January 11, 2012

To the Board of Directors of The Center
For the Performing Arts

You requested that an internal review be made of the financial affairs of The Center for the Performing Arts (the "Center") following the resignation of its President and CEO. This action is consistent with best practices that such a review is generally made following the sudden departure of a CEO from any organization. I have now completed our review with assistance from Ian Worden (Chair of the Center's Audit Committee), Eric Stovall (Treasurer and Chair of the Center's Finance Committee), Terrence Flannery (representing the Center's Artistic Director), and Lisa Kipper (the Center's former Controller).

Our review included the following procedures, all of which were performed on a test sampling basis and were not intended to include all transactions:

1. Review of procedures for approval of disbursements.
2. Review of use of Center-sponsored credit cards.
3. Review of employee expense reimbursement procedures and documentation thereof.
4. Review of methods for payment of charges made to Center-sponsored credit cards and documentation thereof.
5. Review of a listing of all disbursements made during the past two years and selection of specific disbursements from those listings (other than those items defined above) for review of documentation thereof.
6. Review of process of booking performances and negotiating contracts with artists.
7. Review of major items in the proposed financial budget for the 2011-2012 fiscal year.
8. Review of personnel policies regarding relationships between subordinates and their managers.

This internal review did not include all activities of the Center, including the following (however, a management review of these areas is in progress):

1. Appropriateness, competency, and compensation of staff.
2. A comparison of the Centers' activities with best practices and financial performance ratios from similar organizations to confirm whether activities of the Center are within the range of results of other organizations.

As a result of our internal review, we determined that certain opportunities for improvement exist with regard to various internal operations and reporting procedures. The following are our findings and recommendations:

A. Several employees had a Center-sponsored credit card that was to be used for expenses of the Center. The monthly statements for this card were sent directly to the Center's business office for payment. The Center's Controller attempted to receive the necessary documentation from the employees to support each charge, but the process was inefficient and not always supported. The process also circumvented existing controls for approval of expense reports of the staff by the CEO and for approval of the expense reports of the CEO by the Treasurer. All employees, including the CEO, will now be required to submit expense reports to the Center for reimbursement of all Center expenses incurred by the employees, including any charges made to personal or Center-sponsored credit cards. Such expense reports will be required to contain all necessary documentation including a detailed description of the business purpose for the expenditure. The expense reports, including credit card charges, for all employees will be approved by the CEO before payment. Expense reports of the CEO will be approved by the Treasurer.

B. When other employees traveled with the CEO, the CEO typically prepared an expense report accounting for his expenses on the trip. However, one other employee did not routinely prepare her own expense report to support her own air fare or hotel charges that were billed on her Center-sponsored credit card. Therefore, complete documentation to support the validity and/or appropriateness of that employee's travel expenses, including the business purpose thereof, is not available. By way of example, that employee accompanied the CEO on trips to New York on October 27-30, 2010; December 5-6, 2010; January 7-10, 2011; and March 14-15, 2011, for which air fare charges for that employee of $185.40; $458.40; $302.40; and $247.40; respectively, appeared on Center-sponsored credit card statements and were paid. However, the Center's records do not include documentation signed by the employee to support that expense, including the purpose of the employee's trip. In addition, the expense reports of the CEO for those trips contained charges for meals of approximately $411, $76, $184 and $66, respectively, for groups which included the accompanying employee. The recommendations described at A above will also resolve this type of issue in the future.

C. Contracts with performers were negotiated by one person and were not subject to review by another person. Also, our review did not find evidence of appropriate consideration of the economic viability of performances (i.e., the relationship between the anticipated incremental revenue and incremental expense of a specific performance---and whether that net revenue/expense was appropriate to achieve the Center's mission of a balanced and integrated season). Our review of contracts with several performers indicated that losses were inevitable on their performances. While in certain circumstances such losses may be justified, we did not find documentation explaining whether incurring such losses was appropriate or necessary to create a balanced season. There was also indication that the Center paid more for some performers than was necessary. The Center will adopt processes to require that (i) a financial statement forecast (showing the anticipated incremental revenue and incremental expense of the performance) and (ii) a programming justification (showing the reasons that such performance with its expected net revenue/expense is important for a balanced season) be prepared prior to signing contracts. Such financial statement will be reviewed after the performance and compared with actual incremental revenue/expense of the performance. Also, the Center will adopt processes whereby a second person will review and approve the terms of performer contracts and the related financial statement forecast and programming justification for the performance before finalizing contracts. Appropriate controls have been implemented to ensure that there is negotiation prior to agreeing to a performance contract.

D. The internal review of operations led to a review of the 2011-12 budget. While the budget review process continues, preliminary indications are that the 2011-2012 budget estimates for revenues were overstated and for expenses were understated. The Finance Committee and the Treasurer undertook a more thorough review of revenue and expense estimates and presented a revised budget to the Center's directors for approval.

E. The contract committing to expenditures of about $700,000 for the PBS Special was entered into without first seeking board approval. It now appears this project will result in a net loss to the Center of about $400,000. The Center's directors will adopt a policy to define which contracts need board approval.

F. The Center's personnel policies contained language on maintaining a "Harassment Free Workplace" and general language prohibiting conduct by employees that "...adversely affects the organization..." or is "...unprofessional or offensive toward clients, vendors, volunteers, community members and co-workers..." or would "...damage the reputation of our organization." The policy did not directly address situations where there may be a romantic or other relationship between employees or between supervisors and subordinates or situations where actions with fellow employees could expose the Center to risk of litigation. The personnel policies are being expanded to provide further guidance on acceptable employee behavior.

Very truly yours,

Rollin M Dick

ROLLIN M. DICK