



CITY AUDITOR'S OFFICE

Scottsdale Arts

November 8, 2024

AUDIT NO. 2410

CITY COUNCIL

Mayor David D. Ortega

Tammy Caputi

Tom Durham

Vice Mayor Barry Graham

Betty Janik

Kathy Littlefield

Solange Whitehead



November 8, 2024

Honorable Mayor and Members of the City Council:

Enclosed is the audit report for *Scottsdale Arts*, which was included on the Council-approved FY 2023/24 Audit Plan. This audit evaluated contract compliance, effectiveness, and administration of the Management Services Agreement with Scottsdale Arts.

With regards to the Agreement's goals for reducing financial reliance on City funding, Scottsdale Arts appears to be on track to meet 67% outside funding by the end of the term in FY 2024/25. However, clarifications are needed to ensure that both parties agree on the calculation method, and low revenues relative to operating expenses from the operation of City-owned facilities hinders its progress towards this goal.

As well, improvements to contract clarity and performance expectations are needed to better measure achievement of contract objectives. As the City works on developing a new Agreement, we also recommend enhancements to required reporting of financial and performance information and the addition of monitoring processes for tracking completion of contract deliverables.

If you need additional information or have any questions, please contact me at (480) 312-7851.

Sincerely,

A handwritten signature in blue ink that reads "Lai Cluff".

Lai Cluff, CIA
Acting City Auditor

Audit Team:

Elizabeth Brandt, CIA, CGAP, CPM – Sr. Auditor
Melvin Merrill, Sr. Auditor



Scottsdale Arts

Audit No. 2410

WHY WE DID THIS AUDIT

This audit was included on the City Council-approved fiscal year FY 2023/24 Audit Plan to evaluate contract compliance, effectiveness, and administration of the Management Services Agreement with Scottsdale Arts.

BACKGROUND

Scottsdale Arts (formerly known as the Scottsdale Cultural Council) is a non-profit corporation that provides advisory and management services for the City's arts and cultural programs. These include Public Art, Arts Education and Outreach, Community Arts Grants, and operation of 3 city-owned facilities: the Scottsdale Museum of Contemporary Art (SMoCA), the Scottsdale Center of Performing Arts (SCPA), and Civic Center.

The current Management Services Agreement (Agreement), approved in November 2020, has an initial 5-year term ending in June of 2025, with optional 1-year extensions allowing for a maximum of 5 additional years. Each year, a Financial Participation Agreement is approved by Council to establish the financial terms for the Agreement. The Agreement is administered by the Tourism and Events department.

WHAT WE FOUND

Maximizing event programming and rental of city-owned facilities can help decrease reliance on City funding and increase events available to the Scottsdale community.

Earned revenues and contributions have increased in the past year, but low revenues from operations of the 3 city facilities hinder progress towards reducing reliance on City funding.

- FY 2022/23 operating expenditures exceeded revenues. Increasing facility usage and event attendance could improve earned revenues.
- The Agreement lacks clear objectives for operation of city owned facilities.
- Market analysis of facility rental rates has not been conducted and rates have not been submitted for Council approval.
- Clarifications for measurement of non-city funding are needed.

Improvements to contract clarity and performance expectations are needed to better measure achievement of contract objectives.

- Overall, the Agreement lacks adequate performance measures necessary for assessing the achievement of its objectives.
- Terms for Civic Center revenue sharing need clarification and reported revenues and expenses are not supported by financial records.
- Expectations for management of City artwork and conservation need to be clarified.

Reporting of financial and performance information could be improved, and monitoring of deliverables completion is needed.

- Uses for all earmarked funds have not been reported.
- Scottsdale Art's operating budget does not provide prior year actuals for comparison and financial reports do not provide revenues allocated by business function.
- Many contract deliverables were incomplete or not received timely.

WHAT WE RECOMMEND

We recommend the Tourism and Events Director:

- As a new Agreement is negotiated, recommend to City Council the inclusion of outcome-based performance measures and strategic priorities.
- Clarify contract terms on revenue-sharing and outside funding requirements. Consider additional contract remedies for non-compliance.
- Develop a reporting format to capture financial and performance information to inform evaluations and funding decisions.
- Develop a tracking tool for monitoring completion of contract deliverables.

TABLE OF CONTENTS

BACKGROUND	1
Figure 1. Management Services Agreement Objectives.	1
Figure 2. Scottsdale Arts-managed programs and facilities.	2
Table 1. Management Services Fees to Scottsdale Arts, by fiscal year.	4
Figure 3. Scottsdale Arts organizational chart, leadership team.	5
Table 2. Scottsdale Arts revenues and expenses by fiscal year.	6
OBJECTIVES, SCOPE, AND METHODOLOGY	7
FINDINGS AND ANALYSIS	8
1. Maximizing event programming and rental of City-owned facilities can help decrease reliance on City funding and increase events available to the Scottsdale community.	8
Figure 4. FY 2022/23 Scottsdale Arts operating expenses for City-owned facilities were greater than revenues.	8
Table 3. FY 2023/24 weekend facility usage for performances and rentals were 58% or less.	9
Table 4. Fewer performances scheduled for November 2024 than comparison theaters.	10
Table 5. FY 2023/24 tickets sold to SCPA performances averaged about 59% of maximum occupancy.	10
Figure 5. Comedy and musical theater show potential for growth.	11
Table 6. Percentage of City and non-City funding by fiscal year.	13
2. Improvements to contract clarity and performance expectations are needed to better measure achievement of contract objectives.	15
Figure 6. Many Arts and Cultural activities are missing a relevant performance measure.....	16
Table 7. Civic Center revenue-sharing amounts received, by fiscal year.	17
3. Reporting of financial and performance information could be improved, and monitoring of deliverables completion is needed.	20
Table 8. Examples of purpose-restricted funds, FY 2020/21 to FY 2022/23.	20
Figure 7. Other contract deliverables were not completed.....	22
APPENDIX	24
Figure 8. Examples of recommended performance measures from the National Endowment for the Arts.	24
MANAGEMENT ACTION PLAN	25

BACKGROUND

Scottsdale Arts (formerly known as the Scottsdale Cultural Council) is a non-profit corporation that provides advisory and management services for the City’s arts and cultural programs, including management of several City-owned facilities. In 1988, the City first entered into a Management Services Agreement (Agreement) with Scottsdale Arts. The current Agreement, approved in November 2020, has an initial 5-year term ending in June of 2025, with optional 1-year extensions allowing for a maximum of 5 additional years. Each year, a Financial Participation Agreement is approved by City Council to establish the financial terms for the Agreement. The Agreement is administered by the Tourism and Events department.

The City’s goal in partnering with an arts organization is to enhance and promote arts and cultural programs and facilities in the City. To achieve this, the Agreement lists 10 objectives, as shown in the Figure 1 below.

Figure 1. Management Services Agreement Objectives.

1	Provide advisory services to the City for current and future arts and cultural affairs and facilities in Scottsdale.
2	Actively work to engage the community to create within the City a climate in which the arts may flourish.
3	With the input of arts and cultural organizations within Scottsdale, develop an Arts and Cultural Needs-Assessment and recommend to the City an action plan for the support of arts and culture in Scottsdale.
4	Increase artistic partnerships with local Arts Organizations for use of the City-Owned Facilities and increase the amount of grant funding available for Scottsdale-based and Scottsdale-focused arts organizations.
5	Cooperate in the development and ensure the ongoing operations of a citywide Arts and Cultural event Calendar either directly, or through a third-party.
6	Ensure that arts education and outreach programs are provided to the community.
7	Manage City Artwork and the Public Art Program and Events, and curate displays of City Artwork and other displays of community interest at the Scottsdale Public Libraries and other City facilities.
8	Operate and manage programming, facility rentals and events at the City-Owned Facilities.
9	Increase funding over time from earned and contributed revenue with the goal of increasing reliance on outside funding to 67 percent of total revenue.
10	Increase private revenues and secure new funding sources for use to supplement City expenditures on capital improvements necessary for current and future facilities.

SOURCE: Management Services Agreement 2020-046-COS.

Contracted Services and Responsibilities

Under the Agreement, Scottsdale Arts manages art programs and operates certain City-owned facilities as outlined by Figure 2.

Figure 2. Scottsdale Arts-managed programs and facilities.



Scottsdale Center for the Performing Arts (SCPA)

A 82,500 square-foot facility located at 7380 E. Second Street. Scottsdale Arts is responsible for event programming and facility rental, for the following spaces:

- The Virginia G. Piper Theater – A professional theater with maximum seating capacity for 853 that hosts theater, music, dance, film and other performances. Most events take place in this theater.
- Stage 2 – Smaller theater with a maximum seating capacity of 137, used mainly to host theater productions.
- The Dayton Fowler Grafman Atrium - A 6,200 square-foot main lobby/atrium used to host events and receptions.
- The Mezzanine Lounge - A space with maximum capacity of 120 guests used mainly for receptions and business meetings.

Scottsdale Arts is responsible for cleaning and minor maintenance, but major repair and maintenance are the City's responsibility.

Scottsdale Museum of Contemporary Art (SMoCA)

Located next to SCPA, the museum was established in 1999 and is dedicated to contemporary art, architecture and design. Scottsdale Arts is responsible for management and event programming of the museum, as well as management of the Museum Collection (artwork owned by the City) in accordance with AAM standards.



Scottsdale Public Art (SPA)

Located throughout the City, sculpture and integrated artworks that can be found in parks, libraries, roadways, public buildings and public spaces. Scottsdale Arts is responsible for:

- Art in Public Places Program (Public Art) – Selection, commissioning and/or acquisition of public art funded by City capital improvement projects. The Public Art collection consists of about 160 public art pieces.
- Cultural Improvement Program (formerly known as *Art in Private Development*) – Work with the City and private developers to review the artwork commissioned as part of the Cultural Improvement Program requirements.
- Portable Works – Management of moveable artwork owned by the City in addition to Public Art and Museum Art.
- Conservation of artwork – Maintaining, preserving and protecting all City-owned artwork managed by Scottsdale Arts.

Scottsdale Civic Center (CC)

Outdoor space located next to City Hall. Renovated in January 2023. Scottsdale Arts manages programs and rentals for these spaces:

- East Bowl - Performance stage with a sculptural canopy, lighting, and audio set in a sloped-lawn amphitheater, maximum capacity of 2,716.
- West Bowl - Performance stage with a shaded lawn, maximum capacity of 1,975.
- Central Lawn - Flat lawn space with botanic gardens and lagoon, the flat lawn features the Love sculpture, a maximum capacity of 2,633.



Community Arts Grants

Intended to provide funding for Scottsdale-based arts and cultural organizations. Scottsdale Arts is responsible for establishing and administering the grant program.

Arts Education and Outreach

Scottsdale Arts Learning and Innovation provides workshops, exhibitions, and programs to students, teachers, teens, and adults for arts education and outreach programs. Activities include matinee performances, guided museum tours, hands-on workshops, artist residencies and creating aging programs. Scottsdale Arts works with public schools in Scottsdale and Paradise Valley through arts education.



Community Events

Scottsdale Arts is responsible for managing and administering cultural events citywide at no cost to the public. One of the free events is Canal Convergence which is required to include local, national and international artists and organizations and include both visual and performing arts of interest to residents and City visitors.

SOURCE: Auditor analysis of Management Services Agreement 2020-046-COS, Scottsdale Arts annual reports for FY 2022/23 and Scottsdale Arts website information.

City Funding

City Council appropriates funding for Scottsdale Arts services through the annual Financial Participation Agreement (FPA). Management Services Fees ranged from about \$6.5 million to \$6 million each fiscal year, an 8% decrease from FY 2020/21 through FY 2024/25. The Fee decrease was mainly due to restricted one-time funding for community arts grants, an arts and culture needs assessment, and an events calendar funded through COVID-related grants received by the City.

A portion of the Management Services Fee is restricted for specific purposes, such as the Public Art program, Canal Convergence destination event, and Community Arts Grants as illustrated by Table 1, on page 4.

The majority of the Fee is funded by the City's General Fund, with exception of:

- one-time pandemic grant funding, as previously noted,
- about \$50,000 per year from the Community Art Trust for additional community arts grants,
- \$550,000 to \$750,000 per year from the Tourism Development Fund for the Canal Convergence event.

Funds earmarked for the administration of the Art in Public Places and Art in Private Development programs (Public Art) are appropriated through the FPA; however, direct costs for the commissioning and installation of public art are billed and reimbursed separately by the City’s Capital Improvement Program or private development, respectively. Scottsdale Arts reported total pass-through amounts of about \$2 million in FY 2022/23 and about \$1 million in FY 2023/24 for reimbursements from these programs.

Table 1. Management Services Fees to Scottsdale Arts, by fiscal year.

	2020/21 ²	2021/22	2022/23	2023/24	2024/25	% Change
Financial Participation Agreement (FPA)	5,606,009	5,907,130	6,060,314	6,165,500	6,057,005	8%
Restricted purposes:						
Education and Outreach Programs	840,000	-	758,747	797,140	797,140	(5%)
Canal Convergence	550,000	750,000	750,000	750,000	750,000	36%
Administration of Art in Private Development, Art in Public Places	627,300	639,846	659,041	672,222	672,222	7%
Conservation of City Artwork	125,460	127,969	131,808	134,444	134,444	7%
Maintenance of specialty equipment	51,000	52,020	53,581	54,652	54,652	7%
Community Art Grants Program	112,730	114,984	116,904	118,222	151,000	34%
Restricted	\$2,306,490	\$1,684,819	\$2,470,081	\$2,526,680	\$2,559,458	11%
Unrestricted <i>(program management and administration fee)</i>	\$3,299,519	\$4,222,311	\$3,590,233	\$3,638,820	\$3,497,547	6%
Supplemental FPA's - Restricted use <i>(One-time funding through COVID/CARES monies from the City):</i>						
Community Arts Grants ¹	959,633					
Needs Assessment and Cultural Events Calendar		125,000	125,000			
Total Management Services Fee	\$6,565,642	\$6,032,130	\$6,185,314	\$6,165,500	\$6,057,005	(8%)

¹Supplemental FPA in FY 2020/21 authorized spending of \$1.5 million in CARES Act grants on arts and culture programs. These funds were restricted for Community Arts Grants, including 5% for program administration. Final approved grants totaled \$884,633, with an additional \$75,000 for administration.

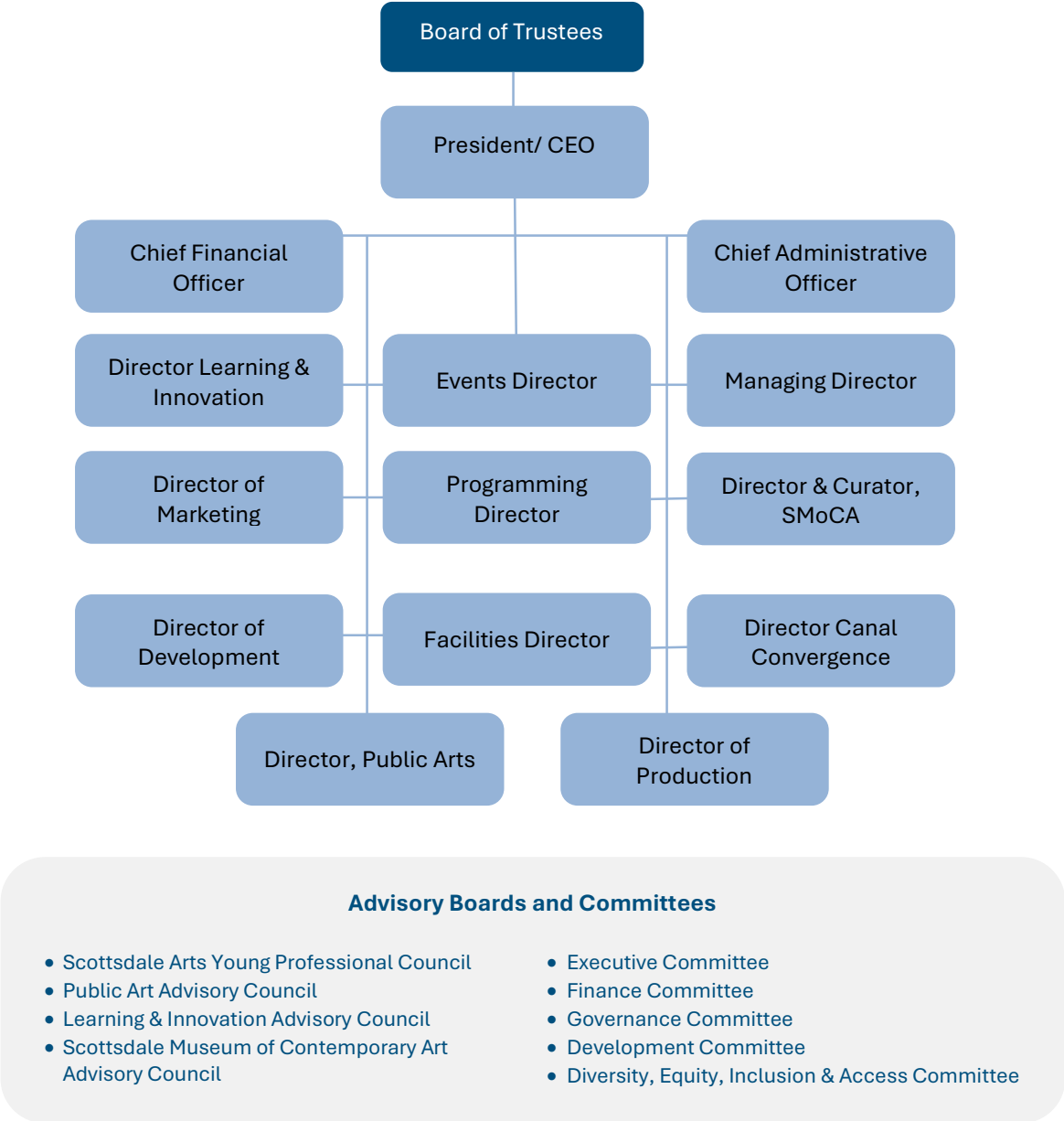
²The original FPA for FY 2020/21 was approved for \$5.5 million, with an additional \$98,157 deferred and approved when the new MSA was approved in November 2020. No formal amendment to the FPA was issued.

SOURCE: Auditor analysis of Management Services Agreement No. 2020-046-COS, applicable annual Financial Participation Agreements and SmartStream accounting reports.

Scottsdale Arts

Scottsdale Arts was incorporated in 1987 and as shown in Figure 3, it is governed by a Board of Trustees and a President/CEO manages the organization’s operations. Scottsdale Arts is also advised by nine advisory boards and commissions and is staffed by about 92 employees.

Figure 3. Scottsdale Arts organizational chart, leadership team.



SOURCE: Organizational chart provided by Scottsdale Arts, as of July 2024.

Table 2 provides a summary of Scottsdale Art’s revenues and expenses summarized from its audited financial statements for FY 2020/21 through FY 2022/23. In addition to City funding, Scottsdale Arts earned revenue from event admissions, food and beverage concessions, facility rentals, and retail sales from their operation of City-owned facilities. They also receive donor contributions, memberships, sponsorships, grants, and non-cash donations, some which may be purpose restricted. In FY 2020/21 and FY 2021/22 Scottsdale Arts also received one-time grants from COVID-related funding through the Shuttered Venue Operators grant, Paycheck Protection Program, and Employee Retention Credit, totaling approximately \$640,000 to \$3.2 million each year, respectively.

Table 2. Scottsdale Arts revenues and expenses by fiscal year.

	2020/21	2021/22	2022/23
Revenues, support and other income			
City of Scottsdale - Agreement and contributions	6,555,156	6,061,476	6,349,647
Public Art projects pass-through	227,125	524,468	2,025,764
Earned Revenue	489,926	2,280,028	2,669,878
Contributions	1,271,045	2,881,447	3,220,845
Non-cash donations	37,294	112,636	18,806
Shuttered Venue Operators grant		1,519,257	
Paycheck Protection Program grant	10,000	939,800	
Employee Retention Credit	632,482	792,388	
Other income	23,699	397	10,558
Total revenues	\$ 9,246,727	\$ 15,111,897	\$ 14,295,498
Expenses			
Program expenses	7,255,688	8,633,238	10,394,087
Management and General	1,354,478	2,402,131	2,614,653
Fundraising	644,682	815,419	759,262
Total expenses	\$ 9,254,848	\$ 11,850,788	\$ 13,768,002
Change in Net Assets¹	\$ (8,121)	\$ 3,261,109	\$ 527,496
FY Ending Net Assets			
Restricted net assets	7,294,964	7,657,863	9,712,948
Unrestricted net assets	548,642	2,020,863	1,197,442

¹ Change in net assets are “before depreciation and investment return”.

SOURCE: Auditor summary of Scottsdale Arts’ most recent applicable audited financial statements.

OBJECTIVES, SCOPE, AND METHODOLOGY

An audit of *Scottsdale Arts* was included on the City Council-approved fiscal year FY 2023/24 Audit Plan. The audit objective was to evaluate contract compliance, effectiveness, and administration of the management services agreement with Scottsdale Arts. The audit focused on contract no. 2020-046-COS between the City and Scottsdale Arts, executed in November 2020, and the applicable Financial Participation Agreements.

To gain an understanding of the contract requirements and administration, auditors interviewed City staff involved with contract administration, including staff from the Tourism and Events department and the City Manager's Office. We interviewed Scottsdale Arts staff responsible for key operational areas to understand its programs, event management, and available reports. Auditors also reviewed:

- Management Services Agreement 2020-046-COS and related Financial Participation Agreements: 2020-140-COS CA1, 2020-140-COS-CA23, 2020-107-COS, 2021-044-COS, 2022-070-COS, and 2023-057-COS.
- Relevant City Code, Chapter 20, Articles V to VII covering Scottsdale Center for the Performing Arts, Scottsdale Civic Center, Art in Public Places, and the Ordinance for Cultural Improvement Program (i.e. Art in Private Development).
- Administrative Regulation (AR) 215, *Contract Administration*.

To evaluate compliance with contract requirements and Scottsdale Art's performance under the contract we:

- Reviewed contract files maintained by the Contract Administrator, including deliverables received and communications with the contractor.
- Obtained and analyzed financial data to identify use of City-restricted funding, revenue-sharing requirements, financial position of various programs, as well as verifying amounts for earned and contributed revenues.
- Analyzed Scottsdale Arts events reservation, and ticket sales data to gain an understanding of utilization of event spaces and identify opportunities for increasing revenues.
- Reviewed City work orders and utility records for City-owned facilities to verify compliance with maintenance responsibilities.
- Researched performance measures best practices for similar local and national organizations such as the National Endowment for the Arts.
- Reviewed Scottsdale Art's performance measures typical of non-profit organizations, such as program expense, liquidity, and fund-raising effectiveness using the organization's IRS 990 forms and industry benchmarks.
- Reviewed art conservation funding and activities, including the organization's ten-year Public Art conservation plan, art inventories, and any additional requests for conservation expense reimbursements.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Audit work took place from June to October 2024.

FINDINGS AND ANALYSIS

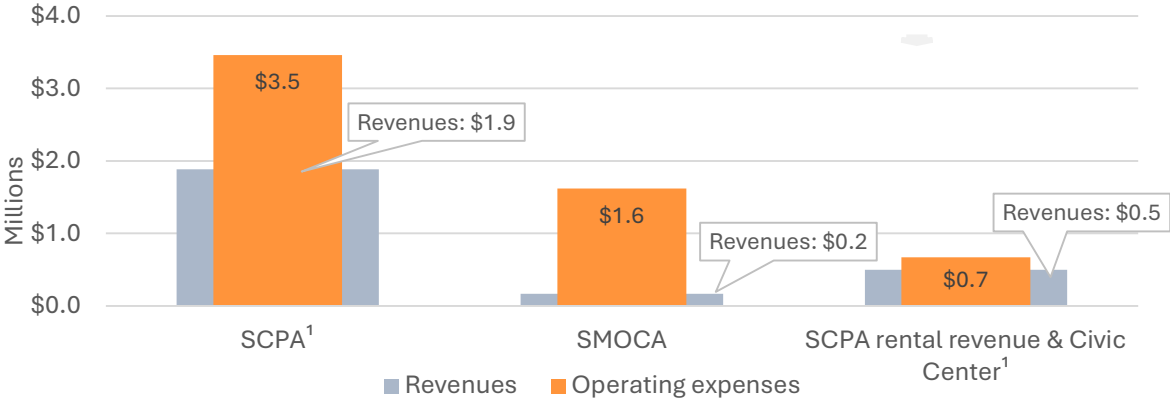
1. Maximizing event programming and rental of City-owned facilities can help decrease reliance on City funding and increase events available to the Scottsdale community.

A key goal of the Management Services Agreement is for Scottsdale Arts to increase earned and contributed revenues to supplement City funding available for achieving the contract’s objectives. Specifically, the goal is to increase outside funding to 67% by the end of the agreement, and Scottsdale Arts is on track to meet this goal, though clarifications are needed to ensure all parties agree on the calculation method. However, progress towards increasing earned revenues is hindered by low revenues from the operation of City-owned facilities relative to their operating expenses. Evaluating facility usage and event attendance, as well as incorporating community interests in its programming, could help Scottsdale Arts decrease its reliance on City funding.

A. Revenues generated from the operation of City-owned facilities have not covered their operating expenses.

For the three City-owned facilities operated by Scottsdale Arts, it receives revenues primarily from event admissions, food and beverage concessions, facility rentals, and retail sales (gift shop). The associated expenditures have exceeded revenues in FY 2020/21 through FY 2022/23. According to Scottsdale Arts’ revenue and expenditure reports by functional area, FY 2022/23 expenses exceeded revenues for the three revenue-generating business functions: Scottsdale Center for Performing Arts, Scottsdale Museum of Contemporary Art, and Civic Center Live, as shown in Figure 4. Expenditures primarily include salaries and benefits, artist fees and travel expenses, advertising and utilities. Scottsdale Arts is responsible for cleaning and minor maintenance, but major repair and maintenance are provided by the City’s Facilities Management department.

Figure 4. FY 2022/23 Scottsdale Arts operating expenses for City-owned facilities were greater than revenues.



SCPA - Scottsdale Center for the Performing Arts. SMOCA - Scottsdale Museum of Contemporary Art.

Note ¹: SCPA rental revenue was classified with Civic Center revenues, not with other SCPA revenues.

SOURCE: Auditor summary of Scottsdale Arts audited financial statements, report of functional revenues and expenses, and general ledger data for FY 2022/23.

Since the City does not provide separate funding for the operation of these facilities, operating losses must be supported by donor contributions or the unrestricted portion of the Management Services Fee. Further, the Agreement lacks clear objectives for the operation of City-owned facilities.

B. Use of City-owned facilities and programming attendance could be improved to expand the availability of arts and culture events that fit the community’s interest.

The City-owned facilities operated by Scottsdale Arts may be used for performances, space rentals, and other arts and culture programs. Analysis of FY 2023/24 ticket and reservation data shows that City-owned facilities were used for performances or rentals about 50% of the year or less (based on a 6-days/week operating schedule). Further, as shown in Table 3, when evaluating only weekend use (Friday thru Sunday), the two SCPA theaters were used about 58% and 30% of the days. Civic Center usage ranged from 8% to 13% on weekends and has more seasonal demand because it is an outdoor venue. According to Scottsdale Arts, usage of the Civic Center from mid-May through mid-September is impacted by the high temperatures. Also, the theaters are unavailable for about 6-8 weeks in July and August for maintenance.

Table 3. FY 2023/24 weekend facility usage for performances and rentals were 58% or less.

	Total		Weekends only (Fri – Sun)	
	Days Used	Usage Rate ¹	Days Used	Usage Rate
SCPA				
Virginia G. Piper Theater	160	51%	91	58%
Stage 2	72	23%	47	30%
Civic Center				
Full site rental	31	10%	21	13%
East Bowl only	30	10%	13	8%
Central Lawn only	27	9%	18	12%
360 stage only	16	5%	12	8%

¹Annual usage rate is based on 6-day weeks – facilities are closed on Mondays.

SOURCE: Auditor analysis of Scottsdale Arts reservation and ticketing data for FY 2023/24.

Our review of three neighboring cities with centers of the performing arts (identified by the Agreement for comparison) found that they offer a greater selection of scheduled shows for the upcoming month of November. Table 4 on page 10 shows a comparison of events available for the main theater at each comparison facility, including seating capacity, commercial rental rates, and number of scheduled performances for November 2024. SCPA’s main theater has a competitive rental rate and seating capacity but fewer performances.

(continued on next page)

Table 4. Fewer performances scheduled for November 2024 than comparison theaters.

	Shows/ Performances	Seating Capacity	Daily Rental Rate (Commercial)
Mesa Arts Center - <i>Ikeda Theater</i>	17	1,570	\$3,611
Tempe Center for the Arts - <i>Theater</i>	13	595	\$1,350
Chandler Center for the Arts - <i>Mainstage</i>	10	1,500	\$2,000 (one show) \$3,400 (two shows)
Scottsdale Center for Performing Arts - <i>Virginia G. Piper Theater</i>	7	853	\$1,650

SOURCE: Auditor analysis of each center’s main theater show schedules and theater information available on their website as of October 2024.

Additionally, Scottsdale Arts receives all or part of the ticket revenues from events and performances that they produce or co-produce. According to their event reservation system reports, there were 76 events classified as Scottsdale Arts performances at the two SCPA theaters in FY 2023/24. Ticketing system data used to estimate overall attendance at Scottsdale Arts performances show the main theater averaged about 59% occupancy. For weekend performances, average occupancy was similar, averaging 60%. According to Scottsdale Arts, the City has an interest in presenting certain events that are not expected to be at full capacity.

Attendance at Civic Center events can vary depending on the planned capacity. However, many Civic Center events and festivals were managed by event producers that rented the venue.

Given the high cost of producing events and performances, the City should request that Scottsdale Arts evaluate its programming strategy to balance higher-demand performances and special-interest events.

Table 5. FY 2023/24 tickets sold to SCPA performances averaged about 59% of maximum occupancy.

	Theater Occupancy = 853	Stage 2 Occupancy = 137
Total Performances	50	26
Average Occupancy	59%	54%
Performances at the rate:		
0 – 40%	9	10
41 – 60%	16	4
61 – 80%	17	7
81 – 100%	8	5
Total	50	26

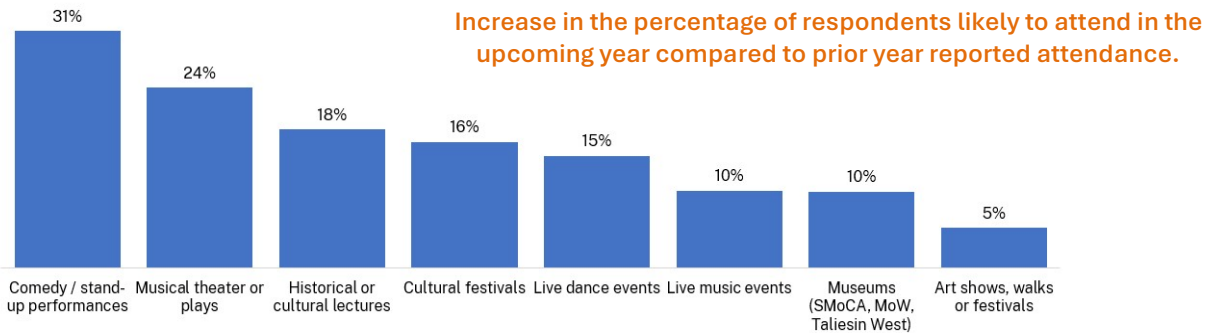
¹Performances shown do not include event tickets generated through rental of the facility to an event producer.

SOURCE: Auditor analysis of Scottsdale Arts reservation and ticketing data for FY 2023/24.

Arts and Culture Needs Assessment – A survey or assessment of the community’s interest in arts and cultural events can be used to inform programming decisions. The City provided funding for an Arts and Culture Needs Assessment and required it to be completed by

November 2022. The Assessment was completed in July of 2024, with assistance from the City Manager’s Office. The methodology for the assessment included a regional demographic study, review of reports and input from key stakeholders. However, the assessment did not include information from City residents regarding their satisfaction with the programs offered or the types of arts and cultural events they would like to see. A City Manager’s Office survey of arts and culture conducted in March and April of 2024 showed potential increase in demand for certain event types, such as comedy/stand up performances, musical theater or plays, and historical or cultural events, in the upcoming year (as compared to reported attendance in the prior year). Responses are illustrated in Figure 5.

Figure 5. Comedy and musical theater show potential for growth.



SOURCE: Arts and Culture Outreach Results prepared by City Manager’s Office from a survey conducted between March 30 through April 12, 2024. A total of 553 survey responses were received from a pool of over 6,000 online survey registrants.

FY 2023/24 event data indicates that the majority (about 78%) of Scottsdale Arts performances in the main theater were live music performances, such as classical music by a symphony or individual, jazz performers, and contemporary singers, but musical theater or plays made up only about 2%. According to Scottsdale Arts, plays and certain productions are limited due to the technical capabilities of the existing stage. It is also working on increasing programming of comedy shows.

Increasing ventures and partnerships, such as partnering with a theater company, may also help meet public interest for other types of performances. Scottsdale Arts has not reported on the number of ventures and partnerships that resulted in bringing new programs or arts facilities to Scottsdale (Agreement section 2.2).

Additionally, analysis of readily available system data would help make informed programming decisions. For example, a review of performances with overall capacity rate of greater than 80% can help understand the community’s interest in arts and cultural events.

Examples of Performances with 80% or more in ticket sales in FY 2023/24:

- Cabaret - Flamenco Intimo
- Cabaret - Jazz Lounge - Letters to Joni
- Cowboy Junkies
- MOMIX – Alice
- Squirrel Nut Zippers Christmas Caravan
- The Concert: A Tribute to ABBA

Source: Auditor analysis of ticket data for FY 2023/24.

C. Facility rental rates have not been recently evaluated or approved by City Council.

While the Agreement requires Scottsdale Arts to provide the Contract Administrator with proposed rental rates for approval by City Council, Scottsdale Arts has not recently performed a market analysis or evaluated the appropriateness of rental rates. Civic Center rates were updated in January 2023, after the renovation, and Scottsdale Arts staff confirmed that some SCPA rates were last updated for the FY 2018/19 season. Further, the rental rates have not been approved by City Council through the regular budget process, as required in the contract.

Additionally, opportunities exist to further evaluate the current rental rate structure. Some cities and non-profit organizations operating similar facilities have adopted a more tiered rate structure that include day, evening, hourly, and weekday and weekend rates. Scottsdale Arts staff stated that a rate study has not recently been completed and it is expected to be performed later in the year. A competitive rate structure can help Scottsdale Arts increase utilization rates of various spaces.

D. Earned revenues and contributions are increasing, but contract language needs clarification for the measurement of non-city funding.

Scottsdale Arts is required to implement a plan that increases earned and contributed revenue (non-City funding) to 67% of total revenue by the end of FY 2024/25. However, further clarification of “contributed revenue” is needed. Scottsdale Arts and the City Manager’s Office have differing calculations, primarily relating to whether donor-restricted contributions should be included.

Section 5.6

Implement a financial development plan that increases funding over time from earned and contributed revenue with the goal of increasing reliance on outside funding to 67 percent of total revenue by the end of this agreement.

Source: Agreement No. 2020-046-COS

As shown in Table 6 on page 13, Scottsdale Arts reported donor-restricted contributions of about \$1.9 million in FY 2022/23. In its financial statements, some restricted net assets were reported as endowments with restrictions, or for long-term projects (such as the planned stage renovation) and some were for activities that relate to the contract objectives, such as education, museum exhibits, and performances.

For the purposes of evaluating the contract requirement, restricted uses that align with the Agreement’s objectives should be included, but supplemental funding for capital improvements is a separately stated objective. However, detail about the donor-restricted purposes for each year’s contributions are not currently available in Scottsdale Arts’ financial statements or general ledger.

In calculating reliance on City funding, we noted other areas that need further consideration:

- While both the City and Scottsdale Arts generally include only unrestricted City funding in the revenue calculation, the contract language is less direct and refers to the programs described under subsection 5.2.1. The contract definition would not exclude restricted funding related to the arts and culture needs assessment and cultural event calendar, and potentially future earmarked funds.
- Scottsdale Arts did not exclude restricted City funding from both the City-funding and total revenue, resulting in over-stated proportion of non-city funding, as shown in Table 6.
- Scottsdale Arts did not include retail net sales and special event net sales in its earned revenues. In FY 2022/23, this was approximately \$162,500.

- Funds earmarked for Arts Education, totaling \$840,000 in FY 2020/21, were not excluded from the revenue calculation.

Table 6. Percentage of City and non-City funding by fiscal year.

	2020/21	2021/22	2022/23	Prelim Est. 2023/24	
Scottsdale Arts Calculations	<i>City Funding</i> ^b	6,782,281	6,585,944	8,375,411	
	<i>less Restricted City funds:</i>	(2,571,717)	(2,154,389)	(4,435,455)	
	Adj'd City Funding	\$4,210,564	\$4,431,555	\$3,939,956	
	Non-City Revenue	\$2,406,899	\$8,387,428	\$5,757,617	
	Total Revenues	\$9,189,180	\$14,973,372	\$14,133,028	
	Rate of City Funding	46%	30%	28%	Not yet available
Audit Calculations	Earned Revenues	489,926	2,280,028	2,669,878	3,874,640
	Contributions: Unrestricted	1,158,214	1,322,665	1,319,675	2,506,861
	Contributions: Restricted	150,125	1,671,418	1,919,976	12,193,106 ^a
	One-Time Grants	642,482	3,251,445	-	-
	Other Income	23,699	397	10,558	-
	Total Non-City Revenues	\$2,464,446	\$8,525,953	\$5,920,087	\$18,574,607
	City Contract	\$6,565,642	\$6,032,130	\$6,185,314	\$6,165,500
	<i>less Excluded Programs (as per section 5.6):</i>				
	Scottsdale Public Arts (SPA)	(627,300)	(639,846)	(659,041)	(672,222)
	Canal Convergence	(550,000)	(750,000)	(750,000)	(750,000)
	Community Arts Grants	(1,072,363)	(114,985)	(116,904)	(118,222)
	Specialty Equipment	(51,000)	(52,020)	(53,581)	(54,652)
	Art Education	(840,000)	-	(758,747)	(797,140)
	Conservation of Artwork	(125,460)	(127,969)	(131,808)	(134,444)
	Total Excluded Program funding	(3,266,123)	(1,684,820)	(2,470,081)	(2,526,680)
	Adj'd City Funding	3,299,519	4,347,310	3,715,233	3,638,820
	Total Revenue	\$5,763,965	\$12,873,263	\$9,635,320	\$22,213,427
	Option 1: City / Non-City funding, including all Contributions	57% / 43%	34% / 66%	39% / 61%	16% / 84%
Option 2: City / Non-City funding, excluding Restricted Contributions	59% / 41%	39% / 61%	48% / 52%	36% / 64%	

Note ^a: Auditor estimate of FY 2023/24 restricted contributions were based on large bequests for the construction of a new stage. As of Oct 2024, other restricted contributions had not yet been identified for reporting purposes.

Note ^b: Pass-through amounts for Public Art costs reimbursed by City capital projects and private development are not included in auditor's calculations but are shown in Scottsdale Arts' calculations as City restricted revenue.

SOURCE: Auditor analysis of Scottsdale Arts audited financial reports for FY 2020/21 through FY 2022/23, preliminary general ledger reports for FY 2023/24, and City Financial Participation Agreements.

As illustrated in Table 6 on page 13, lower earned revenues in the preceding years slowed progress towards the 67% target, but the 5-year trend was also greatly impacted by the pandemic closures and one-time relief grants. For FY 2023/24, Scottsdale Arts' unaudited financial ledger shows higher earned and contributed revenues than past years.

Based on our estimates of FY 2023/24 amounts, Scottsdale Arts is expected to meet and exceed the target earned and contributed revenues percentage of 67% when all contributions are included in the calculation. However, Scottsdale Arts received very large contributions for the construction of a new stage, which will not directly supplement funding for operations and achievement of the Agreement Objectives. When excluding these restricted contributions, we estimated that the proportion of non-city revenues would fall just below the target rate for FY 2023/24. Other types of restricted contributions likely align with the Agreement Objectives (such as education programs or art exhibits) but the restricted purposes are not currently reported separately by Scottsdale Arts.

Recommendations:

The Tourism and Events Director should:

- 1.1 As a new Management Services Agreement is negotiated, recommend to City Council the inclusion of specific performance objectives for the operation of the City-owned facilities. Develop measures for those objectives, such as target facility usage or financial position.
- 1.2 Recommend for approval in the new Agreement, strategic priorities for arts and cultural events that take into consideration community interests and demand. Periodic community surveys and analysis of ticket sales could be used to evaluate the effectiveness of these efforts.
- 1.3 Require Scottsdale Arts to regularly assess its rates and fees, including a market analysis of its facility rental rates, and submit them for Council approval.
- 1.4 Further define requirements for evaluating Scottsdale Arts' progress towards reducing its reliance on City funding, such as clarifying whether restricted contributions should be included. A reasonable approach may be to exclude contributions restricted for long-term projects and restricted endowments.

2. Improvements to contract clarity and performance expectations are needed to better measure achievement of contract objectives.

Overall, the Agreement lacks adequate performance measures necessary for assessing the achievement of its objectives. Additionally, some requirements outlined in the agreement need clarification to ensure both Scottsdale Arts and the City evaluate them in the same way. For example, definitions around revenue sharing terms for the Civic Center and expectations for management of artwork and conservation need to be clarified. As well, the requirement for establishing and maintaining a cultural events calendar needs to be reevaluated as the calendar is not meeting its intended purpose.

A. Lack of key performance measures with established goals hinders a critical evaluation of Scottsdale Arts performance under the agreement.

Although the Agreement requires an annual evaluation of performance, a limited number of relevant performance measures have been established. Many of the requirements detailed in the agreement are related to providing documentation, such as policies and procedures, related forms, strategic and operational plans, and financial reports. As shown in Figure 6 on page 16, many of the contract services for arts and cultural activities do not have performance criteria that measures the organization's achievement of the established objectives.

The agreement includes a few contract requirements with easily measurable objectives, such as develop and implement a minimum of 12 arts and cultural events citywide each year that are available at no cost to the public. However, a cultural event is not well-defined and there is no measurement of the success of those events.

As well, the City should consider adopting industry performance measures. For example, the National Endowment for the Arts lists resources and articles to help with the evaluation of art organizations. Some articles note that there is a need to adopt a balanced approach to performance measurement to include a range of stakeholders such as the public, local authorities, artists, and local businesses. An evaluation that is solely centered on process inputs or quantitative methodology will result in an approach that is not well-balanced. For some examples of recommended performance measures see the Appendix, on page 24.

Contract Section 6.3.

Scottsdale Arts shall provide the City Contract Administrator with an annual report no later than December 1 each year...Each Annual Report shall critically evaluate, for the preceding fiscal year, each of the performance measures, Scottsdale Arts' satisfaction of each of its objectives under this Agreement, and Scottsdale Arts' achievements with regard to its mission.

Source: Agreement No. 2020-046-COS

(continued on next page)

Figure 6. Many Arts and Cultural activities are missing a relevant performance measure.

Contracted Services	Deliverables and Measures	Examples of Performance Measures
<p>Arts Advocacy Advise City on how various activities or plans may affect arts and cultural affairs and facilities in Scottsdale.</p>	①	Percentage of realized projects that Scottsdale Arts provided advise on.
<p>Venture and Partnerships Establish processes and criteria for considering opportunities for new partnerships or ventures that would bring new programs or arts facilities to Scottsdale.</p>	②	Targeted number of new partnership or ventures that resulted in a new program or arts facility.
<p>Community Arts Grants Program Manage and administer a community arts grants program in support of Arts Organizations. Work to increase the amount of grant funding available from non-City sources.</p>	②	Targeted amount or percentage growth of non-City funding.
<p>Community Events Develop and implement a minimum of 12 arts and cultural events citywide each year that are available at no cost to the public.</p>	③	Positive public satisfaction survey results.
<p>Destination Events Manage and administer an Arts-Related Destination Event that shall include components that are open and free to the public but may include fee-based programming.</p>	②	Targeted total attendance based on City approved methodology. Positive satisfaction survey results.
<p>Artistic Partnership Program Establish Artistic Partnerships with Scottsdale-based Arts Organizations.</p>	②	Targeted number of new Artistic Partnerships.
<p>Rental Support Program Manage and administer a program to provide rental support for the City-Owned Facilities for Scottsdale-based non-profit Arts Organizations.</p>	②	Targeted amount or value of rental fee waivers. (Currently not tracked)
<p>Citywide Arts and Cultural Events Calendar Cooperate with other entities to develop and ensure the ongoing operation of a citywide Arts and Cultural Events Calendar.</p>	②	Targeted number/growth of visitors to the calendar website. Targeted number/growth of organizations actively contributing to the calendar.
<p>Arts Education and Outreach Programs Manage and administer Arts Education and Outreach Programs through working with local educational institutions, as well as with other arts and cultural organizations within Scottsdale.</p>	②	Targeted total attendance and/or number of events, or percentage of teachers that report the program was beneficial.

Table Key:

- 1 – Agreement does not include deliverables or performance measures.
- 2 – Agreement includes a deliverable but does not measure performance outcome.
- 3 – Agreement includes deliverables that allows for evaluation of performance.

SOURCE: Auditor analysis of Management Services Agreement, Section 2 Arts and Cultural Activities requirements and related contract documentation.

B. Contract terms for the Civic Center revenue sharing requirement need clarification and reports of financial activity are not supported by detailed financial records.

The Agreement requires that Scottsdale Arts pay a percentage of any net revenues to the City; 30% the first year, increasing by 5% each year thereafter. However, the contract language does not define “net revenue” and states that “annually the City and Scottsdale Arts will review actual revenues and expenses for scheduling and providing services for the fiscal year to determine net revenues”. Based on our interviews and review of available documentation, these annual meetings did not take place and there are differences in the way this requirement has been interpreted by Scottsdale Arts and the City. Specifically:

- Scottsdale Arts only reports rental-related income and expenses. Events produced or co-produced by Scottsdale Arts have not been included.
- Scottsdale Arts applies an administrative fee of 25% in addition to any direct expenses identified.

As illustrated by Table 7, Scottsdale Arts reported revenues from rentals only and noted that rental revenues were relatively small given the lingering pandemic of FY 2020/21, Civic Center construction during FY 2021/22 and the first six months of FY 2022/23.

Table 7. Civic Center revenue-sharing amounts received, by fiscal year.

	2021/22	2022/23	2023/24
Outdoor Facility Rental Revenues	28,169	118,766	254,241
less:			
Rental Expenses	(4,909)	(66,102)	(122,929)
Administrative fees of 25%	(7,042)	(29,691)	(63,560)
Net Revenue	\$16,218	\$22,973	\$67,752
Revenue-share received ¹	\$5,676	\$9,189	\$30,489

¹Revenue-share for FY 2021/22 was 35%, FY 2022/23 was 40% and FY 2023/24 was 45%.

SOURCE: Auditor summary of supporting calculations submitted by Scottsdale Arts.

The 25% administrative fee for managing the rentals was not outlined by the agreement or separately approved by the Contract Administrator. The Management Services Fee also includes unrestricted funding intended to address administrative expenses. Other City contracts that contain revenue sharing terms often calculate the percentage shared based on gross revenue and define the sources of those revenues that should be included. This method could simplify the review of the revenue sharing requirement.

Additionally, reported rental revenues and expenses by event were not supported by Scottsdale Art’s detailed financial records. Event-specific expenses were not well-tracked in the financial records and so related fees for labor or additional services were sometimes not included in the revenue amount reported. Figure 4 on page 8, illustrates the Civic Center program revenues and expenses as recorded by Scottsdale Arts in its financial system, which also included SCPA rental revenues.

C. Annual reports on the condition of City art collections were not provided to the Contract Administrator and funds earmarked for conservation have not been fully spent.

The Agreement with the City requires Scottsdale Arts to manage all City artwork, including conservation. Conservation is defined as the process of maintaining, preserving and protecting the artwork. Regarding the 3 collections, we found:

- Art inventory – Inventory reports provided to the Contract Administrator were missing the condition ratings. Obtaining data of the condition of the art is critical to evaluate whether Scottsdale Arts is fulfilling its contracted conservation obligations.
- Public Art Conservation – The City earmarks a portion of the Management Services Fee for conservation of City artwork. In FY 2022/23, \$131,808 was earmarked and Scottsdale Arts reported spending \$104,788. According to staff, this is primarily spent on cleaning of the public art pieces. The public art collection consists of about 160 pieces, of which 18 were added from 2020 to 2024. Scottsdale Arts submits a 10-year plan for public art conservation and more significant restoration is funded by the City through separate Memorandums of Understanding. A Memorandum of Understanding was signed with Scottsdale Arts in October 2023 to provide about \$400,000 from the General Fund for restoration work on three public art pieces.
- SMOCA Conservation – According to Scottsdale Arts staff, the museum does not have a conservation program for the artwork, and Scottsdale Arts has not budgeted for museum art conservation. In the past, an ASU art museum conservator was engaged to perform restorations. Auditors obtained inventory reports with the condition of the arts, and of almost 2,000 art pieces, 27 were noted either poor or very poor condition. However, its staff noted that further review of the artwork would be needed to determine if conservation is truly needed for the 27 art pieces.
- Missing art pieces from Portable Works Collection – Scottsdale Arts responsibilities include managing the Portable Works collection which consists of about 1,000 art pieces. An annual inventory is used to track the location of art throughout the City. Many are placed in City buildings and employee offices. In its inventory process, Scottsdale Arts notes potentially missing pieces and removes them from the inventory after notifying the City. For example, in January 2022 Scottsdale Arts reported 4 missing pieces and removed them from the inventory. Staff believe some of these items may go missing during office or building remodels. It was not evident whether further action has been taken to locate or address the missing items.

D. Arts and Cultural event calendar use is limited; better collaboration is needed with the City and other local organizations to improve its effectiveness.

Scottsdale Arts is required to develop and ensure the ongoing operations of a citywide Arts and Cultural Events calendar and was provided additional funding for this requirement (a total of \$250,000 was earmarked for the Arts and Cultural Needs Assessment and the event calendar). The online cultural events calendar was completed in

Contract Term 2.09

Cooperate with other entities to develop and ensure the ongoing operation of a citywide Arts and Cultural Events Calendar either directly, or through a third party. The Calendar shall be available to, and have information of interest to, both residents of the City and visitors to the City.

Source: Agreement No. 2020-046-COS

May 2023, and was developed over the course of a year.

The calendar relies on local organizations to provide information about upcoming events. According to Scottsdale Arts staff, participation from its local partner organizations was higher when the calendar was initially launched but has since declined. Some examples of organizations with upcoming events that have not added to the calendar are Arizona Music Festival, B3 Theater, Desert Stage Theater, and Scottsdale Philharmonic. As of September 2024, the calendar only lists Scottsdale Center for Performing Arts events.

We noted that City events have also not reported to the Scottsdale Arts calendar. Given the investment in time needed to maintain this event calendar, the City should actively participate by adding City events or consider discontinuing the requirement. The City website and the destination marketing provider also have event calendars that show cultural events.

Recommendations:

The Tourism and Events Director should:

- 2.1 Develop and recommend to City Council performance measures for key contract objectives and services as part of a newly negotiated Management Services Agreement, including adding clear definitions and methodology for calculating those measures. Also, require performance reports at least on an annual basis to monitor progress towards the achievement of contract goals.
- 2.2 Clarify the requirement for calculating revenue sharing of Scottsdale Civic Center activities. To simplify the process, consider evaluating revenue sharing based on gross revenues rather than net revenues, similar to other City revenue sharing agreements.
- 2.3 Ensure the receipt of reports on the condition of City- owned artwork. Review needed conservation work with Scottsdale Arts to determine if a plan for completing the work has been developed, including items in the Museum collection that may need restoration.
- 2.4 Determine actions that should be taken when items from the Portable collection are identified as missing, including establishing responsibilities for reporting damage and relocation of portable art placed in City buildings.
- 2.5 Assess whether the Arts and Cultural Events calendar requirement should be continued or modified. If continued, require more active maintenance of the site and establish performance goals.

3. Reporting of financial and performance information could be improved, and monitoring of deliverables completion is needed.

Scottsdale Arts provides annual audited financial statements and operating budgets. However, the content of those reports could be improved to provide additional information to inform management decisions. As well, use of earmarked funds have not been separately reported as required. Further, while the City Manager’s Office has recently led efforts to track, obtain, and review required contract documentation, some contract deliverables have not been fully completed.

A. Uses of earmarked funds have not been annually reported, as required by the Agreement.

The Financial Participation Agreements (FPA), approved annually to fund the Management Services Fee, requires that Scottsdale Arts provide the Contract Administrator a separate accounting of each of the earmarked funds by December 31st. These reports have not been obtained and Scottsdale Art’s financial reporting system is not well structured to separately track the earmarked funds.

With the exception of certain types of expenses that are separately reported on its financial statements, such as conservation of City artwork, balances and expenditures for the earmarked funds are reported in a combined manner that does not allow the City to evaluate whether earmarked funds have been spent for the designated purposes.

Based on discussion with Scottsdale Arts about the related account codes, we calculated use of the earmarked funds for three programs, as shown in Table 8.

Table 8. Examples of purpose-restricted funds, FY 2020/21 to FY 2022/23.

Conservation and Restoration of City Artwork	2020/21	2021/22	2022/23	Total
City Funding	125,460	127,969	131,808	385,237
Scottsdale Arts Expenses	117,350	106,616	104,788	328,753
Remaining Funding	\$8,110	\$21,353	\$27,020	\$56,484
Public Art Management and Administration				
<i>(Administration of Art in Private Dev. and Art in Public Places programs)</i>				
	2020/21	2021/22	2022/23	Total
City Funding	627,300	639,846	659,041	1,926,187
Scottsdale Arts Expenses	473,421	533,906	614,715	1,622,042
Remaining Funding	\$153,879	\$105,940	\$44,326	\$304,145
Maintenance and Repair of Specialty Equipment				
	2020/21	2021/22	2022/23	Total
City Funding	51,000	52,020	53,581	156,601
Ticket Surcharge Revenues	55,039	128,425	196,227	379,691
Scottsdale Arts Expenses	85,490	146,186	97,557	329,233
Remaining Funding	\$20,549	\$34,259	\$152,251	\$207,059

SOURCE: Auditor analysis of Scottsdale Arts financial records for FY2020/21 to FY2022/23.

As well, the organization’s accounting structure does not provide sufficient information to report on funding sources for expenditures. Specifically, the Agreement:

- asks Scottsdale Arts to increase the amount of grant funding available for qualifying arts organizations. While in some years it issued more grants than funded by the City, we cannot confirm whether those additional grants were funded by unrestricted City funding or other sources.
- authorizes Scottsdale Arts to charge a ticket surcharge to be used to help fund improvements to the City-owned facilities or replace specialty equipment. Because the surcharges are not separately accounted for, we could not confirm how they were spent. Ticket surcharge revenue is shown in Table 8, on page 20.

Similarly, unspent amounts from earmarked funds are not separately accounted for to be spent on the restricted purpose in future years.

B. Changes to funds designated as earmarked need to be formalized in Financial Participation Agreements.

For FY 2020/21, a portion of the Management Services Fee (about \$98,000), which is normally approved in June of the preceding year, was deferred for approval until the new Management Services Agreement was negotiated and approved by Council. In its Council Report and presentation, staff also recommended that \$840,000 of the total FY 2020/21 Fee be restricted for arts education programs. The new Agreement and deferred Fee were approved, but the additional purpose restriction was not specified in the Council Resolution or in an amendment to the Financial Participation Agreement. We noted that Scottsdale Arts did not report earmarked funds for arts education in FY 2020/21 and later staff reports to Council did not include this restriction.

C. Financial reports do not provide sufficient information on financial resources, program-specific revenues, actual expenses, and changes in net assets.

Operating budgets provided to the Contract Administrator only show Scottsdale Arts' budgeted revenue and expenditure amounts and do not provide prior year actuals for comparison. Also, audited financial statements report on expenditures by the business function, but not the related revenues.

Requiring at least one year of actual revenues, expenses, and beginning and ending net assets in its annual budget request would provide a better context for evaluating proposed management services fees. As well, requiring Scottsdale Arts to revise its budget, after the receipt of audited financial statements when the prior fiscal year audit is completed would help ensure that information used to approve the management services agreement is reliable.

D. Contract deliverables required by the Agreement have not been submitted timely and some were not complete.

Many of the contract deliverables were due to the Contract Administrator on a yearly basis to support ongoing monitoring efforts. Though the Contract Administrator did not track the receipt of deliverables, based on contract files it appeared that most had not been obtained. In July 2023, the City Manager's Office led efforts to track, obtain, and review required contract documentation. In January 2024, Scottsdale Arts provided over 2,000 pages of documentation to support the performance of the contract deliverables. In addition to the areas described in Findings 1 and 2, Figure 7 lists other key deliverables that were not completed.

Figure 7. Other contract deliverables were not completed.











Contract requirement	Deliverable Received	Details
Venture and Partnerships Processes and criteria for considering opportunities for new partnerships or ventures that would bring new programs or arts facilities to Scottsdale.		No documentation provided about formal processes and criteria. Also, the required deliverable does not help measure program success.
Community Events Develop and implement a minimum of 12 arts and cultural events citywide each year that are available at no cost to the public.		Documentation provided shows fewer than 12 cultural events were delivered each year.
Grant funding Award grants for Scottsdale-based and Scottsdale-focused arts organizations.		Some awarded organizations did not meet the criteria. Scottsdale Arts reported that the criteria will be enforced for future grant awards.
City Artwork Inventory and Condition Report Deliver an inventory and condition report for the City Artwork no later than December 31 each year.		The inventory is missing the condition of the City Artwork.
Displays of City Artwork Curate displays of City artwork at the Scottsdale Public Libraries and other City facilities.		Curated displays only at Civic Library.
SMoCA standards All policies and procedures related to the Museum Collection shall conform to standards and guidelines promulgated by the American Association of Museums.		Documentation was not received. Auditors verified that SMoCA is accredited through the AAM, though contract only requires that they use best effort to maintain accreditation.
Cultural Improvements Program Maintain written policies and procedures for the Cultural Improvements Program.		Documentation was obtained during the audit. Policies intended for developers.
Annual comprehensive evaluation Annual report that includes a critical evaluation for their preceding fiscal year performance.		Annual reports do not provide critical evaluation of performance but contain selective reporting on activities and achievements.

Table Key:

-  - Required deliverable not received.
-  - Part or some of the deliverable was received.

SOURCE: Auditor analysis of Management Services Agreement – and applicable contract files.

While the Agreement allows the City to terminate the contract and suspend the rights of Scottsdale Art’s under the Agreement when it is determined there is an overall breach of contract, consequences for missed deliverables that do not amount to an overall breach are not defined. Additional contract remedies for non-compliance, such as tying completion of certain deliverables to their respective funding, may help the contract administrator enforce timely completion.

Recommendations:

The Tourism and Events Director should:

- 3.1 Ensure that Scottsdale Arts provides a separate accounting for these earmarked funds as required in the Agreement and tracks unspent restricted funds. Also, ensure restricted uses are formalized in Financial Participation Agreements or other City contracts.
- 3.2 Develop a reporting format that captures financial information that will help inform performance evaluations and future funding decisions.
- 3.3 Develop a tracking tool for monitoring completion of deliverables and ensuring that required documentation has been provided in a timely manner.
- 3.4 As a new Management Services Agreement is negotiated, work with the City Attorney's Office to develop and recommend to City Council the inclusion of options for contract remedies when key requirements are not met.

APPENDIX

Figure 8. Examples of recommended performance measures from the National Endowment for the Arts.

Performance Arts

- *Awareness of programs*, by diverse audience, and external recognition. Awareness can be measured through resident survey and measurement of activities such as number of positive critics' reviews, number of free tickets provided, and residents reporting that performances are inaccessible.
- *Attendance measures* include percentage of individuals attending at least one performance per month, percentage of capacity filled per performance, number of subscriptions renewed as percentage of total sales, and percentage of subscribers who are donors.
- *Increased knowledge, appreciation and enriched experience* measures include percentage of audience who report an increased appreciation for art and reported enriched experience after an arts performance.
- *Social bonds in the community* can include number of participating community organizations/partnerships.

Art Education

Los Angeles County performance measures recommended by the National Endowment for the Arts:

- Percentage change of total audience served.
- Number of student audience.
- Number of total audience served.
- Percentage of teachers who indicated programs provide a beneficial learning environment.

Museums

- *Artistic contributions* measures can include percentage of works on display, number of pieces on loan, purchases, and articles published.
- *Public benefit* may include range and variety of programs offered, percentage of budget dedicated to marketing, percentage of return visitors, increase in first-time visitors, number of school children who visit. Recommended measures include collecting information from participants regarding quality of services.
- *Finance and governance* may include meeting fundraising targets, balanced operating budget, meeting revenue targets from admission/shops/special events.

SOURCE: Auditor analysis of published articles and information provided by the National Endowment for the Arts.

MANAGEMENT ACTION PLAN

1. Maximizing event programming and rental of City-owned facilities can help decrease reliance on City funding and increase events available to the Scottsdale community.

Recommendations

The Tourism and Events Director should:

1.1 As a new Management Services Agreement is negotiated, recommend to City Council the inclusion of specific performance objectives for the operation of the City-owned facilities. Develop measures for those objectives, such as target facility usage or financial position.	
Priority	Management Response and Proposed Resolution
Med	Agree Specific performance objectives for the operation of City-owned facilities will be developed and included in the next Management Services Agreement for City Council approval.
Responsible Party: Rachel Smetana, Tourism and Events Director	
Est. Completion Date: June 30, 2025	

1.2 Recommend for approval in the new Agreement, strategic priorities for arts and cultural events that take into consideration community interests and demand. Periodic community surveys and analysis of ticket sales could be used to evaluate the effectiveness of these efforts.	
Priority	Management Response and Proposed Resolution
Med	Agree Performance measures will be created to evaluate improved attendance and facility usage. Additional requirements relating to considering community interests and demand through such methods as periodic community surveys and ticket sales analysis will be developed and included in the next Management Services Agreement for City Council approval.
Responsible Party: Rachel Smetana, Tourism and Events Director	
Est. Completion Date: June 30, 2025	

1.3 Require Scottsdale Arts to regularly assess its rates and fees, including a market analysis of its facility rental rates, and submit them for Council approval.

Priority	Management Response and Proposed Resolution
High	<p>Agree</p> <p>A market analysis of facility rental fees and evaluation of a new rate structure is in Scottsdale Arts work plan in FY 2024/25. A submission of rates and fees for approval by city council through the budget process will take place annually going forward as required by the contract.</p>
<p>Responsible Party: Rachel Smetana, Tourism and Events Director</p>	
<p>Est. Completion Date: June 30, 2025</p>	

1.4 Further define requirements for evaluating Scottsdale Arts' progress towards reducing its reliance on City funding, such as clarifying whether restricted contributions should be included. A reasonable approach may be to exclude contributions restricted for long-term projects and restricted endowments.

Priority	Management Response and Proposed Resolution
Med	<p>Agree</p> <p>Better defined requirements for evaluating Scottsdale Arts' progress toward reducing reliance on city funding will be developed and included in the upcoming Management Services Agreement for City Council approval.</p>
<p>Responsible Party: Rachel Smetana, Tourism and Events Director</p>	
<p>Est. Completion Date: June 30, 2025</p>	

2. Improvements to contract clarity and performance expectations are needed to better measure achievement of contract objectives.

Recommendations

The Tourism and Events Director should:

2.1 Develop and recommend to City Council performance measures for key contract objectives and services as part of a newly negotiated Management Services Agreement, including adding clear definitions and methodology for calculating those measures. Also, require performance reports at least on an annual basis to monitor progress towards the achievement of contract goals.

Priority	Management Response and Proposed Resolution
Med	<p>Agree</p> <p>Clear definitions and the methodology for calculating contract goals will be developed and included in the Management Services Agreement for City Council approval, with a requirement that performance measures be submitted annually as a condition of annual Financial Participation Agreement approval.</p>
Responsible Party: Rachel Smetana, Tourism and Events Director	
Est. Completion Date: June 30, 2025	

2.2 Clarify the requirement for calculating revenue sharing of Scottsdale Civic Center activities. To simplify the process, consider evaluating revenue sharing based on gross revenues rather than net revenues, similar to other City revenue sharing agreements.

Priority	Management Response and Proposed Resolution
Medium	<p>Agree</p> <p>A better defined formula for calculation of revenue sharing will be developed and included in the upcoming Management Services Agreement for City Council approval.</p>
Responsible Party: Rachel Smetana, Tourism and Events Director	
Est. Completion Date: June 30, 2025	

2.3 Ensure the receipt of reports on the condition of City- owned artwork. Review needed conservation work with Scottsdale Arts to determine if a plan for completing the work has been developed, including items in the Museum collection that may need restoration.

Priority	Management Response and Proposed Resolution
Med	<p>Agree</p> <p>A plan for the conservation and restoration of Public Art exists and an annual review with the city will be required going forward. A plan for conservation and restoration needs of the Museum collection and subsequent annual review with the city will be developed for City Council approval in the new Management Services Agreement.</p>
Responsible Party: Rachel Smetana, Tourism and Events Director	
Est. Completion Date: June 30, 2025	

2.4 Determine actions that should be taken when items from the Portable collection are identified as missing, including establishing responsibilities for reporting damage and relocation of portable art placed in City buildings.			
Priority	Management Response and Proposed Resolution		
Med/Low	<p>Agree</p> <p>A process will be developed to investigate and recover missing art from the Portable collection and included in the Management Services Agreement and the City's administrative regulation will be reviewed and updated if needed. Responsibilities for reporting art damaged while on display in city buildings will be established.</p>		
<table border="1"> <tr> <td>Responsible Party: Rachel Smetana, Tourism and Events Director</td> <td>Est. Completion Date: June 30, 2025</td> </tr> </table>		Responsible Party: Rachel Smetana, Tourism and Events Director	Est. Completion Date: June 30, 2025
Responsible Party: Rachel Smetana, Tourism and Events Director	Est. Completion Date: June 30, 2025		

2.5 Assess whether the Arts and Cultural Events calendar requirement should be continued or modified. If continued, require more active maintenance of the site and establish performance goals.			
Priority	Management Response and Proposed Resolution		
Med/Low	<p>Agree</p> <p>The city is evaluating the Arts and Cultural Events calendar requirement and may incorporate this into the city's efforts to establish a wide reaching and robust citywide master calendar. If the citywide effort proves unfeasible, an assessment of this requirement will be reevaluated. If the Arts and Cultural Events calendar requirement is continued, associated performance measures will be developed for approval by the City Council in the new Management Services Agreement.</p>		
<table border="1"> <tr> <td>Responsible Party: Rachel Smetana, Tourism and Events Director</td> <td>Est. Completion Date: June 25, 2025</td> </tr> </table>		Responsible Party: Rachel Smetana, Tourism and Events Director	Est. Completion Date: June 25, 2025
Responsible Party: Rachel Smetana, Tourism and Events Director	Est. Completion Date: June 25, 2025		

3. Reporting of financial and performance information could be improved, and monitoring of deliverables completion is needed.

Recommendations

The Tourism and Events Director should:

3.1 Ensure that Scottsdale Arts provides a separate accounting for these earmarked funds as required in the Agreement and tracks unspent restricted funds. Also, ensure restricted uses are formalized in Financial Participation Agreements or other City contracts.

Priority	Management Response and Proposed Resolution
Med	<p>Agree</p> <p>Separate accounting for earmarked funds and tracking unspent restricted funds will be developed and submitted for Council approval as part of the new Management Services Agreement. Restricted uses will also be contractually formalized.</p>
<p>Responsible Party: Rachel Smetana, Tourism and Events Director</p>	
<p>Est. Completion Date: June 30, 2025</p>	

3.2 Develop a reporting format that captures financial information that will help inform performance evaluations and future funding decisions.

Priority	Management Response and Proposed Resolution
Med	<p>Agree</p> <p>A financial report format that assists in measuring performance and informs future funding decisions will be developed and submitted for Council approval as part of the new Management Services Agreement.</p>
<p>Responsible Party: Rachel Smetana, Tourism and Events Director</p>	
<p>Est. Completion Date: June 30, 2025</p>	

3.3 Develop a tracking tool for monitoring completion of deliverables and ensuring that required documentation has been provided in a timely manner.

Priority	Management Response and Proposed Resolution
Med	<p>Agree</p> <p>A tracking tool has been developed for the current Management Service Agreement that aids in the monitoring of timely completion of deliverables and required documentation. This will need to be revised based on the new requirements once the new Management Services Agreement is approved.</p>
<p>Responsible Party: Rachel Smetana, Tourism and Events Director</p>	
<p>Est. Completion Date: June 30, 2025</p>	

3.4 As a new Management Services Agreement is negotiated, work with the City Attorney’s Office to develop and recommend to City Council the inclusion of options for contract remedies when key requirements are not met.

Priority	Management Response and Proposed Resolution
Med	<p>Agree</p> <p>Recourse for unmet contract requirements will be discussed with the City Attorney’s Office and developed for inclusion in the new Management Service Agreement for approval by the City Council.</p>
<p>Responsible Party: Rachel Smetana, Tourism and Events Director</p>	<p>Est. Completion Date: June 30, 2025</p>

City Auditor's Office

Lai Cluff, Acting City Auditor
Travis Attkisson, Senior Auditor
Elizabeth Brandt, Senior Auditor
Mel Merrill, Senior Auditor
Shelby Trimaloff, Exec Asst to City Auditor

Audit Committee

Councilwoman Kathy Littlefield, Chair
Vice Mayor Barry Graham
Councilwoman Solange Whitehead

Our Mission

The City Auditor's Office conducts audits to promote operational efficiency, effectiveness, accountability and integrity in City Operations.

Scottsdale City Auditor

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