



Internal Audit

JQH Arena Equipment Rental and Event Procedures

June 26, 2015

Office of Internal Audit



Missouri State
U N I V E R S I T Y

DATE: June 26, 2015

TO: Randy Blackwood, Executive Director of Athletic and Entertainment Facilities

FROM: Donna Christian, Director of Internal Audit and Compliance
Jane Dewberry, Senior Internal Auditor

CC: Rachael Dockery, General Counsel
Clifton M. Smart III, University President

RE: INTERNAL AUDIT: JQH ARENA EQUIPMENT RENTAL AND EVENT PROCEDURES

BACKGROUND

JQH Arena equipment is rented to various private entities for concerts and other events. On Friday, March 6, 2015 an anonymous concern was received by phone in Internal Audit regarding JQH Arena equipment. Findings relating to the investigation of the anonymous concern are included in this report. Additionally, this audit includes a review of procedures used to contract and settle with producers and entertainers holding concerts and events at the JQH Arena.

OBJECTIVE AND SCOPE

The objective of this review was to review controls and procedures related to JQH Arena equipment rental and JQH entertainment events.

SUMMARY

The audit includes recommendations to establish standard rental rates, prepare and sign rental agreements, and establish an equipment check out log for JQH equipment rental. Additionally, the report addresses entertainment contract issues, event settlement calculations, and the payment of a portion of the University's facility fee proceeds to a producer. Recommendations addressing disbursements from the JQH bank account and pricing procedures for entertainment events are also included.

Handwritten signature of Donna Christian in cursive script.

Donna K. Christian, CPA, CGFM,
Director of Internal Audit and Compliance

Handwritten signature of Jane Dewberry in cursive script.

Jane Dewberry, Senior Internal Auditor
Fieldwork Completion Date: March 23, 2015

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

1. Equipment Rental Procedures and Controls

JQH Arena crowd control equipment and cable guards are rented to outside entities for concerts and other events. The University acquired the equipment in February 2012 and has generated rental revenue as follows:

Year Ended June 30	Rental Income
2012	\$ 2,400
2013	\$ 4,250
2014	\$ 1,650

Our review identified various procedures and controls that should be improved.

- Standard rental rates have not been established and the rates charged and/or discounts given varied. For example, a \$50 delivery fee was charged to one renter but not to others. Also, rental rates for bike rack barricades varied from \$25 to \$15. Establishing standard rates will help ensure amounts charged are consistent.
- Rental agreements are not prepared and signed. Rental agreements help both the renter and the University understand and comply with the requirements of the arrangement.
- Equipment check-out forms are not utilized to document equipment removed from and returned to JQH Arena. As a result, the only documentation of when equipment is removed from the facility is the rental invoices and the truck mileage log (if the equipment was delivered). According to the Director of the JQH Arena equipment is sometimes picked up and returned by the renter and not transported by the University. Therefore, if an entity picked up the equipment and no invoice was generated, there would be no documentation the equipment left the premises. To ensure rent is appropriately charged to all entities, an equipment check out log should be initiated and used to ensure rental invoices are prepared.
- We compared the JQH Arena truck log to rental invoices and identified some instances where equipment was delivered but no invoice was generated to charge and collect rent. For example, JQH Arena truck logs show equipment was delivered to three different entities between July and September 2014, but rental invoices were not prepared and rent was not collected. According to the Director of the JQH Arena a rental invoice should have been generated for one of the entities but was not due to an oversight, and the other two entities were loaned the equipment at no cost. There was no documentation to indicate why rent was not charged to these two entities. If equipment is loaned to entities at no charge the reason why rent was not charged should be documented and the reason should correlate with the University's public affairs mission.
- Duties related to renting equipment are not adequately segregated. The Director of the JQH Arena schedules equipment rentals, prepares and sends invoices and collects rent payments. During our review a potential conflict of interest was identified between the Director of the JQH Arena and some of the renters. While the potential conflict was immediately resolved, controls would be improved if duties were better segregated.

Recommendations

Establish standard rental rates, prepare and sign rental agreements, and establish an equipment check out log that is used to ensure rental invoices are properly generated. Also, free use of University equipment should correlate with the University's public affairs mission and should be adequately documented. Finally, duties related to renting JQH Arena equipment should be adequately segregated.

Management Response

JQH Arena has set up a functioning rate sheet for rental of equipment including barricade by the piece and bike rack by the piece. The party renting the materials will assume full responsibility for delivery and pick up and the University will not provide transportation service. All pieces will have a replacement value assigned to be in place in case of any damage that occurs during the rental. All rentals will be approved in advance by the Director of HSC/PSC/JQH and the Exec. Director of Athletic and Entertainment Facilities. Since the initial purchase by the University of this very specialized equipment, area vendors have started having similar equipment in their inventory reducing the demand by outside users. The University will continue consideration of loaning the equipment at no cost to users/events that complement the educational mission.

2. Event Contracts

Numerous contracts are negotiated and signed annually for entertainment events held at the JQH Arena. Contracts are signed by the Executive Director of Athletic and Entertainment Facilities.

- A. Contracts with producers/entertainers are not routinely sent to the University's General Counsel for review, and certain terms in the contracts we reviewed should not have been included. For example, entertainers often want to use contracts prepared by their attorneys; however, these contracts often referenced laws from states other than Missouri. Additionally, some contracts contained terms concerning the University's liability that are inconsistent with the University's status as a Missouri public institution. Utilizing the University's General Counsel for properly written contract terms helps to ensure the University is adequately protected in case of a misunderstanding or legal action.
- B. The University does not have a contract with the producer of the bull-riding event for the use of the University's ticket sales system. Tickets are sold directly by the producer of the bull-riding event at the producer's retail business. The producer purchased the computer system, but the University provides the connection to the University's box office ticket sales system and services the system at the Producer's retail business when needed at no cost. In addition to no contract, the University does not have this type of arrangement with any other producer or retail business.

Recommendations

- A. Consult with University's General Counsel to ensure terms included in entertainment contracts are appropriate before signing.
- B. Consult with University's General Counsel regarding the ticket sale arrangement with the bull-riding event producer.

Management Response

- A. *The JQH standard contract will be resubmitted to University General Counsel for review and updating.*
- B. *JQH Arena will work with General Counsel to develop an addendum to the existing rental contract to discuss the limited opportunity for bull ride tickets to be sold at the promoter's retail location. Parties will agree that this agreement results in no addition costs (fees, equipment, etc.) to Missouri State University.*

3. JQH Event Settlement Forms

Settlement Forms for entertainment events document the number of tickets sold, the amount of revenue collected, and the amount due to the entertainer/producer. Settlements are prepared the night of the event so payment can be made to the entertainer/producer immediately after the performance.

- A. Amounts paid to entertainers/producers were not always calculated on settlements as outlined in contract terms. For example, the settlements for the professional bull-riding event gave half of the \$2 facility fee to the promoter, but the contract did not provide for the promoter to receive these funds. The facility fee is established by the Board of Governors on all ticket sales for Non-Missouri State events at Hammons Student Center, JQH Arena and JKH Hall for the Performing Arts. The fee is used to support the cost of operations of these facilities. According to the Executive Director, they began giving half of the facility fee to the bull-riding event producer when the University raised the fee from \$1 to \$2. This was so the producer didn't have to raise the ticket price for the event. However, it does not appear that the Executive Director has the authority to negotiate with a fee established by the Board of Governors. During 2014 and 2013, a total of over **\$27,700** collected in facility fees was given to the professional bull-riding event promoter. Amounts paid to entertainers/producers should be calculated in accordance with contract terms and the entire amount of facility fees collected should be retained by the University.
- B. Settlements are not reviewed and approved by the Executive Director of Athletic and Entertainment Facilities, and some settlements contained errors that were not caught and corrected. For example, the box office fee was incorrectly calculated for the circus settlement, which resulted in a **\$4,652** loss to the University. The contract with the circus indicated the box office fee was to be the higher of 2% of net sales or \$2,000. The October 2011 event settlement reflected a \$2,000 box office fee, but then credited this fee back to the producer resulting in the University not receiving a box office fee and losing \$2,000. The April 2013 settlement reflected a \$2,000 box office fee; however, 2% of net sales would have totaled \$4,652. As a result, the University lost another \$2,652. A supervisory review of settlements can help to ensure amounts are accurate and errors are caught and corrected in a timely manner.
- C. Settlements are not reconciled to entries posted in the University's Banner accounting system. We identified several instances where amounts on the settlements did not agree with entries posted to the University's Banner accounting system. The JQH Director submits accounting entries to the University's Financial Services Office along with copies of the settlements; however, reconciliations are not performed between amounts on the settlements and the accounting entries posted in Banner. For example, the 2013 bull-riding event settlement showed rental income as \$13,000; however, rental income posted to Banner was \$25,000. Additionally, this same settlement showed fork lift costs of \$350, but \$1,500 was posted in Banner as fork lift costs for this event. Further, the 2014 bull-riding event settlement reflects \$5,628 more in ticket revenue than what was actually received. This resulted in a larger payment to the producer. Reconciling settlements to accounting entries posted in Banner helps to ensure both records are in agreement and any errors are identified and corrected.

Recommendations

Ensure settlements are accurately calculated, agree with contract terms and reconciled to accounting entries posted to Banner. In addition, all of the facility fee collected should be retained by the University.

Management Response

JQH Arena management will review show settlement cost assignments more closely and ensure they reflect account details posted to Banner. The facility fee issue will be addressed in when the bull-riding contract is renewed.

4. JQH Event Bank Account

The JQH Arena maintains a bank account for the payment of entertainers/producers and certain event-related expenses. When checks are written from this bank account Financial Services transfers exactly the amount needed to cover the checks so that the account regularly maintains a zero balance. During FY 2014 approximately \$565,000 in checks were written from this account. Some of the checks are written to University contractors that are routinely paid for other services through the accounts payable system. While it is necessary to pay some of the event expenses the night of the event, expenses associated with routine University vendors could be paid through the University's accounts payable system. This system provides better internal controls and a method of scanning supporting documentation for long-term retention.

Recommendation

When possible, checks to routine University vendors should be issued through the University's normal accounts payable system.

Management Response

JQH Management agrees to utilize the University's normal accounts payable system for existing University vendors when checks are not required to be issued the night of the event.

5. Rates Charged and Complimentary Tickets

Rates charged to entertainers/producers for the JQH Arena varied significantly. For the contracts we reviewed the daily rental rates varied as much as \$7,000 for the use of the facility. For some events it is questionable that the University properly covered all its costs. As noted in #3A above, the University gave \$27,700 of the Board of Governor approved facility fee to the bull-riding event producer; however this fee was to be used to help the University cover the cost of the facilities.

Additionally, for one event we reviewed there were more free tickets given away than tickets sold. As a result, the University did not receive a facility fee for the complimentary (free) tickets. According to University policy, a facility fee is not to be assessed on complimentary tickets, house seats, or artist tickets unless those tickets are exchanged for money; however, for the 2014 circus a promotion for "buy one adult ticket and receive a free child's ticket," along with other free tickets resulted in over 18,000 complimentary tickets with only 16,607 tickets sold. While the promoter was able to set the cost of the purchased ticket high enough to offer the second ticket free, it prevented the University from collecting over \$36,000 in facility fees on the additional tickets. Management may want to consider clarifying the definition of complimentary ticket or include additional terms in the contract with the circus to compensate the University for the excessive number of free tickets.

Overall, the management of JQH Arena needs to implement stronger, more consistent pricing guidelines when negotiating event contracts. Additionally, management needs to ensure facility fee revenue for the various events is collected and retained by the University to help cover the costs associated with these events.

Recommendation

Implement stronger, more consistent pricing guidelines when negotiating event contracts, and ensure facility fee revenue for the various events is collected and retained by the University to help cover the costs associated with these events. Additionally, management may want to consider clarifying the definition of complimentary tickets or include additional terms in the contract with the circus to compensate the University for the excessive number of free tickets.

Management Response

We agree and will evaluate as contracts are up for renewal.