of costs by OCA and annual City Council appropriation, to provide funding directly to DMA for the following:</p> <ul style="list-style-type: none"> <li>(i) One-half of the annual cost of salaries and customary benefits for the internal and external security personnel for the Art Museum, which relates to the protection of the City-owned art works in DMA's possession.</li> <li>(ii) One-half of the annual costs and expenses (excluding office supplies, travel and staff education expenses) incurred by DMA for salaries, customary benefits and related expenses for curators, preparators, registrars, conservators and photographers used by DMA, which relates to the storage and care (including preservation and restoration) of the City-owned art works in DMA's possession.</li> <li>(iii) The City's pro rata portion of fine arts insurance coverage to be obtained by DMA on the City's behalf.</li> </ul> <p>B. (2) From time to time, beginning in 1995, in addition to the annual review of appropriations, the City and DMA shall review the portions of direct operations costs borne by the City pursuant to clauses (i) through (iii) immediately above. The objectives of any such review shall be the possible revision of such operating expenses borne by the City, after consideration of the following factors, among others: (a) the number of the art objects owned by the City in relation to the total number of art objects owned by DMA; (b) the fair market value of the respective collections owned by the City and DMA; and (c) the degree of conservation, restoration, storage care and general art care of the respective collections of the City and DMA.</p>	<p>The supporting documentation for the invoices submitted by DMA for reimbursement is a payroll register (register) that, until January 2016, did not identify the department, title, or role for each employee listed on the register. From January 2016 forward, the register identifies the department for each employee listed on the register, but not their title or role. There is no calculation of one-half of the payroll cost. As long as the register total is equal to or exceeds the amount of the invoice, the invoice amount is paid, subject to the annual funding cap. In addition, the City's pro-rata share of fine arts insurance coverage is not invoiced.</p> <p>The periodic review of direct operation costs borne by the City pursuant to the clauses (i) through (iii) has not occurred.</p>

## Appendix II

### Background, Objective, Scope and Methodology

#### Background

The City of Dallas (City) currently has long-term facility agreements with four entities (business partners) in the Arts District. The Arts District is defined as City-owned facilities located in the area bounded by Woodall Rogers Freeway / State Highway Spur 366 on the north, United States Highway 75 North Central Expressway on the east, Ross Avenue on the south, and St. Paul Street on the west.

The Office of Cultural Affairs (OCA) is responsible for contract oversight / monitoring of the long-term facility agreements in the Arts District for the following business partners:

- AT&T Performing Arts Center (ATTPAC) which is legally known as the Dallas Center for the Performing Arts Foundation, Inc. – manages the AT&T Performing Arts Center
- Dallas Black Dance Theatre, Inc. – manages the Premises at 2700 Flora Street
- Dallas Museum of Art – manages the Dallas Museum of Art
- Dallas Symphony Association, Inc. – leases as the main tenant of the Morton H. Meyerson Symphony Center

The City receives little, if any, revenues, and is obligated, contingent on City Council annual funding resolutions, to reimburse certain business partners for utilities, operating, and ordinary maintenance and repair expenses in accordance with the agreements.

#### Objective, Scope and Methodology

This audit was conducted under authority of the City Charter, Chapter IX, Section 3 and in accordance with the Fiscal Year (FY) 2017 Audit Plan approved by the City Council. The audit objective was to evaluate the financial, operational, and other risks for the major business partners operating facilities in the Arts District and the City's oversight / monitoring controls. The audit focused on four Arts District business partners and the associated oversight / monitoring responsibilities provided by OCA.

The audit scope included management operations from FY 2014 through FY 2016; however, certain other matters, procedures, and transactions outside that period were reviewed to understand and verify information during the audit period. This performance audit was conducted 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

To achieve the audit objective, we performed the following procedures for the four Arts District business partners:

- Obtained and reviewed:
  - Agreements to identify financial and performance requirements
  - Audited financial statements for the last three fiscal year ends
  - General ledger trial balances for the last three fiscal year ends
  - Federal tax returns (Internal Revenue Service Form 990) for the last three years when available
- Performed ratio analyses for the last three fiscal year ends (see Appendix III)
- Surveyed the business partners regarding transactions, relationships, activities, and current or former situations that could indicate a possible inability to fulfill the agreement requirements or could place the City in a compromising situation (see Appendix III)
- Interviewed staff from OCA on procedures followed and extent of contract oversight / monitoring for the Arts District business partner agreements
- Obtained, reviewed, and tested, as appropriate, the documents that evidence OCA's oversight / monitoring of the Arts District business partner agreements
- Considered provisions that should be included in the Arts Districts agreements given other City-owned performance hall agreements and industry best practices

## Appendix III

### Business Partners' Ratio Analyses and Survey Request

The four Arts District business partners were asked to complete and return Attachments A and B. The responses, along with other audit procedures, were used to evaluate their financial viability.



City of Dallas

#### Attachment A

#### Office of the City Auditor Audit of Business Partner Oversight Ratio and Trend Analysis

Please provide the following financial ratios for the last three fiscal or calendar year ends by entering the ratios into the Excel spreadsheet template attached to the e-mail with the audit notification letter:

Financial Ratios	Financial Ratios Definition / Preferred Results <sup>17</sup>
<b>Operating Cash Divided by Cash Expenses per Day</b>  (With Cash Expenses per Day being Operating Expenses less depreciation and amortization, in-kind expenses, and unusual on-time expenses. Divide the result by 365).	<b>Ratio Definition</b>  This ratio measures the number of days the organization can operate if no additional funds were received.  <b>What Are the Preferred Results?</b>  Organizations typically strive to maintain at least 90 to 180 days cash on hand. Measuring this on a monthly basis can help plan additional fundraising or earned income opportunities.
<b>Investments Divided by Total Assets Ratio</b>	<b>Ratio Definition</b>  This ratio measures the financial strength of an organization.  <b>What Are the Preferred Results?</b>  The higher the ratio, the better the ability of an organization to cover day-to-day, capital expenditures, and unforeseen expenses.

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<sup>17</sup> Ratio definitions were not included in the documents sent to the four Arts District business partners, but are shown here to clarify why the ratio was included in the Office of the City Auditor's risk assessment.

**An Audit Report on –  
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<b>Financial Ratios</b>	<b>Financial Ratios Definition / Preferred Results<sup>17</sup></b>
<p><b>Current Assets Divided by Current Liabilities</b></p> <p>(Current Ratio)</p>	<p><b>Ratio Definition</b></p> <p>This ratio measures the financial strength of an organization. It shows to what extent an organization can take care of its short-term liabilities with the cash and cash equivalents it owns.</p> <p><b>What Are the Preferred Results?</b></p> <p>The ratio should be greater than one. A ratio greater than one may indicate the ability to meet short-term obligations and upcoming operational expenses.</p>
<p><b>Aged Accounts Payable over 90 Days Divided by Total Accounts Payable</b></p>	<p><b>Ratio Definition</b></p> <p>This ratio measures the financial strength of an organization. It is a measure of an organization's ability to pay vendors on a timely basis.</p> <p><b>What Are the Preferred Results?</b></p> <p>The lower the value the better. A high value may indicate the organization has cash flow problems.</p>
<p><b>Total Debt Divided by Total Assets</b></p>	<p><b>Ratio Definition</b></p> <p>This ratio is an indicator of financial leverage.</p> <p><b>What Are the Preferred Results?</b></p> <p>The higher the ratio, the higher the degree of leverage, and consequently, financial risk.</p>
<p><b>Total Debt Divided by Unrestricted Net Assets</b></p>	<p><b>Ratio Definition</b></p> <p>This ratio measures the financial strength of an organization. It measures how much the organization is relying on funding from others.</p> <p><b>What Are the Preferred Results?</b></p> <p>Higher values for this ratio imply a greater reliance on debt financing and may imply a reduced ability to carry additional debt.</p>
<p><b>Percentage of Each Income Source to Total Income</b></p>	<p><b>Ratio Definition</b></p> <p>This ratio indicates the diversity and mix of income sources.</p> <p><b>What Are the Preferred Results?</b></p> <p>The more income sources the better. It is better to have more than four income sources with no one source more than 75 percent.</p>

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Audit of Business Partners Oversight – Arts District**

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<b>Financial Ratios</b>	<b>Financial Ratios Definition / Preferred Results<sup>17</sup></b>
<b>Earned Income Divided by Total Income</b>	<p><b>Ratio Definition</b></p> <p>This ratio measures the relationship of earned income to all income.</p> <p><b>What Are the Preferred Results?</b></p> <p>Organizations with a higher percentage of earned income tend to have more autonomy and flexibility.</p>
<b>Earned Income Divided by Total Expenses</b>	<p><b>Ratio Definition</b></p> <p>This ratio measures the extent to which a non-profit can cover its operating expenses through earned income.</p> <p><b>What Are the Preferred Results?</b></p> <p>A high percentage indicates an organization is more self-sufficient.</p>
<b>Program Service Expenses Divided by Total Expenses</b>	<p><b>Ratio Definition</b></p> <p>This ratio measures the extent to which an organization spends its funds for programming versus fundraising or administrative functions.</p> <p><b>What Are the Preferred Results?</b></p> <p>A general rule of thumb is that a non-profit should have approximately 80 percent program expenses and 20 percent general and fundraising expenses.</p>
<b>(Income less Expenses) Divided by Total Expenses</b>	<p><b>Ratio Definition</b></p> <p>This ratio is a way to determine if an organization is adding to or using up its net asset base.</p> <p><b>What Are the Preferred Results?</b></p> <p>Values greater than one indicate an increase in net assets.</p>
<b>Fundraising Expenses Divided by Contributions</b>	<p><b>Ratio Definition</b></p> <p>This ratio indicates how much the organization spends to generate \$1 in charitable contributions.</p> <p><b>What Are the Preferred Results?</b></p> <p>The lower the ratio the better.</p>



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Audit of Business Partners Oversight – Arts District**

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Financial Ratios	Financial Ratios Definition / Preferred Results <sup>17</sup>
<p><b>Grants (government, foundations, and other) Divided by Total Expenses</b></p>	<p><b>Ratio Definition</b></p> <p>This ratio measures the use of grant funds raised from governments, foundations, and others to total overall activities of the non-profit organization.</p> <p><b>What Are the Preferred Results?</b></p> <p>Ideally, the lower the percentage of the use of funds raised, the better.</p>
<p><b>Chief Executive Officer (CEO) Compensation divided by Total Expenses</b></p> <p><b>Salary and Wage Costs Divided by Total Expenses</b></p> <p><b>Benefit Costs (payroll taxes, insurance and other benefits) Divided by Total Expenses</b></p> <p><b>Benefit Costs (payroll taxes, insurance and other benefits) Divided by Total Salary, Wages and Benefit Costs</b></p>	<p><b>Ratio Definition</b></p> <p>These ratios measure the reasonableness of personnel costs.</p> <p><b>What Are the Preferred Results?</b></p> <p>Low values may indicate a lack of funds and ability to retain talented and skilled personnel. High values may indicate a lack of commitment to fulfilling the organization's mission.</p>
<p><b>Revenues per Full Time Equivalent</b></p> <p><b>Expenses per Full Time Equivalent</b></p> <p>(Full Time Equivalent (FTE) is the hours worked by one employee on a full-time basis. The concept is used to convert the hours worked by several part-time employees into the hours worked by full-time employees).</p>	<p><b>Ratio Definition</b></p> <p>These ratios measure the efficiency of an organization's personnel and the adequacy of the organization's staffing levels.</p> <p><b>What Are the Preferred Results?</b></p> <p>High revenues per FTE may indicate a potential understaffing situation. Low revenues per FTE may indicate a potential overstaffing situation.</p> <p>High expenses per FTE may indicate a lack of fulfilling an organizations' mission or an understaffing situation depending upon the nature of the expenses. Low expenses per FTE may indicate a potential overstaffing situation.</p>
<p><b>Total Salary, Wages and Benefit Costs per Full Time Equivalent</b></p>	<p><b>Ratio Definition</b></p> <p>This ratio measures the reasonableness of the personnel costs.</p> <p><b>What Are the Preferred Results?</b></p> <p>Low values may indicate a lack of funds and the ability to retain talented and skilled personnel. High values may indicate a lack of commitment to fulfilling the organization's mission.</p>

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Audit of Business Partners Oversight – Arts District**

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In addition, please provide the source document(s) used to calculate each ratio. Unless it is self-evident, also provide documentation of the account(s) included in each of the ratios calculated. Reconcile the source document to the audited financial statements. (Note: The purpose of the reconciliation is to ensure that the source document accounts were “*audited*”. Therefore, the reconciliation can be on a high level, such as total assets, liabilities, revenues, and expenses).

Please provide a copy of the trial balance for each of the last three fiscal years and reconcile it to the audited financial statements. Provide any documentation readily available that explains the types of transactions posted to each account.



City of Dallas

## Attachment B

### Office of the City Auditor Audit of Business Partners Oversight Survey

Please provide a response to each of the following requests for information. If the requested information does not apply, indicate such by writing “N/A” as the response. Use the Word file attached to the e-mail with the audit notification letter to prepare the response. Use as many lines as needed to provide the requested information.

List and describe all:

- 1. Contingent liabilities.** A contingent liability is either a possible obligation arising from past events and dependent on future events not under the organization's control, or a present obligation that cannot be measured or settlement is not probable.
- 2. Related party transactions.** A related party transaction is a deal or arrangement between the organization and another party who has a special relationship with the organization, such as a board member or executive management of the organization or one or more of a board member's or executive management's family members who contract with the organization to provide goods or services to the organization. Also, an entity controlled by the organization that provides goods or services to the organization would be a related party transaction.

List the following:

- 1. All family members of the Board or executive management that work at the organization.** Include the family member's position title and years of employment at the organization.
- 2. All key employees who perform the contracted services (include years of experience working on the contract).** A key employee is someone who has a specific expertise or level of knowledge about the organization's operations related to the contract with the City who would be difficult to replace and still achieve the same level of service in the short term.

3. **All key employees who perform fundraising (include years of experience).** A key fundraising employee is one who is responsible for over 20 percent (20%) of the funds raised or has a level of knowledge about the organization’s fundraising operations, who would be difficult to replace, and still achieve the same level of contributions in the short term.
4. **All sub-contractors and minority owned businesses used.**
5. **All payments made to the City from the organization and amounts received from the City by the organization over the last three City fiscal years (October 1, 2013 through September 30, 2016).**

Respond to the following:

1. **Is there a formal succession plan for any key employees and management?** If so, please describe the succession plan.
2. **Describe how the organization tracks and manages all City owned property.**
3. **Provide a self-assessment of how the organization has met each of the organization’s contract responsibilities.**

## Appendix IV

### Major Contributors to the Report

Holly Hart, CPA – Auditor

Rory Galter, CPA – Project Manager

Carol A. Smith, CPA, CIA, CFE, CFF – First Assistant City Auditor

Theresa Hampden, CPA – Quality Control

## Management's Response

Memorandum

RECEIVED

AUG 15 2017

City Auditor's  
Office



CITY OF DALLAS

DATE: August 14, 2017  
TO: Craig D. Kinton, City Auditor  
SUBJECT: Response to Audit Report:  
Audit of Business Partners Oversight – Arts District

Our responses to the audit report recommendations are as follows:

### Recommendation I

We recommend the Director of OCA implements procedures to more closely monitor the financial viability of these two business partners.

### Management Response / Corrective Action Plan

Agree  Disagree

While there are no specific benchmarks for financial viability in the long-term use agreements, the Office of Cultural Affairs agrees with this recommendation and will implement procedures necessary to appropriately monitor, document and report on the financial status of our partner organizations.

### Implementation Date

June 30, 2019

### Responsible Manager

Business Manager

### Recommendation II

We recommend the Director of OCA complies with the cost reimbursement terms for each Arts District business partner's agreement. If OCA determines the retroactive calculations needed to gain compliance with the terms of each agreement are too onerous, we recommend OCA works with the individual business partners and the City Attorney's Office to align each agreement with current expense reimbursement practices.

### Management Response / Corrective Action Plan

Agree  Disagree

Dallas, the City that Works. Diverse, Vibrant and Progressive.

While OCA has previously worked diligently with partner organizations to monitor and comply with all contract terms, management agrees that current expense reimbursement practices should be memorialized in amendments or other legal instruments as determined by the City Attorney's Office. OCA will work with the City Attorney's Office and business partners to make the necessary revisions.

**Implementation Date**  
June 30, 2019

**Responsible Manager**  
Business Manager

**Recommendation III**

We recommend the Director of OCA develops procedures to ensure the CPI adjustment calculation is performed when and as required by the agreement with ATPAC.

**Management Response / Corrective Action Plan**  
Agree  Disagree

OCA agrees with this recommendation and will develop written procedures to ensure the CPI adjustment calculation is performed when required. To date, it has been determined that no such adjustment has been required.

**Implementation Date**  
June 30, 2019

**Responsible Manager**  
Director of Cultural Affairs

**Recommendation IV**

We recommend the Director of OCA complies with AD 6-01 Section 4.2.6, and Section 4.1 of the DMA Agreement by:

- Performing an annual inventory of the City-owned artwork housed and exhibited at the Museum and valuing the artwork as considered appropriate to obtain adequate insurance coverage
- Obtaining an artwork Certificate of Insurance from DMA
- Verifying the DMA has adequate artwork insurance coverage for the City's artwork housed and exhibited at the Museum

**Management Response / Corrective Action Plan**

"Dallas, the City that Works. Diverse. Vibrant and Progressive."

Agree  Disagree

OCA agrees with this recommendation and will develop written procedures to ensure a regular inventory and valuation of City-owned artwork is completed and documented. Management will work with the DMA, Office of Risk Management and City Attorney's Office to clarify insurance requirements, and memorialize agreed upon amendments.

**Implementation Date**

June 30, 2019

**Responsible Manager**

Public Art Program Manager

**Recommendation V**

We recommend the Director of OCA improves internal controls over the invoice processing and approval of ATPAC's quarterly Payment Certificates by:

- Reviewing the Payment Certificates to ensure the information included is correct
- Ensuring each reimbursement expense amount listed on the Payment Certificate is adequately supported
- Establishing the criteria for acceptable supporting documentation required for OCA to reimburse ATPAC for purchases made with personal credit cards
- Documenting unallowable costs that are identified and not reimbursed to ATPAC
- Documenting OCA's review and approval of each Payment Certificate

**Management Response / Corrective Action Plan**

Agree  Disagree

While OCA has previously worked diligently with ATPAC to monitor and comply with all contract terms, management agrees with this recommendation and will create and/or revise procedures, forms and checklists in order to better document monitoring efforts. Management will also research the appropriateness and feasibility of ATPAC providing pre-audited and certified payment certificates to OCA in order to reduce the staff time required to review and approve payments.

**Implementation Date**

June 30, 2019

**Responsible Manager**

Business Manager



**Recommendation VI**

We recommend the Director of OCA improves the DBDT's invoice review and approval procedures to ensure the:

- The DBDT submits a check copy (preferably a canceled check) with each invoice as evidence DBDT paid the vendor
- The DBDT submits the complete vendor invoice
- The OCA reimburses DBDT only once for each vendor invoice submitted

**Management Response / Corrective Action Plan**

Agree  Disagree

While OCA has previously worked diligently with DBDT to monitor and comply with all contract terms, management agrees with this recommendation and will create and/or revise procedures, forms and checklists in order to better document monitoring efforts.

**Implementation Date**  
June 30, 2019

**Responsible Manager**  
Business Manager

**Recommendation VII**

We recommend the Director of OCA works with the City Attorney's Office and DSA to modify the use agreement to include a facility fee charge as part of the ticket price for DSA performances.

**Management Response / Corrective Action Plan**

Agree  Disagree

OCA agrees with this recommendation and will work with DSA and the City Attorney's Office to amend the use agreement to reflect this needed change to support Meyerson facility maintenance.

**Implementation Date**  
October 1, 2018

**Responsible Manager**  
Director of Cultural Affairs

**Recommendation VIII**

"Dallas, the City that Works. Diverse, Vibrant and Progressive."

We recommend the Director of OCA works with the City Attorney's Office and the DSA to modify the use agreement to allow for full utilization of the Meyerson and Strauss Square.

**Management Response / Corrective Action Plan**

Agree  Disagree

OCA agrees with this recommendation. It will be necessary to benchmark utilization of the Meyerson and Strauss Square against peer facilities in order to establish utilization goals. OCA will work with the City Attorney's Office, DSA and ATPAC to modify their use agreements to facilitate more cooperative bookings and better space utilization in order to meet the utilization goals.

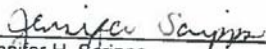
**Implementation Date**

June 30, 2019

**Responsible Manager**

Director of Cultural Affairs

Sincerely,

  
\_\_\_\_\_  
Jennifer H. Scripps  
Director

  
\_\_\_\_\_  
Joey Zapata  
Assistant City Manager

C: