

March 12, 2003

Mr. Robert C. Skoney, Manager
Commission Members
Nashville Municipal Auditorium
417 4th Avenue North
Nashville, TN 37201

Report of Internal Audit Section

Dear Mr. Skoney and Auditorium Commission Members:

We have recently completed a performance audit of the Nashville Municipal Auditorium. According to the *Government Auditing Standards* issued by the Comptroller General of the United States, “a performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision making by parties with responsibility to oversee or initiate corrective action.” A performance audit is different than a financial statement audit, which is limited to auditing financial statements and controls, without reviewing operations and performance. In performing this audit, we retained KPMG to work under our direction. Their final report dated February 2003, *Performance Audit of the Nashville Municipal Auditorium*, accompanies this letter and is hereby submitted to you.

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The Nashville Municipal Auditorium (NMA) was constructed in 1962 and was Nashville's first major public assembly facility. The NMA is governed by a seven member commission appointed by the Mayor and approved by the Metropolitan Council. The 63,000 square foot facility has an arena seating capacity of 9,600 and now serves as the secondary arena facility in Nashville after the opening of what is now know as the Gaylord Entertainment Center (GEC) in 1997.

NMA had operating expenses of approximately \$1.6 million for the fiscal year ended June 30, 2002 and has approximately 12 employees. The NMA's operations are included in Metro's General Fund. Like the majority of similar facilities in other cities, NMA's operations result in a deficit. The operating deficits for the past three fiscal years were as follows.

<u>Year Ended</u>	<u>Operating Deficit</u>
June 30, 2000	\$466,000
June 30, 2001	411,000
June 30, 2002	741,000

Additional background information is contained in the KPMG report.

Objectives, Scope, and Methodology

This audit was performed by KPMG's Convention, Sports and Entertainment Practice (KPMG) under our direction. The audit included jointly designed tests and procedures and utilized KPMG's specialized industry experience and knowledge.

The scope of the work included analyses of various areas and issues, including financial management, facility utilization and marketing. The operations of the NMA were also benchmarked against comparable peer facilities. Most of the comparisons were based on fiscal year 2001 data, the latest available for the peer set. NMA trends over the 2000 through 2002 fiscal years were also reviewed.

The primary objectives of this performance audit were to review the organization structure and staffing levels; assess the mission statement, booking policy, and marketing efforts; analyze rental rates and third party contracts; compare utilization and financial performance to peer facilities; and assess the overall effectiveness of management and operations.

The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information and various other forms of data, reports and information maintained by the NMA and central Metro departments. Management, administrative and operational personnel from NMA, as well as personnel from other Metro departments and other stakeholders were interviewed, and various aspects of NMA operations were directly observed. Data obtained from the various sources were analyzed, and various aspects of performance, cost and practices were compared to those of peer facilities and industry norms. We performed the audit procedures in accordance with generally accepted government auditing standards.

Findings and Recommendations

The KPMG report should be reviewed in its entirety to gain an understanding of the audit process and the findings and recommendations. Following is an overview of some of the more significant findings and recommendations included in their report.

- The marketability of the NMA is limited due to its age, design, capacity, location and lack of amenities. Although recent capital improvements and ongoing capital funding have the NMA in a position of being well maintained, the nature of the issues impacting its marketability would be cost prohibitive to address. Additionally, the age of the facility creates a likelihood that unpredictable and costly facility and equipment repairs will be required in the future.

In the longer term, the increasing cost of capital maintenance and repair needs should be considered along with the cost and benefits of transferring events from the NMA to other Metro facilities and developing the NMA site for alternative uses.

- Current management of the NMA is doing a good job of attracting events, generating concession and other revenues, controlling costs, maintaining the facility, and serving customers. Declines in events in recent years are primarily due to factors such as the age and location of the NMA, local and regional competition from other facilities including the GEC, and factors impacting the concert business nation-wide.

In the short term, the possibilities of jointly managing or cooperatively marketing the GEC and the NMA to enhance event activity and maximize overall utilization of both Metro facilities should be explored. Additionally, NMA should explore joint marketing with other Metro facilities, and the NMA marketing plan should be updated annually to reflect market and other changes.

In addition to KPMG's work, Internal Audit staff reviewed procedures and controls surrounding financial operations and noted the following issues.

- Revenues were not always deposited timely, event reconciliations were not documented and reviewed, and concession sales revenues were not verified. Revenue deposits should be made daily, and appropriate validation of event and concession revenues should be documented and reviewed.
- Invoice payments did not match contract terms for seven items tested, resulting in total overpayments of \$4,040. Prior to payment, invoice terms should be reviewed for compliance with contract terms. Additionally, contracts should be managed in a manner that reduces the risk of operating under expired contracts.
- Janitorial services invoices were not adequately reviewed prior to payment. A review of six such invoices resulted in net overcharges to NMA totaling \$600 from errors in three of the six invoices. Prior to payment, janitorial services invoices should be compared to time records reviewed and approved by the NMA staff supervising those services.
- Two procurement card transactions totaling approximately \$300 were not supported by receipts. All procurement card transactions should be supported by an original receipt.

Management should attempt to recover overpayments noted. Other issues of lesser significance were discussed with management. Additional findings and recommendations can be found in the KPMG report accompanying this report.

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Management's response to the audit recommendations is attached to this report.

We greatly appreciate the cooperation and help provided by all Nashville Municipal Auditorium staff.

This report is intended for the information of the management of the Metropolitan Government of Nashville and Davidson County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Internal Audit Section

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Internal Audit Manager

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