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April 17, 1998

TO: Mayor Vera Katz
Commissioner Jim Francesconi
Commissioner Charlie Hales
Commissioner Gretchen Miller Kafoury
Commissioner Erik Sten
Charles Jordan, Director, Bureau of Parks and Recreation
Will Hathaway, Multnomah Art Center Director

FROM: Barbara Clark, CPA, City Auditor *BC*

SUBJECT: Audit of the Parks Bureau, Multnomah Art Center Association, Report #246

Introduction

At the request of the Director of the Multnomah Art Center, the Audit Services Division performed a review of various internal control procedures relating to the Multnomah Art Center Association. We conducted the review in accordance with generally accepted government auditing standards and limited our review to those areas specified in the scope and methodology section of this memorandum.

The Multnomah Art Center Association

To increase citizen participation in the improvement of City parks, arts & aquatic programs, and general quality of life in Portland, the Parks Bureau encourages volunteers to contribute their time and expertise to activities and programs sponsored by the Bureau. The Bureau has been successful in setting up partnership arrangements with several volunteer groups and associations who help with special events, develop and maintain sites, and provide operations as needed. Some of these groups have their own advisory boards who oversee their operation.

The Multnomah Art Center Association ("Association") is a nonprofit volunteer organization that works with the Parks Bureau's Multnomah Art Center ("Art Center"). The Association was incorporated in 1983, to assist the Multnomah Art Center and Parks Bureau in an advisory capacity on fiscal policies and financial programs in support of activities at the Art Center.

The Association, consisting of six to twelve members, serves as an advisory board of directors to the Art Center and the Park Bureau on matters relating to the development and improvement of the Art Center and the promotion of programs and other Art Center related activities. The Association has appointed officers but no employees.

Audit Objectives, Scope, and Methodology

The objectives of the audit were (1) to review the nonprofit status of the Association and the terms of its operating agreement with the City of Portland's Parks Bureau, and (2) to determine and evaluate the internal controls and procedures of handling the Association's checking and money market accounts.

To evaluate compliance with regulations, we reviewed Federal, State and City legal requirements, city-wide administrative procedures, and the Parks Bureau's policies and procedures to relating partnerships with nonprofit organizations. To identify internal control requirements, we interviewed managers and staff at the Multnomah Art Center, and Board members in order to clarify control methods and evaluate the general control environment. We also reviewed Board meeting minutes and various transactions during the period from July 1, 1995 through December 31, 1997 to obtain reasonable assurance that items are authorized or approved by the Board prior to purchase.

We visited the Art Center and toured the facility to observe the operations and processing of transactions.

We recognize that control systems cannot provide complete assurance that fraud or waste is prevented. Well designed and operated internal control systems are still subject to collusion and control overrides. However, good control environments and reasonable operating controls can minimize occurrence of errors and abuse. Based on this understanding, we reviewed the payment/cash handling process of the Association's funds to determine if the funds were being used for stated objectives. We also reviewed monthly financial statements, bank reconciliations, and a sample of purchase transactions from authorization, through receipt and payment.

Audit Results and Recommendations

The Multnomah Arts Center Association and the Bureau of Parks and Recreation's Multnomah Art Center should take several actions to improve controls over the Association assets and to clarify the operating agreement between the Association and the Bureau. Although we found no evidence that Association assets had been used inappropriately, existing controls do not provide adequate assurance that assets are secure from waste or abuse. In addition, the operating procedures of the Association and Art Center should be clarified to ensure that public assets are not used inappropriately for the benefit of a nonprofit organization. Our findings and recommendations are summarized below.

1. Prepare an annual budget
Currently the Association operates without an annual budget. Without such a budget, control over expenses including comparison of actual cost with budget estimates and investigation of significant variations cannot be performed. Preparation of an annual budget would also help the Association prioritize needs, plan for funding and provide accountability.

Recommendation:

Because it is the Board's responsibility to approve and monitor the income and expenses it incurs, we recommend that a budget covering both operations and capital items be prepared and approved by the Board of Directors. Such a budget can serve as authorization for management to carry out the Board's objectives.

2. Solicit more bids for purchases

While there are adequate controls for authorization to purchase low cost goods and services, more costly items were purchased informally, instead of obtaining several quotes which are reviewed by the Board prior to purchase. Although management asserts that quotes are obtained and in-depth discussions are held by the Board prior to purchases, we found little evidence that this is done as part of a formal process. More formal review and solicitation of multiple quotes may help the Association obtain the most reasonable price for goods and services.

Recommendation

We recommend that the Board implement a more formal process for purchasing goods, services and equipment that exceed \$1,000. The process should include several quotes and written board authorization.

3. Reconcile the Association's Checking Account Monthly

During our review of the Association's cash handling and check deposit procedures, we noted that monthly bank reconciliations were not being performed on a consistent basis. The last reconciliation provided to us was dated April, 1997. Timely bank reconciliations by someone independent of the handling or recording of cash receipts and disbursement is essential for control over the cash balance. We were also told by the check signer, that only occasional review is made of supporting documentation for check disbursements. Without a reconciliation, or review of supporting documentation, opportunities for errors may occur which may go undetected in the normal course of business.

Recommendation:

We recommend that a bank reconciliation of all checks be made on a monthly basis. This reconciliation should be made by someone who is independent of the payment and deposit functions.

4. Develop new operating agreement

Currently neither the Association nor the Parks Bureau could provide a copy of their operating agreement or an ordinance by City Council authorizing the partnership. Consequently, we are unable to determine if the Association is operating within the terms of the agreement. It appears that the Association is permitted to use Parks Bureau space and City employees time without charge or reimbursement. For example, our review shows that the Association currently uses the Art Center gallery space to display art for sale. The Association also retains building fees that private parties pay to rent Art Center space. In addition, Art Center employees maintain

the Association's checking account, sell Association's materials to students, and generally act as administrative staff for the Association at no cost. Other City bureau agreements with nonprofit organizations stipulate reasonable charges for use of City assets and resources.

The Association's Board of Directors also purchase goods, services and equipment for the Art Center and pays for repairs and improvements to the facility. Over the past several years the Association purchased a piano, a pottery kiln, and other items for the Art Center. However, it is unclear who owns those assets because the Association has not formally donated the items to the Bureau.

In order to obtain a clarification of the relationship between the Association, the Art Center, and the Parks Bureau, a written understanding among all parties is necessary.

Recommendation:

In order to clarify the relationship between Multnomah Art Center Association and the Parks Bureau, we recommend that a new operating agreement be developed with the assistance of the City Attorney's office. Terms of the agreement should address use of City facility by the Association for fund raising, donation of assets acquired by the Association for the Art Center, and use of City staff for the Association's day-to-day operations.

5. Segregate some accounting duties

Although it is not cost effective to implement extensive internal controls over Association transactions, there are several key areas where separation of duties is advisable. We were told that the Parks Bureau employees responsible for accepting Association payments, also makes deposits to the Association's checking account, and posts amounts to the accounting records. Giving these responsibilities to one person creates unnecessary risks to Association funds.

Recommendation:

The Board is ultimately responsible for insuring that there is an adequate internal accounting system and controls of its funds. We recommend that the duties of accepting payments be separated from the duties of making deposits and posting to the accounting records.

6. Some City funds are co-mingled with Association funds

Several rooms at the Art Center are available for workshops, conferences, parties, and other miscellaneous functions. Rent is comprised of two fees - a refundable deposit and an hourly room rental. The hourly rental fee is processed by Parks Bureau staff and later deposited into the City's account. The refundable deposit, however, is deposited into the Association's checking account. This deposit is later refunded to the applicant, less any applicable fees that remain in the Association's account. Although the refundable deposit is essentially City funds, the Association and City funds are being commingled until a refund is issued to the customer.

Recommendation:

We recommend that the Association and City's funds not be commingled. The refundable deposit paid by customers should be deposited into the City's account, and any refunds be also paid out of the City's account.