



CITY OF VANCOUVER INTERNAL AUDIT REPORT Vancouver Civic Theatres (VCT)

Distribution:

Audit Committee
KPMG

Sandra Singh, GM, Arts, Culture & Community
Services (ACCS)
Natalie Lue, Director, VCT
Guy Leroux, Associate Director, VCT

EXECUTIVE SUMMARY

March 11, 2020

The Vancouver Civic Theatres (VCT) audit evaluated the adequacy and effectiveness of internal controls and business processes supporting VCT operations. In general, operational processes at VCT are adequate and in compliance with City policies and procedures. Improvements are needed in formalizing a strategic plan that aligns with the City's cultural plan, curating event programming, and strengthening invoicing processes. These actions will further support sustained growth of theatre operations and improve operational efficiency and effectiveness of the organization. The key findings and recommendations are:

E.1 Formalize a strategic plan for Vancouver Civic Theatres

Formalizing a strategic plan for VCT that is aligned to the City's Culture Shift plan will help to ensure prioritization of objectives and focused direction of theatre operations.

E.2 Enhance curated event programming to align with strategic priorities

Developing a process for curating events to align with VCT strategic objectives will enhance VCT's profile in the performing arts sector and increase audience engagement.

E.3 Strengthen review of customer invoice billings

Improvements to the invoice review process should be made in order to verify that the correct billing amounts are included in the final invoice and ensure accuracy of billings.

E.4 Strengthen monitoring process for aging accounts receivables

Accounts receivables over due by 120 days exceeded \$800K at 2019 year end. The monitoring and follow up process for outstanding AR amounts should be conducted on an ongoing and timely basis to minimize potential write offs.

E.5 Ensure emergency response plans are reviewed and updated annually

The Annex is located in a non-City owned building and is utilized by VCT for performance rentals. Emergency response plans for all VCT venues should be reviewed and updated annually to ensure emergency procedures are operational and up to date.

These and other findings and recommendations are contained in this audit report. Management has agreed to the recommendations and outlined related action plans.

Tony Hui, CPA, CA, CRMA
Chief of Internal Audit

Jennifer Chow, CPA, CMA, CIA
Senior Internal Auditor

A. BACKGROUND

Vancouver Civic Theatres (VCT) operates as a division within the Arts, Culture, and Community Services (ACCS) business unit and manages the City of Vancouver's theatre and performance venues. VCT's annual operating budget is \$15M.

Role of the VCT Advisory Board

The VCT Board mandate is to advise on the use, operations, and improvement of the theatres. Board members are appointed by City Council and responsibilities include:

- Approval of VCT rental rates;
- Review of budget and financial reports;
- Review of VCT Board By-laws; and
- Advocacy for VCT matters which merit action by City Council.

City of Vancouver Culture Strategy and Corporate Plan

In 2019, the ACCS department established the long term cultural strategy plan, 2020-2029 Culture Shift: Blanketing the City with Arts and Culture¹. One of the key goals identified in the plan is to Improve Access for Vancouver Audiences to Experience Arts & Culture. The Vancouver Civic Theatres plays a leading role in supporting this goal by providing accessibility to cultural events in Vancouver through operation of the civic theatre performance spaces.

One of the goals within the City of Vancouver's Corporate Plan is that the City provides extraordinary civic amenities. Annual attendance at Vancouver civic theatres is a key performance metric tracked annually to measure achievement of this goal. Additional performance metrics tracked by civic theatres are noted below.

Metric	2017	2018	2019
Annual attendance	755,052	776,824	781,004
Number of events	884	874	891
Utilization rate for civic theatres	59.5%	58.1%	59.7%

Vancouver Civic Theatres venues

VCT manages the following venues located in downtown Vancouver, with approximately 800 events held in total each year.

Venue name	Address	Seating capacity
Queen Elizabeth Theatre	630 Hamilton Street	2,765

¹ <https://council.vancouver.ca/20190910/documents/ACCS-RTS13175-AppendixD-MakingSpaceforArtsandCulture.PDF>

Orpheum	601 Smithe Street	2,672
Vancouver Playhouse	600 Hamilton Street	668
Annex	823 Seymour Street	191
šxwłexən Xwtl'a7shn (formerly QET Plaza)	650 Hamilton Street	n/a - outdoor plaza

Theatre Rental Grants

Theatre rental grants provide local non-profit arts and cultural organizations with access to VCT venues through a rental subsidy program. For the 2019/2020 season, \$1.5M in theatre rental grants were approved by Council in support of local performing arts and culture in Vancouver².

Implementation of a point of sale system

An automated point of sale (POS) system, Volante, has been selected to be implemented at VCT venues to replace the current manual concession sales transactions process. The new system is expected to improve the customer service experience and provide enhanced reporting capabilities for management. The project is led by a Steering Committee with representation from VCT and the City's IT department and is expected to be completed in Q1 2020.

Positive Findings

Roles and responsibilities are clearly defined

Roles and responsibilities are clearly defined at VCT. Through interviews and observational walkthroughs with front line staff, staff were well trained and knowledgeable in conducting their duties for each shift.

VCT operational processes are well documented

Up to date process maps were provided during the audit which covered a variety of processes including event booking, concessions, inventory management, audience services, and accounts receivables.

Improved efficiency of concession sales process

Effective January 2019, VCT implemented a policy to only accept debit / credit payment cards at concessions and minimize cash in order to decrease wait times and improve the customer experience. This has improved efficiency at the bartending stations by reducing the amount of time required to count and balance cash at the end of a shift.

Emergency response drills performed regularly

In addition to an annual safety drill, VCT has recently implemented situational emergency response drills on a regular basis to keep staff current on proper procedures to be used in the event of different types of emergency response situations.

B. OBJECTIVE AND SCOPE

The audit objective was to provide reasonable independent assurance that the existing internal controls and business processes supporting VCT operations are effective and in compliance with City of Vancouver policies and procedures.

² Council report RTS 12914 April 30, 2019.

Our work included:

- Interviews with senior management and staff responsible for key operational processes at Vancouver Civic Theatres;
- Evaluating internal controls through process walkthroughs and documentation;
- Review of strategic plans and priorities;
- Assessing compliance with established City policies and procedures; and
- Analysis of data, financial records, and transactions pertaining to the above.

The audit is not designed to detect fraud. Accordingly there should be no such reliance.

C. CONCLUSION

In general, operational processes at VCT are adequate and in compliance with City policies and procedures. Improvements are needed in formalizing a strategic plan that aligns with the City's cultural plan, curating event programming, and strengthening invoicing processes. These actions will further support sustained growth of theatre operations and improve operational efficiency and effectiveness of the organization.

Findings and recommendations have been discussed with VCT management and responses incorporated in this report.

D. RISK ANALYSIS

The potential significant risks considered if controls were not in place are:

- City policies and procedures may not be complied with;
- Management oversight over internal controls may not be adequate;
- Lack of appropriate controls may negatively impact on an event;
- City and VCT reputation may be impacted if inappropriate procedures in place;
- Misappropriation of City assets if mitigating controls not established.

E. AUDIT ISSUES, RECOMMENDATIONS AND MANAGEMENT RESPONSES

E.1 Formalize a strategic plan for Vancouver Civic Theatres

VCT's role in the City of Vancouver Culture Plan

Vancouver Civic Theatres plays a foundational role in ensuring accessibility to many local performing arts organizations each year. With the establishment of Culture Shift, the City's new long term cultural plan, there is increased emphasis on the importance of arts and cultural spaces in the City. VCT has the potential to enhance their leadership role in the Vancouver arts and culture landscape through operation of theatre spaces to suit all types of performances ranging from large scale commercial tours to smaller local events.

VCT strategic plan should be established and formalized

While VCT is an integral part of the City's cultural assets and is referenced in the Culture Shift plan, there is currently no formalized strategic plan in place specifically for Vancouver Civic Theatres. Key aspects addressed in a strategic plan may include a vision / mission, key priorities

and objectives, long term facility strategy, and potential marketing strategy. Management has addressed some of these elements through the City's Service Plan, which can be used as a basis to further develop a VCT strategic plan.

Formalizing a strategic plan for VCT aligned with the City's Culture Shift Plan will help to ensure sustained growth and focused direction of the theatre operations.

Recommendation:

E1.1 The Director, Vancouver Civic Theatres, should establish and formalize a strategic plan for VCT outlining key priorities and objectives which are aligned to the City's overall cultural plan. This is recommended to be in place by March 31, 2021.

Management Response:

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

Management Action Plan:

VCT Management had begun a robust strategic planning process in Q4 of 2019 prior to the COVID-19 pandemic and intend to complete the work within 3 months of VCT returning to full operations, possibly by the end of Q1, 2021.

E.2 Enhance curated event programming to align with strategic priorities

Curated programming of VCT performing arts events

Curated programming refers to the process of selecting and prioritizing a program of events in a strategic manner. With the recent approval of the City's culture plan, there is a renewed focus on the importance of arts and culture in the City. This provides an opportunity to refine VCT event programming to achieve VCT's vision and the City's cultural development objectives. Under the current process, booking priority is given to theatre rental grant recipients and the remainder is primarily on a first come first serve basis. As each VCT venue has unique characteristics and technical capacity, these factors can be used as a basis to develop a program for each of the venues for a particular target market strategy. Creating a tailored program for each venue can assist to enhance VCT's profile with the goal of increased audience engagement.

Develop strategy to maximize utilization rate at VCT venues

The 2019 paid utilization rate (number of paid events / days each year) for VCT venues was an average of 59.7% for the theatre portfolio. While the number of annual attendees has been on an increasing trend, the utilization rate has remained relatively stable in recent years.

There may be opportunity to explore marketing programs or ticketing strategies such as discounts for booking multiple events, or membership benefits such as seat upgrades or early access to events. Deployment of various targeted marketing strategies can help to ensure continued sustained growth in audience engagement and optimal utilization of VCT venues. These efforts would align with City Council's recent focus on improving efficiency and effectiveness of how City services are delivered.

Recommendation:

E.2.1 The Director, Vancouver Civic Theatres, should develop a process for curating programming for VCT venues in alignment with VCT's overall vision and objectives. This is recommended to be in place by December 31, 2020.

Management Response:

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

Management Action Plan:

As the VCT moves from strictly a "road house" to a combination of rental and presenting house, staff will adopt a curatorial approach not only to the programming the VCT itself will present but also to the types of rentals accepted in order to strengthen the VCT brand and increase the demand and revenue for the theatres. One of the legacies of the COVID-19 pandemic that will inform the curatorial approach will be increased collaboration between VCT, artists, presenters, producers and other stakeholders to respond to new ways of program consumption and audience expectations of on-site experiences. The curatorial strategy for programs and rentals will be in place by December 31, 2020.

E.2.2 The Director, Vancouver Civic Theatres, should develop a strategy to maximize paid utilization of VCT venues to enhance overall operational effectiveness and efficiency. This strategy is recommended to be in place by December 31, 2020.

Management Response:

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

Management Action Plan:

Paid utilization is impacted by the number of other uses of the venues that may not be paid public performances but are still necessary and may require resources i.e. rehearsal days, maintenance, free community outreach programming, periods of little to no interest in rental of the theatres, etc. The VCT will continue to look for ways to improve efficiency and effectiveness to maximize the number of days to increase paid utilization. Unfortunately, given the health risks and financial impact of the COVID-19 pandemic, the arts presenting sector is threatened and audience confidence in returning to theatres is at an unprecedented low, therefore, reaching or exceeding a paid utilization of 59.7% and increasing current audience attendance levels is now years in the future.

E.3 Strengthen review of customer invoices to ensure billings are accurate

Consider workflow approval capability in EBMS to ensure completeness of invoices

The event booking management system (EBMS from Ungerboeck) is used to create the final invoice for the customer which details various components of the billing, including rental fee, food & beverage, security, and technical crew costs.

The billing components are reviewed individually by the respective department head. However as there is no workflow capability in EBMS for manager approval of the invoice, it is currently the responsibility of the booking coordinator to ensure that all items are added correctly to the final invoice prior to being sent to the customer.

Formalize process for management review of invoices

Once an event is over, the billing amount for each component can be modified in the system as there is no mechanism in EBMS to ensure the correct amounts are included in the final invoice after the responsible department has reviewed. For this reason, there may be billing components that are missed, omitted or inaccurately recorded on the invoice and thereby resulting in potential under or over billings to the customer.

Recommendation:

E.3.1 The Director, Vancouver Civic Theatres, should formalize a process for management review of invoices on a regular basis to ensure accuracy and completeness of billings before sending to the customer. This is recommended to be in place by March 31, 2021.

Management Response:

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Management Action Plan:

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

VCT will accomplish this through improvements in processes, controls, periodic audits and over the long-term software upgrades to its electronic booking system. Before the COVID-19 pandemic, which resulted in theatre closures and staff layoffs, plans were underway to upgrade the electronic booking system. Completion date has been moved to Q1 of 2021.

E.3.2 The Director, Vancouver Civic Theatres, in consultation with IT, should conduct a feasibility analysis for implementing a workflow invoice approval solution in EBMS for customer billings. The results of the analysis are recommended to be completed by March 31, 2021.

Management Response:

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Management Action Plan:

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

See E.3.1

E.4 Strengthen monitoring and follow up process to address aging accounts receivables

Accounts receivables outstanding for 2019 year end

As of December 2019, there was \$800K in accounts receivables for VCT over 120 days that had not been collected. The VCT payment terms state that invoices should be paid within 30 days, with interest of 1% per month charged on unpaid amounts.

Actively monitor and follow up on aging accounts receivables

The majority of the accounts receivables balance (\$690K) was owed by one performing arts organization that regularly hosts performances at the Orpheum theatre throughout the year. This amount does not include theatre rental grants that had been previously granted to the organization for use of the Orpheum theatre. In recognition of the importance of the organization in providing local performance arts programs and events in the region, City Council in consultation with VCT management recently approved a multi-year agreement with the performance arts organization to convert the in-kind theatre rental grants to cash grants in order to support general operations and program expenses.

Aging outstanding accounts receivable balances should continue to be actively monitored going forward in order to prevent the loss of revenue or recovery due to potential writeoffs.

Recommendation:

E.4.1 The Director, Vancouver Civic Theatres, should strengthen the monitoring and follow up process to address outstanding accounts receivable balances in order to minimize potential writeoffs at year end. This is recommended to be in place by March 31, 2021.

Management Response:

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

Management Action Plan:

While VCT agrees with the findings and recommendations the date should be moved to Q1, 2021 given the length of time and effort required to recover from the effects of the COVID-19 pandemic.

E.5 Ensure emergency response plans are reviewed and updated annually

Emergency response plans contain critical information to be used in the event of an earthquake, fire, flood, or other unforeseen event, to ensure the safety of patrons and staff. Such information includes emergency phone numbers, roles and duties of staff, floor plan and emergency exits.

Review and update emergency response plan for VCT venues

At the time of the audit in Q4 2019, the emergency response plan for VCT owned venues (QE Theatre, Orpheum, Playhouse) was due for updating, with the last version dated February 2018. Management indicated that the emergency response plan will be renewed in 2020 to ensure the information is up to date.

Review and obtain emergency response plan for the Annex

The Annex is located in a non-City owned building which is operated by an independent building owner. At the time of the internal audit, management had not obtained and reviewed the annual emergency response plan for the Annex venue. As the Annex is recognized as a VCT venue, proper due diligence should be taken to ensure that the emergency response plan for the Annex is operational and updated regularly.

Emergency response plans for all VCT venues should be reviewed and updated annually to ensure emergency procedures, phone numbers and emergency exit maps are up to date.

Recommendation:

E.5.1 The Director, Vancouver Civic Theatres, should ensure that the VCT emergency response plan for City owned venues are operational and updated on a minimum annual basis. This is recommended to be in place by September 30, 2020.

Management Response:

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Management Action Plan:

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

VCT Emergency response plans are audited annually and update on WPS ePlan Manager. Once updated, the plans are then shared with the VCT OH&S committee for approval prior to mass circulation. VCT is in the process of updating the plans for implementation in Q3/4 2020.

Recommendation:

E.5.2 The Director, Vancouver Civic Theatres, should obtain and review the emergency response plan for the Annex venue on a minimum annual basis, to ensure emergency response procedures are up to date. This is recommended to be completed by June 30, 2020.

Management Response:

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Management Action Plan:

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

Complete. The Annex theatre is considered a resident of the Capitol Residences. As such, Capitol Residences is responsible for the building emergency response and Fire Plan maintenance. Events at the Annex adopt the Orpheum Theatre's incident response protocols and have been incorporated in the scenario based emergency response training delivered at least yearly.

E.6 Ensure fire safety inspections are conducted for the Annex on a timely basis

Fire safety inspections completed for City managed theatres

Fire safety inspections were completed for City owned theatres (QE, Orpheum and Playhouse) in 2019. The fire safety inspections for these venues are managed by the City's central Real Estate & Facilities Management (REFM) department and are conducted by a fire safety inspection company.

Review and obtain fire safety inspection records for Annex

A fire inspection report for the Annex was not obtained and reviewed by management at the time of the audit. The City's REFM department indicated that they would work with the building owner to obtain an up to date inspection report.

Recommendation:

E.6.1 The Director, Vancouver Civic Theatres, should work with REFM to obtain and review the fire inspection report for the Annex to ensure that an inspection has been completed on a minimum annual basis. This is recommended to be completed as soon as possible or by June 30, 2020.

Management Response:

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Management Action Plan:

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

REFM indicates this is complete as of 5/13/2020

E.7 Enhance tracking and reporting of civic theatres house seats

Purpose of VCT house seats and tracking of tickets

As outlined in the VCT house seats policy, seats are reserved in each of the theatres primarily for the purpose of being able to respond to issues that may arise during an event. City Council, management and staff can also request complimentary house seats tickets if available. These are manually tracked on an Excel spreadsheet by VCT administration and emailed to Payroll for CRA taxable benefit purposes if non-work duty related. Work related house seat tickets for staff on duty are also tracked, with 24 tickets recorded from January to September 2019.

To ensure further accountability and transparency, names of all recipients of complimentary tickets should be reported to the GM, ACCS for annual review.

E.7.1 The Director, Vancouver Civic Theatres, should provide a report of all recipients of house seat tickets to the GM, ACCS on an annual basis for review. This is recommended to be in place by December 31, 2020.

Management Response:

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Management Action Plan:

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

Names of all recipients of complimentary tickets will be reported to the GM, ACCS for annual review as part of the manual tracking process.

E.8 Assess feasibility of implementing a scheduling software to improve efficiency

Current manual scheduling process is not efficient

The scheduling process for front line staff involves manual data entry of staff availability into an Excel spreadsheet and assignment of shifts based on skill level and availability. There are approximately 160 VCT staff comprising of auxiliary, part time and full time employees that are scheduled on a monthly basis. The current process requires 2 full time staff to manage and is susceptible to error due to manual entry of shift availability, start and end times, and shift trades.

The use of a scheduling software system to manage schedules for front line staff would improve efficiency and accuracy of the current process, and staff time can be better utilized for other more complex tasks.

Recommendation:

E.8.1 The Director, Vancouver Civic Theatres, should consult with IT regarding feasibility of implementing a scheduling software to streamline the front line staff scheduling process. This is recommended to be completed by December 31, 2020.

Management Response:

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Management Action Plan:

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

VCT has submitted an action plan and business case for scheduling software for IT's review and implementation up to and including business requirements. Approval and implementation of the VCT project is subject to the City's IT prioritization process. This project has been contemplated since 2014.

E.9 Formalize booking policy for ancillary spaces

VCT ancillary spaces are generally used for smaller receptions or private events. There are several ancillary spaces owned by VCT including the theatre salons and rehearsal halls. Rental rates are established for these spaces and approved by the VCT Advisory Board annually.

While there are documented guidelines on booking procedures for ancillary spaces, the rules and procedures for booking these venues should be formalized.

Current practices for booking ancillary spaces are informal

Some ancillary spaces are included free of charge for use when booking the main venue such as the QE theatre stage. As priority to ancillary spaces is generally given to the renter of the main theatre space, this may result in a potential loss of revenue for a standalone booking.

In addition, some ancillary space is located between two main venues, such as the QE theatre and Playhouse. One scenario that can arise is that both renters of the main venues want access to the ancillary space. There is currently no clear documentation available to determine who would have first priority in this situation.

Formalization of the rules for booking ancillary spaces and standard charges may help to increase rental revenue and minimize potential booking conflicts.

Recommendation:

E.9.1 The Director, Vancouver Civic Theatres, should formalize the rules and procedures for booking ancillary spaces. This is recommended to be completed by December 31, 2020.

Management Response:

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Management Action Plan:

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

Formalized rules and procedures for booking ancillary spaces will be incorporated into the revised rental packages approval process for the 2021-2022 season.

E.9.2 The Director, Vancouver Civic Theatres, should consider implementing standard rental charges for all future ancillary space bookings. This is recommended to be in place by December 31, 2020.

Management Response:

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Management Action Plan:

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

Standard rental charges for all future ancillary space bookings will be incorporated into the revised rental packages approval process for the 2021-2022 season.

E.10 Establish standard weekly rental rates for longer performance runs

Weekly rental rates are not established

Current VCT approved rental rates include full day or half day rates. Performances that run for a week or longer such as Broadway shows are negotiated individually in a rental agreement between VCT and the licensee. There is no standard weekly rate approved by the VCT Advisory Board.

Formalizing standard weekly rates through VCT Advisory Board approval would provide increased transparency over negotiated weekly rates.

Recommendation:

E.10.1 The Director, Vancouver Civic Theatres, should work with the VCT Advisory Board to establish a standard weekly performance rental rate. This is recommended to be in place by December 31, 2020.

Management Response:

Please check one:

☒ Agree with the findings

☐ Disagree with the findings

Please check one:

☒ Agree with the recommendations

☐ Disagree with the recommendations

Management Action Plan:

A Standard weekly performance rental rate will be presented to the VCT Advisory Board as part of the revised rental packages approval process for the 2021-2022 season.

F. OTHER ISSUES

F.1 Assess system capability of new POS system to include up to date inventory information

Implementation of POS system Volante

A new POS system, Volante will be implemented in early 2020. In addition to being the platform system for processing concessions sales transactions, there is potential for Volante to assist in inventory control through integration with SAP information. This will allow increased efficiency in inventory management and reporting. Under the current process, there is a lag (1-2 days) in updating SAP inventory information due to events taking place on a weekend while inventory staff create a journal entry to update SAP at the start of the work week. Management should consider working with IT in the current or next phase of the project to integrate Volante with SAP and enable up to date information for enhanced inventory reporting capabilities.

