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REPORT TO THE
COMMITTEE ON PUBLIC WORKS
UNITED STATES SENATE

Operations Of The John F. Kennedy Center For The Performing Arts

Smithsonian Institution

Department of the Interior

National Park Service

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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APRIL 11, 1975

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-154459

C1 The Honorable Jennings Randolph
Chairman, Committee on Public Works
United States Senate

Dear Mr. Chairman:

Our report discusses the operations of the John F. Kennedy Center for the Performing Arts, Smithsonian Institution, including those operations of the Center carried out by the National Park Service, Department of the Interior.

We made our review in response to your request of June 26, 1973, and subsequent discussions with your Committee.

We do not plan to distribute this report further unless you agree or publicly announce its contents. In this connection, we want to invite your attention to the fact that this report contains recommendations to the Secretary of the Interior which are set forth on page iii. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions he has taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. When you agree to release the report, we will make it available to the Secretary and the four committees to set in motion the requirements of section 236.

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Sincerely yours,

Comptroller General
of the United States

Contents

ABBREVIATIONS

APCOA Airport Parking Company of America-Washington, Inc.

GAO General Accounting Office

GSA General Services Administration

COMPTROLLER GENERAL'S
REPORT TO THE COMMITTEE
ON PUBLIC WORKS
UNITED STATES SENATE

OPERATIONS OF THE JOHN F. KENNEDY CENTER FOR THE PERFORMING ARTS
Smithsonian Institution
National Park Service
Department of the Interior

D I G E S T

WHY THE REVIEW WAS MADE

The Chairman asked GAO to review the allocation of building operation and maintenance costs between the National Park Service and the John F. Kennedy Center for the Performing Arts. He also asked GAO to follow up on the findings in its prior report to the Committee involving construction costs, financial operations, and management controls (B-154459, Aug. 8, 1972).

FINDINGS AND CONCLUSIONS

Improved management controls

The Center has improved its management controls over the operations in the areas cited in GAO's prior report. GAO believes the improvements have corrected the reported weaknesses. (See p. 24.)

Allocation of income and expenses

Operation and maintenance costs for the Kennedy Center building are allocated between the National Park Service (76.2 percent) and the Center (23.8 percent).

The Park Service receives appropriated funds to pay its share of the costs. The Center's funds come from theater and concession operations and private donations.

Allocations are based on the estimated hours the Center is used for nonperforming and performing arts. GAO believes this method of allocation is acceptable. (See p. 3.)

The allocation of costs between the National Park Service and the Center are computed correctly in accordance with their agreement.

However, the current formula, developed by the hours-of-use method, has not been updated for changes in hours of building and theater operations. Updating the formula could have increased the Center's share of fiscal year 1974 costs. (See p. 6.)

Using other allocation methods identified for the Center by a certified public accounting firm also would have changed the Center's share of fiscal year 1974 costs by various amounts, depending upon the method used. The hours-of-use method was selected because:

--It was simple and required no additional recordkeeping.

--It was the one which could be accurately determined at the time.

--It eliminated the need for conducting studies to determine the square feet used by each function.

The allocation methods suggested by the firm are not precise enough to insure that all costs are allocated equitably. A thorough study would be necessary to determine the most equitable and reasonable method of allocating each element of cost. (See p. 8.)

GAO is not recommending such a study because of the difficulties and costs involved and because the current method provides a reasonable allocation of costs. (See p. 10.)

The Office of Audit and Investigation, Department of the Interior, has not audited the costs incurred by the Park Service under the allocation agreement because it has no statutory authority to do so. An internal audit of the allocated costs would provide assurance that the costs are proper, accurate, and in accordance with the agreement. (See p. 10.)

The agreement between the Park Service and the Center does not provide for sharing (1) income from operations of the food and beverage and parking garage concessions and (2) reimbursements for utility services.

Since a determination regarding the sharing of concession income and utility reimbursements has not been made, the Committee may wish to inform the Secretary of the Interior and the Center of the Committee's views concerning the need to share the income and reimbursements. (See p. 11.)

Financial operations

The Center's net income has not been enough to cover bond interest or to provide for retirement of Government bonds used to finance the construction of the Center's parking facilities.

GAO does not believe the Center can meet its bond obligations in the foreseeable future without increasing revenues or raising additional funds from private sources. (See p. 12.)

The parking garage concession has not reimbursed the Center for electricity costs. The Center told GAO that arrangements were being made for the contractor to begin reimbursing these costs. (See p. 17.)

Construction costs

Costs to construct the Center building totaled $73.0 million as of June 30, 1974. Further costs may be incurred as the result of $5.8 million in contractor claims pending in the U.S. Court of Claims.

The contractor and 35 subcontractors filed a petition in the court for $6.9 million in alleged delay damage claims and unpaid construction costs against the United States. The court has entered judgment on claims totaling $1.1 million; the remaining $5.8 million is still under litigation. (See p. 22.)

The building has several defects which are attributed to inadequate design and construction. Final correction of some defects has been deferred because of litigation involving contractors' claims. (See p. 23.)

Internal audit

The Center has made some changes in its use of employees to assist management in supervising day-to-day activities. However, since some internal review work is done by Center personnel who are not independent of the operations they review, every effort should be made to use Center personnel who are not involved in the operations being reviewed. (See p. 26.)

RECOMMENDATIONS

The Secretary of the Interior should enter into negotiations with the Center to revise the cost-allocation agreement by

--requiring that the allocation formula be reviewed periodically and revised as necessary to insure that costs are properly allocated and

--obtaining authority to make audits to verify costs incurred by the Park Service.

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Department of the Interior said it generally agreed with the findings and recommendations but was limited by the John F. Kennedy Center Act in initiating corrective action. (See app. II.)

The Center generally agreed with GAO's conclusions. However, the Center said that:

--The cost allocation formula now used does not result in insufficient payments by the Center. (See p. 7.)

--It would be unreasonable to require the Center to pay part of its concession income and reimbursements to the Park Service in addition to the payments already made under the formula. (See p. 11.)

The Center said that it has:

--In the 3-1/2 years of operation become a major arts institution and a national showcase for the finest performing arts activities in this country and abroad.

--Furthered its educational commitment by (1) supporting and sponsoring college and international programs, (2) fostering the development of a national project in conjunction with the Department of Health, Education, and Welfare, and (3) offering a wide variety of public service activities, such as weekly arts symposia, free performances of all kinds, and a number of exhibitions devoted to various aspects of the performing arts.

--Maintained a special ticket program by which tickets for Center-produced attractions are available at half-price to students, the handicapped, retired persons over 65, low-income groups, and enlisted military personnel of lower rank.

CHAPTER 1

INTRODUCTION

In response to a request from the Chairman of the Senate Committee on Public Works on June 26, 1973, and subsequent discussions with his Committee, we have reviewed the allocations of building operation and maintenance costs between the Government and the John F. Kennedy Center for the Performing Arts. We also did followup work on the findings contained in our previous report to the Committee (B-154459, Aug. 8, 1972) involving construction costs, financial operations, and management controls.

We reviewed records of the Center, the General Services Administration (GSA), and the National Park Service and obtained information from the Department of Justice. We discussed matters contained in this report with officials of these agencies and the Center.

The John F. Kennedy Center Act (72 Stat. 1698), as amended, created the Center and provided a Board of Trustees to administer it. The act requires the Board to (1) present music, opera, drama, dance, and poetry, (2) present lectures and other programs, (3) develop programs for children, youth, and the elderly and for other age groups in such arts designed specifically for their participation, education, and recreation, (4) provide facilities for other civic activities at the Center, and (5) provide a suitable memorial in honor of President Kennedy within the Center.

Section 5(c) of the act provides that the Board's actions, including any payment made or directed to be made by it from any trust funds, not be subject to review by any officer or agency other than a court of law. The Board is not required to submit its annual reports to the Secretary of the Interior, nor is the Secretary given authority over the performing arts functions.

The act was amended to authorize the Secretary of the Interior, acting through the National Park Service, to provide maintenance, security, information, interpretation, janitorial, and all other services necessary to the nonperforming arts functions at the Center.

Under a formal agreement with the Board, GSA acted as the Center's agent for design and construction of the Center building. GSA accepted the building, as completed, on October 19, 1971.

The building was opened for public performances in September 1971. It is 135 feet high, about 630 feet long, and 310 feet wide and is located on a 17-acre site in the District of Columbia. It includes three major theaters--the Concert Hall, the Opera House, and the Eisenhower Theater. In addition, a temporary film theater is located on the ground floor behind the Eisenhower Theater, and a restaurant, coffee shop, and cafeteria are on the roof terrace. Two other facilities, the studio theater which is located above the Eisenhower Theater and a multipurpose room on the roof terrace, are not completed. Parking space for about 1,400 cars is available under the building.

CHAPTER 2

ALLOCATION OF

INCOME AND EXPENSE

Costs to operate and maintain the Kennedy Center building are divided between the National Park Service and the Center in accordance with an agreement between them. The Park Service receives appropriated funds to pay its share of the costs. The Congress appropriated $1.5 million for fiscal year 1972, $2 million for fiscal year 1973, and $2.4 million for fiscal year 1974 to pay the Government's 76.2-percent share of the Center's costs. The Center's funds come from theater and concession operations and private donations.

The initial agreement for cost allocation expired June 30, 1973. The fiscal year 1974 agreement contains the same cost-sharing provisions as in 1973.

We believe that the method used for allocating costs is acceptable. It is based on the hours the Center is used for nonperforming arts and for theater operations. The formula to develop the percentage used to allocate costs needs to be revised, however, because of a change in the number of hours the building is used for performing and nonperforming functions.

Also:

--The Department of the Interior has not audited the costs incurred and allocated by the Center.

--Although the Park Service pays its allocated share of the costs incurred, income and reimbursements received from the Center's concessions are not allocated to the Park Service.

ALLOCATION OF COSTS

When the Park Service assumed responsibility for building operations and maintenance in November 1972, it entered into a written agreement with the Center to pay 76.2 percent of joint costs, such as utilities, janitorial services, and building maintenance, in addition to all normal security, information, and grounds maintenance costs. Park Service officials said they are using the allocation method because it was accepted in congressional hearings. Center officials stated that they reviewed the method with officials of the Office of Management and Budget and Interior, who gave it their approval.

We reviewed the building operation and maintenance costs for fiscal years 1972-74, and the allocation of these costs between the Center's nonperforming and performing arts functions. The Center's share was 23.8 percent and the United States' share was 76.2 percent in these 3 fiscal years.

Visitors' services provided by the Park Service include operation of two information booths, two slide projection shows, and rooftop tours and placement of directional signs. Additional visitors' services are provided by volunteers from the Friends of the Kennedy Center who are responsible for conducting the tours and operating the souvenir stands. The value of the Friends' services, which are provided without charge, is estimated at $250,000 annually by Center officials. The Center estimates that the Friends provide 52,208 staff-hours of such service annually.

Fiscal year 1972

The Center's unaudited income statement for fiscal year 1972 showed that the actual building operating costs were $1,729,412. We were informed, however, that these costs did not include management and administrative costs for operations and maintenance. Subsequently, the Center provided information for the following schedule of its operating and maintenance costs.

	Government's share	Center's share (note a)	Total (note b)
Utilities	$ 448,288	$140,017	$ 588,305
Janitorial services	223,593	69,836	293,429
Security	276,401	-	276,401
Maintenance and operations:			
Salaries and benefits	248,115	77,495	325,610
Supplies and equipment	115,076	35,942	151,018
Management	59,604	59,604	119,208
Work performed by construction contractors	140,818	43,982	c/184,800
Total	$1,511,895	$426,876	$1,938,771

a/Visitors' services, grounds maintenance, and special programs were provided by the Center but not identified in cost summaries.

b/The Park Service provided only security services in 1972.

c/Center officials excluded job order costs of $51,241 for work which was either done before fiscal year 1972 or benefited only the performing arts function.

Center officials authorized job orders totaling $236,041 to clean and operate the building before the formal opening. The general construction contractor and subcontractors did this work in addition to the work specified by GSA in the construction contract.

Center officials included $184,800 of the $236,041 in job orders in the fiscal year 1972 allocated costs. According to Center records, the Government has credited the Center with $112,858 for these job orders.

The subcontractors who did the work have included the entire $236,041 as unpaid job orders in court suits that the Department of Justice is defending on behalf of the United States.

We discussed this matter with a representative of the Department of Justice who said that the possibility of duplicate payments on the job orders will receive special attention and that the court has ordered the Department of Justice to audit the contractors' claims. Because of this and the fact that the job order claims are under litigation, we did not do any more work on this matter.

Fiscal year 1973

During fiscal year 1973, the Center's total building and grounds operating and maintenance costs were about $2.4 million. We verified that these costs were allocated in accordance with the cost-sharing method adopted in 1972, as shown below.

Cost element	Park Service share	Center share	Total
Building maintenance and repair	$ 543,114	$169,634	$ 712,748
Utilities	469,619	146,679	616,298
Security	371,718	-	371,718
Janitorial services	301,318	94,113	395,431
Visitors' services, grounds maintenance, and special programs (note a)	296,619	10,374	306,993
Total	$1,982,388	$420,800	$2,403,188

a/Does not include the value of free services provided by Friends of the Kennedy Center, estimated at $250,000, or the value of landscaping items donated to the Center.

Fiscal year 1974

The fiscal year 1974 building operations and maintenance costs are $2.5 million divided according to the current allocation method, as shown below.

Cost element	Park Service share	Center share	Total
Building maintenance and repair	$ 604,884	$188,927	$ 793,811
Utilities	537,229	167,796	705,025
Janitorial services	221,592	69,211	290,803
Security	354,890	-	354,890
Visitors' services, grounds maintenance, and special programs (note a)	369,593	2,466	372,059
Total	$2,088,188	$428,400	$2,516,588

a/Does not include the value of free services provided by Friends of the Kennedy Center, estimated at $250,000, or the value of landscaping items donated to the Center.

COST ALLOCATION FORMULA NEEDS UPDATING

The current cost allocation formula developed under the hours-of-use method has not been updated for changes in hours of building and theater operations.

The method recommended by an accounting firm to allocate building maintenance and operating costs between the Park Service and the Center was based on the hours that the facility was to be used for nonperforming (Park Service) and performing arts (Center) functions. The accounting firm recommended that 76.2 percent of the joint costs be allocated to the nonperforming arts function on the basis of estimates that the Center would be open 15 hours a day, or 105 hours a week, and that the theaters would be used 25 hours a week, including rehearsals. Thus 80 hours (76.2 percent) were allocated to the nonperforming arts function and the remaining 25 hours (23.8 percent) were allocated to the performing arts functions.

In its report the accounting firm pointed out that, since the estimated usable hours were based on assumptions and estimates relating to events that had not taken place, the usable hours could vary. Accordingly, the firm stated, it could not express an opinion on its forecasts.

Since November 1972 the Center has been open to the public 14 hours a day. According to the Center's records, actual hours of theater operations, including rehearsals, totaled 1,427 hours for the year ended June 30, 1974, or an average of 27.4 hours each week, as compared to the 25 hours a week estimated by the accounting firm.

On the basis of 14 hours a day, or 98 hours a week, and the average theater use of 27.4 hours a week, 72.1 percent of the costs would be allocated to the nonperforming arts and 27.9 percent to the performing arts. Allocating the fiscal year 1974 costs on the basis of 27.9 percent could have increased the Center's share of the costs by about $74,000.

The John F. Kennedy Center Act and the legislative history provide that funds appropriated for maintenance and operations of the Center building be for nonperforming arts functions only.

Center officials said that the 14-hour day was decided on by the Park Service and that the Center has no control over this matter. They also said the Center sometimes is open at 9 a.m. for special tours.

Recommendation

We recommend that the Secretary of the Interior negotiate with the Center to revise the agreement by requiring that the allocation formula be reviewed periodically and revised as necessary to insure that costs are properly allocated.

Agency comments

The Department of the Interior informed us it would review the allocation formula and include the results in the new agreement to be negotiated with the Center.

The Center said:

--The current cost allocation method is fair and equitable and does not result in insufficient payments to the Government for the performing arts share of building operation and maintenance costs.

--Substantial noncash contributions to Park Service activities are made in the form of services rendered by the Friends of the Kennedy Center for tour and other functions. The value of these services is estimated at $250,000 annually.

--The allocation formula may overstate, rather than understate, the performing arts share of joint costs based on the costs of other theatrical operations.

--The 29 hours per week computed for theater activities is overstated because this figure includes rehearsal hours. Generally the primary use of the building is for nonperforming activities, during which much of this rehearsal time occurs. The performing arts proportion of total use was increased as a result of the unilateral action of the Park Service, which is opening the building to the public at 10 a.m. rather than 9 a.m. as originally contemplated.

We recognize that the cost allocation method used is not precise enough to insure that all costs are allocated equitably. However, if the hours-of-use method is to be used, it should be based on current, accurate data.

OTHER ALLOCATION METHODS

Before construction on the Center was completed, the Center's General Counsel asked a certified public accounting firm to develop an equitable method of allocating the maintenance costs between the Center's nonperforming and performing arts functions. On July 26, 1971, about 2 months before the Center opened to the public, the firm reported that generally accepted cost accounting principles allowed the use of at least five methods to allocate maintenance and operating expenses, providing the method adopted produced equitable results. These methods consisted of allocations on the basis of

--square feet of floor space used by each function,

--cubic feet of space used by each function,

--hours of building use by each function,

--number of people entering the building, and

--population hours on the basis of the length of time people are in the building.

The accounting firm recommended allocating maintenance and operating costs on the basis of the hours the Center was used by each function because:

--It was a simple method which required no additional recordkeeping.

--It was the one method which could fairly accurately be determined at that time.

--It eliminated the need to conduct studies to determine the square feet used by each function.

We compared the other four methods with the method recommended by the Center's public accounting firm. Each of the four methods resulted in larger allocations of fiscal year 1974 costs to the Center than under the current method by amounts ranging from $476,000 to $881,000.

Cost accounting techniques frequently allocate building maintenance and janitorial service costs to departments or units of an organization on the basis of square feet of floor space and utility costs on the basis of the number of cubic feet in each department.

By allocating utility and building maintenance and janitorial service costs in the above manner and by continuing to allocate to the Park Service all its costs for security, visitors' services, and grounds maintenance, the Center's share of the fiscal year 1974 costs would have increased by $489,000.

None of the suggested allocation methods are precise enough to insure that all costs are allocated equitably. The hours-of-use method, in effect since the Center began operations, has the advantage of simplicity. However, the cost of utilities--principally heating and air-conditioning--may be more closely related to cubic feet of space and the number of people in the various areas of the building than the hours the areas are in use. Janitorial services and building maintenance and repairs are affected not only by hours of theater and building use but also by the size, structure, and configuration of the building. Also, the number of people visiting the building or attending the theater is a factor bearing on all cost elements.

These costs are influenced by other factors, such as window glass area (a large item at the Center), the time needed to clean the halls of the building as compared to cleaning the theaters, and the frequency and extent of repairs in the theater and backstage areas as compared to the rest of the building.

Although the combined square and cubic feet method is frequently used for cost accounting purposes in commercial enterprises, its suitability at the Center is subject to various distortions.

A thorough study would be necessary to determine the most equitable and reasonable method of allocating each element of cost. This could involve a detailed analysis to determine the staff-hours spent by the janitorial and maintenance personnel in the theater areas and in the rest of the building. It might require an engineering study to determine the proper allocation of utility and building repair costs. It is possible, of course, that such a study would produce results similar to those of one of the suggested allocation methods, but it would provide the only means of insuring that an equitable allocation method is used.

Because of the difficulties and costs involved in making such a study and keeping records, we are not recommending it be done. The current method used for allocating costs is acceptable but should be reviewed periodically and adjusted to reflect current hours of operations.

ALLOCATED COSTS NOT AUDITED

Interior's Office of Audit and Investigation has not audited the costs incurred by the Center under the cost allocation agreement. Costs incurred by the Park Service are compiled and reviewed by Park Service personnel.

An internal audit of the allocated costs would insure that the costs were proper and that the allocation was accurate and in accordance with the cost allocation agreement.

Interior said it has no legal authority to audit the Center's operations nor to require the Center to use an internal auditor or other review procedures.

The Center advised us that it has no objection to audits by the Office of Audit and Investigation.

Recommendation

We recommend that the Secretary of the Interior negotiate with the Center to revise the agreement by obtaining authority to audit and verify the costs incurred by the Park Service.

INCOME AND REIMBURSEMENTS FROM CONCESSIONS NOT ALLOCATED

The Park Service and the Center do not share (1) income from operations of the food and beverage and parking garage concessions and (2) reimbursements for utility services.

In fiscal year 1974, the Center reported an income of $154,497 from the restaurant concession and $399,519 from the parking garage concession. The Park Service did not receive a share of the concession net income.

Center officials informed us that the agreement with the Park Service, which does not mention sharing net income, was intended to prevent conflict with the terms of the concession contracts.

In 1974, the restaurant reimbursed the Center $106,544 for utility services. The Center kept the entire reimbursement. Center officials said they considered the reimbursement an additional fee from the concession instead of a reduction in utility costs.

Agency comments

Interior informed us that it would discuss the sharing in utility reimbursements and net concession income in future negotiations with the Center.

The Center informed us that it would be unreasonable to require it to pay part of the concession income and reimbursements to the Park Service because:

--The Congress did not contemplate having the Center pay the Park Service any part of the money it received from concessionaires.

--The operating costs associated with those revenues are fully reimbursed pursuant to the cost allocation formula.

--The Park Service has not provided any of the capital funds required to construct the concession facilities, and entitlement to share in revenues should arise only from a contribution of capital investment necessary to generate revenue.

Inasmuch as a determination regarding the sharing of concession income and utility reimbursement has not been made, the Committee may wish to inform the Secretary of the Interior and the Center of the Committee's views on the need to share.

CHAPTER 3

FINANCIAL OPERATIONS

The Center hired a certified public accounting firm to examine the balance sheet as of June 30, 1974, and the related statements of income and expenses, changes in fund balances, and changes in financial position for the year then ended. In a report dated September 20, 1974, the certified public accounting firm stated its opinion that the financial statements presented fairly the financial position of the Center at June 30, 1974, and the results of operations and the changes in its financial position for the year then ended. We are furnishing the Committee with a copy of the certified public accounting firm's report.

Although we did not examine the accounting records in detail, certain observations on the Center's accounting statements are presented in this chapter for consideration by the Committee.

REVENUE INSUFFICIENT TO PAY INTEREST COST OR RETIRE BONDS

The Center's net income has not been sufficient to cover the bond interest or provide for retirement of the bonds. Net income could be increased in future years by various means (i.e., theater attendance, reduced costs, parking revenues), but it is doubtful that sufficient revenue can be generated to enable the Center to pay the cumulative bond interest due in 1978 without development of additional financing or sources of funds.

Center operations showed an excess of income over expenses of $163,315 and $139,715 for 1974 and 1973, respectively. In arriving at these results, the Center did not include a provision for interest on the $20.4 million in its bonds held by the Treasury. The provision for interest--$1,420,711 for 1973 and $1,510,035 for 1974--is included as an expense item in the Center's fixed asset fund, which had no income in either year. Interest payment has been deferred until December 31, 1978. All deferred interest shall bear interest after June 30, 1972.

The capacity of the 3 theaters for 8 shows a week, 52 weeks a year, is about 2.6 million persons. However, Center officials said the Center is unlikely to attract 2.6 million patrons because it is difficult to schedule attractions that will draw capacity crowds for all performances. Total attendance statistics for the three theaters were not readily available. The Center's records indicated 1.6 million persons purchased tickets through the box offices during fiscal year 1973; however, this did not include tickets sold by certain performing organizations and producers who rented a theater and sold their own tickets. The Center did not prepare a total of the tickets sold through box offices for fiscal year 1974.

Under the Center's mandate to present performing arts attractions diverse in appeal yet of high artistic merit, it is not reasonable to expect full attendance at each performance. Center officials estimated that attendance averaged about 80 percent of capacity, which they said was as good as could be expected.

Revenue bonds issued

As authorized by law, the Center borrowed $20,400,000 from the Treasury by issuing 21 revenue bonds between July 1, 1968, and April 30, 1970. Maturity dates range from December 31, 2017, to December 31, 2019.

Interest rates range from 5-1/8 to 6-5/8 percent, and the annual interest is about $1.2 million. All interest may be deferred until December 31, 1978, and all deferred interest shall bear interest after June 30, 1972. By December 31, 1978, the accrued interest will be about $14.6 million if the Center does not pay any interest or principal before that date. Center officials told us that, unless the Center's current financial position improves, it does not appear that the accrued interest will be paid during the period it may be deferred.

The Kennedy Center Act says that the $20,400,000 borrowed from the Treasury will be used to finance the Center's parking facilities and will be repaid from the Center's revenues. In May 1969 Center officials stated that, on the basis of a consultant's survey, the parking operation would be self-sustaining. On December 2, 1971, the Chairman of the Board of Trustees stated that the trustees intended to begin paying on the bonds after 1978 out of parking revenues. However, it now appears that the Center may not have sufficient revenues from the parking concession to pay the accumulated interest due on the bonds.

Garage operation

The Center awarded the parking garage concession to the Airport Parking Company of America-Washington, Inc. (APCOA), a subsidiary of International Telephone and Telegraph Consumer Services Corporation. APCOA agreed to advance the Center $3,500,000 to be repaid from profits over a 15-year period beginning in 1972. These funds were used to help pay construction costs. After deductions for interest on the advance and amortization of principal, profits are to be split evenly between APCOA and the Center. For 10 years after the advance is repaid, APCOA will receive 30 percent of the net income and the Center 70 percent. After the 10-year option period, the Center will be in a position to either award a new contract, whereby it could receive all profits after paying the concessionaire's expenses and management fee, or operate the garage itself. In 1971 the Center informed the Congress that it intended to repay the APCOA advance out of parking revenues by 1977. However, it now appears repayment will require the full 15-year period. At the end of calendar year 1974, $699,995 of the advance had been repaid.

In our prior report we estimated that, starting with calendar year 1973, the Center needed annual parking concession revenues of $1,564,000 (the Center's share after all other distribution of parking revenue) to pay interest on the $20.4 million in bonds and provide for their retirement. We estimated that, on the basis of parking fees and usage rates in effect at the time, the Center (1) could not generate the required parking revenue during the 15-year period, (2) possibly could during the following 10-year option period, and (3) probably could in the remaining years until the bonds mature.

We based our estimate on projected results for the April 1972-March 1973 year and projected increases in parking rates and theater attendance. After 15 years, the Center's share would increase because the interest and principal on the APCOA advance would have been liquidated. After 25 years, the Center's share could be further increased by eliminating the profit-sharing feature of the concession operation. However, the Center's deferral of bond interest payments until 1978, together with the reduced parking revenues in 1973 and 1974, have invalidated these estimates.

In calendar years 1972-74, the Center's annual share of parking concession revenue, after all other distributions, was $173,424, $165,633, and $191,032, respectively, computed as follows:

	1972	1973	1974
Gross sales	$1,084,868	$1,129,208	$1,221,833
Expenses:			
Operations	184,180	170,972	195,555
Management fee	54,243	56,460	61,092
Total	238,423	227,432	256,647
Net operating profit	846,445	901,776	965,186
Distribution:			
Payment on APCOA advance interest (note a)	201,250	310,333	326,083
Principal	233,333	233,333	233,328
Total	434,583	543,666	559,411
Balance available	411,862	358,110	405,775
Distribution of balance:			
APCOA share (50 percent)	205,931	179,055	202,888
Validations (note b)	32,507	13,422	11,855
Total	238,438	192,477	214,743
Center's share after all other distributions	$ 173,424	$ 165,633	$ 191,032

a/Interest is determined by the prime rate of the Chase Manhattan Bank at November 15 of each year. The rate was 5-3/4 percent in 1972, 9-1/2 percent in 1973, and 10-3/4 percent in 1974.

b/The Center allows 30 minutes free parking for purchase of tickets.

The Center's share of income is lower than our prior estimate of $237,000 for the period April 1, 1972, to March 31, 1973. At the time we made the estimate, both we and APCOA believed it to be conservative and that the Center's actual share for that period might be higher. Gross parking revenues for 1973 were $1,129,208, somewhat below our prior estimate of $1,154,000, but increased to $1,221,833 for 1974.

The major reason the Center's 1973 and 1974 shares were below the prior estimate is the rise in interest rates. As noted above, APCOA advanced $3,500,000 to help pay construction costs. The Center agreed to repay the advance from revenues over 15 years and to pay interest on the outstanding balance on the basis of the November 15 Chase Manhattan prime interest rate. Because the 1973 and 1974 interest rates at these dates were higher than in 1972, the Center incurred an additional $109,083 in interest expense for 1973 and an additional $15,750 for 1974, as shown below.

	Balance outstanding	Rate (percent)	Interest	Increase over prior year
1972	$3,500,000	5.75	$201,250	$ -
1973	3,266,667	9.50	310,333	109,083
1974	3,033,333	10.75	326,083	15,750
Additional interest				$124,833

Although the Center's overall financial operations have improved, the net income has been insufficient to cover bond interest or provide for retirement of bond principal. Income from theater operations has increased and may continue to do so but the potential for a large increase appears limited. Parking garage use and income approached expectations for fiscal years 1973 and 1974, although the revenues fell well below the amount necessary to service the bond obligations.

We suggested the Center try to increase its parking revenues by encouraging wider use of the garage by people working in the general vicinity. The Center now provides parking during the day at special rates for certain employees in the area. Another possibility is revising the present parking rate structure in such a way as to increase revenues and still insure maximum use of the parking facility. Center officials agreed to consider our suggestion.

Unless an unexpected dramatic improvement in net income occurs, we do not believe the Center can meet its bond obligations. The Center may have to devise other ways to increase revenues from theater operations or raise additional funds from private sources.

Agency comments

Interior said it would encourage the Center to increase its parking revenues through wider use of the garage. Now that the tourmobile stops at the Center, tourist parking at the Center is being considered.

Center officials said that determining reasonable and adequate parking charges is difficult but is done periodically with APCOA. They said rates will be reviewed again.

CENTER NOT REIMBURSED FOR ELECTRICITY COSTS

The Center has not been reimbursed by the parking garage concession for electricity costs.

The Center's contract with APCOA states that these costs will be included in APCOA's operating expenses if separately metered. Center officials said the power company cannot install separate meters to enable the building operator to bill tenants for electrical service. Therefore, APCOA has never reimbursed the Center for electricity estimated at $2,500 a month. Over the 15-year base, this amounts to $450,000.

We suggested that the Center explore the feasibility of reopening this matter to obtain reimbursement for electricity provided to the garage operator.

Agency comments

Interior said it would include the item of obtaining reimbursement from the parking garage operator for electrical services in future discussions and negotiations with the Center. The National Park Service has met with officials of the Center and the power company to determine the feasibility of separately metering the garage and other areas. The power company has not yet answered this proposal.

The Center said that APCOA has agreed to reimburse the Center for the amount of utility costs used for the garage operations, such amount to be based upon mutually agreeable engineering studies without the necessity of metering the garage.

SECURITY COSTS

The management agreement between the Park Service and the Center requires the Park Service to provide and pay for all normal Center security. Additional security required primarily for performing arts activities is provided or paid by the Center. For example, Center officials said they paid for additional police required for a rock concert at the Center. During fiscal year 1973, the Park Service paid $25,000 for additional security personnel required by the State Department for four foreign attractions at the Center. In fiscal year 1974 the Center paid $17,000 for additional police at two attractions.

Center officials cited several examples of theft throughout the building, showing a need for the security services provided by the Park Service.

CHAPTER 4

CONSTRUCTION COSTS

The construction cost of the Kennedy Center, excluding the cost of land, increased from an estimated $46.4 million in 1964 to $73.0 million as of June 30, 1974. As of June 30, 1974, about $69.8 million had been paid. In addition $5.8 million in contractors' claims is in litigation in the U.S. courts. This includes about $4.3 million in alleged delay damages and $1.5 million in alleged construction costs claimed by the contractor. Any amounts awarded by the courts will increase the total construction cost.

TOTAL CONSTRUCTION COSTS

The Center's records showed building construction costs at June 30, 1974, as follows:

Cost element	Amount (millions)
Construction (amount of contract and delay damage claims of $2.5 million paid or settled)	$57.7
Architect fees	3.8
Other costs (note a)	3.5
Capitalized bond interest accrued during construction	2.8
Donated materials (note b)	2.6
Insurance and bonds	1.1
GSA supervision	1.0
Legal expenses	.5
Total	$73.0

a/ Includes Center's administrative costs related to construction, parkway repairs, studies and services, and items purchased for the Center.

b/ Includes donations of various items, such as money, building materials, furniture, chandeliers, and building marble.

CONSTRUCTION COSTS PAID

As of June 30, 1974, about $68.7 million of the construction costs had been paid and $1.1 million of the related court claims settled, as shown below.

Source of funds		Amount
		(millions)
Direct appropriations		$23.0
Private funds:		
Cash contributions	$22.7	
Donated materials	2.6	25.3
Borrowings from the Treasury Department		20.4
		$68.7
Payment of court claims (note a)		1.1
Total		$69.8

a/ This represented undisputed claims by the prime contractor and several subcontractors included in a suit against the United States. This amount has been paid from Treasury funds and special appropriations after entry of judgment. See page 22 for further details.

Funds received from the Government

The Kennedy Center Act, as amended, provided for Federal appropriations to match private donations but not to exceed $23 million. The Center has received and spent these funds. In addition, the Center was authorized to borrow up to $20.4 million from the Treasury to construct the parking garage. These funds have also been borrowed and spent.

Private funds

After we completed our review, Center officials provided us with a summary showing that the Center has raised $30.2 million in funds and $2.6 million in donated materials from individual and business contributions, borrowed funds, revenues of theater and concession operations, a donation by the restaurant concessionaire, and a cash advance by the parking garage concessionaire. Of the total amount raised, $25.3 million was spent for construction costs, including the $2.6 million in donated materials; about $6 million was used for administrative costs, fund-raising, and education from 1959 to 1973; $1 million was used for initial production and opening expenses; and $0.5 million for program costs from 1965 to 1971.

Contribution by the restaurant concessionaire

As part of the conditions stated in the solicitations for proposals for the food and beverage concession, the Center requested a gift or donation to cover the cost of kitchen equipment, furniture, fixtures, and other items. ITT Canteen Corporation, the successful bidder, agreed to pay $1.25 million toward the cost of furnishing these items. However, Canteen's costs for such items have exceeded the agreed amount. Center officials reported that $257,972 is due Canteen for the increased costs. However, Canteen officials disagreed and claimed $270,012. The disagreement occurred in March 1972 and the Center and Canteen have not agreed upon the amount due the concessionaire. The Canteen has applied $270,012 in commissions earned by the Center against the disputed amount.

Parking advance

The parking concessionaire, APCOA, advanced the Center $3.5 million against future parking facility revenues. These funds were used to pay construction costs and early delay damage claims. The Center is to repay the advance over 15 years in annual installments of $233,333. At December 31, 1974, the unpaid balance due APCOA was $2,800,005.

UNPAID CONSTRUCTION COSTS

As of June 30, 1974, unpaid construction costs amounted to about $3.2 million, as shown below.

Cost element	Amount
	(millions)
Capitalized bond interest accrued during construction	$2.8
Costs related to construction--architect fees, insurance, furniture and fixtures, and restaurant construction (note a)	.4
	$3.2

a/ After our review, the architect of the Center building filed a petition in the U.S. Court of Claims seeking damages of $295,798.79. This claim is in dispute and is being defended by the Department of Justice. Counter claims are being asserted.

Payment of the capitalized bond interest has been deferred until December 1978. The furniture and fixtures costs represent capital expenditures being paid in installments; the unpaid balance at June 30, 1974, was about $50,000. The remaining costs related to construction are in dispute and have been referred to the Center's General Counsel for negotiation and possible action. These costs include the balance due Canteen.

CONTRACTOR'S PETITION IN THE COURT OF CLAIMS

The Center's general construction contractor, acting for itself and 35 subcontractors, filed a petition in the U.S. Court of Claims against the United States on September 15, 1972. As amended January 15, 1973, the total amount of the petition was about $6.9 million, as shown below.

	Amount (millions)
Delay damage claims	$4.3
Unpaid construction costs which were allegedly due	2.5
Claims for alleged changes	.1
Total	$6.9

Also, construction subcontractors filed at least five suits in the District of Columbia courts demanding payment from the general contractor. The Department of Justice is defending the petition in the Court of Claims and is making a limited appearance on behalf of the individual trustees who have been joined with the Board of Trustees as third-party defendants in the District court suits.

The United States is liable for amounts judged against it by the U.S. Court of Claims and other courts. As of June 30, 1974, the court had entered judgment against the United States on 22 claims totaling $1,063,473. This includes 19 judgments under $100,000, totaling $533,809, which have been paid from the Treasury's appropriation for payment of Court of Claims judgments. The other three judgments, totaling $529,664, each exceeded $100,000 and have been paid from special appropriations. The remaining $5.8 million from the petition still is under litigation. Center officials advised us that the claims under litigation are subject to substantial defenses, counter claims, and setoffs.

BUILDING MAINTENANCE PROBLEMS

Several defects in the building have been noted by officials of the Park Service, the Center, and GSA and by consultants employed by the Department of Justice.

Water leakage in various parts of the building has been the most serious problem and has resulted in damaged walls, ceilings (particularly that of the grand foyer area), floors, floor coverings, and equipment. Water also has leaked into the building from the entrance plaza roadway area, fountains, planters, and reflecting pool. Other problems which resulted in increased maintenance and hardware costs involved fittings and hardware on doors throughout the building, anchoring of hand railings in escalator lobbies, marble and terrazo expansion joints, and electrical and environmental systems.

The Park Service has made repairs to minimize the effect of these problems. Final correction of certain items has been deferred because of the current litigation involving contractors' claims. However, Park Service officials informed us that none of the deferred repairs involve any danger to safety or health.

CHAPTER 5

IMPROVED MANAGEMENT CONTROLS

In our prior report, we discussed the improvements needed in the Center's management controls.

ACTIONS TAKEN TO IMPROVE MANAGEMENT CONTROLS

The Center has taken actions to improve the inadequate management controls discussed in our prior report. Actions taken by the Center are reported below.

The Center employed a certified public accounting firm, experienced in theater accounting, to help improve the accounting system and management controls. In a letter dated August 29, 1973, the certified public accounting firm reported the actions which the Center had taken to improve its controls.

1. Policies and procedures--The Center has prepared a 5-volume policy and procedures manual pertaining to most of its operations. Previously, policy matters were communicated orally or sometimes by written statements, and standard operating procedures for carrying out Center operations had not been prepared.

2. Organization--The Center gave us an organizational chart and job descriptions for nontheatrical employees. The theatrical employees are members of a union which provides the procedures for members to follow. Also, the union contract sets forth certain procedures for employees to follow. The Center had not previously maintained a current organization chart or prepared job descriptions for Center employees.

3. Safeguarding resources--The Center has improved its internal control over cash and theater tickets in the box offices by reconciling ticket sales with cash receipts each day, reconciling the bank statements, depositing cash receipts intact daily, endorsing checks properly, and increasing safeguards over receipts. Our examination of (1) several bank statements showed they were reconciled with the total cash shown by the Center's books, (2) some checks showed they were properly endorsed, and (3) deposit slips for 1 day showed receipts were deposited intact. Our inspection showed also that safeguards over cash receipts were adequate.

The weaknesses we previously reported were: (1) no system had been established to reconcile ticket sales with cash receipts, (2) bank statements generally were not reconciled with the checkbooks, (3) cash receipts were not deposited intact each day, (4) checks received at two box offices were not properly endorsed, and (5) cash was not being adequately safeguarded.

4. Segregation of duties and functions--The duties and functions of box office employees were realigned to improve internal control. For example, the duties of authorizing, recording, and writing checks for ticket reimbursements have been segregated and assigned to more than one employee. Previously, these duties were carried out by one employee.

5. Expenditure control--The Center has established procedures to maintain accounting control over accounts payable. We examined the purchase journal and the subsidiary ledger sheets prepared for each individual account and found they were adequate for control purposes. We also examined a few invoices and noted they were properly approved. The general ledger control account has been reconciled with the subsidiary ledger sheets each month. We said in our prior report that the Center did not have an accounts payable ledger and kept invoices from vendors in individual folders. The invoices were totaled occasionally to determine the amount of accounts payable.

6. Planning--Budgets are now prepared in a format consistent with the Center's accrual accounting system. We examined the operating budgets for fiscal years 1973 and 1974 and believe they are adequate for management purposes. In addition, budgets for specific projects are prepared during the year as a management tool to determine a given project's feasibility as it relates to the overall financial policies of the Board of Trustees approved in the annual budget. The Center previously did not have a formal budgeting system.

7. Costs of operation--The Center has improved its financial control of operations. Financial statements encompassing total operations are prepared monthly by management and compared to the budget. Operating statements reflecting the direct cost of operations of each theater are prepared weekly. The direct costs are collected for each attraction presented in each theater. Indirect costs are allocated to each theater and to administration. The Center previously did not routinely produce data which could be compared with a budget and did not know the total cost relating to the theaters nor how the rental rates being charged compared with the cost of operations.

8. Information system--The Board of Trustees is now being provided with adequate financial data needed to carry out its duties. We examined the following reports now being routinely prepared by management:

--Daily box office statement.

--Daily box office advance sales reports.

--Weekly operating statements by theater.

--Monthly income and expense statement for all operations.

--Quarterly balance sheet and summary income statement.

Previously, periodic reports summarizing data on theater, building, or administrative operations were not routinely prepared.

We believe the improvements have corrected the reported weaknesses in management controls.

INTERNAL AUDIT

In our prior report we said that the Center did not have an internal audit function and that no surprise cash counts or reviews of cash disbursements had been made in the Center's box offices.

Since then, the Center has established procedures for Center personnel to do some internal review work. For example, supervisors count cash and review records and operations. In addition, theater operations personnel check box office records and reconcile ticket sales with receipts each day. These employees are under the supervision of the general manager of theater operations and are responsible for recording and depositing receipts from credit ticket sales.

The Center personnel doing internal review work are not independent of the operations they review. Since internal auditing is an essential element of management control, it should be done by an internal auditor who is independent of the officials who are directly responsible for the operations he reviews.

The Center said that, because of the relatively small size of its operations and because of the existing audit functions which are regularly carried out, it does not believe it should have an internal auditor. It said that audit functions are performed by a certified public accounting firm as an integral part of its attest function and that theater operations are being regularly audited by Center personnel not directly involved in the operations. Further, the Center believes, each settlement on attractions at the Center is inherently audited because the Center must account in full for all box office receipts and house expenses incurred by the outside producer booking the attraction.

Conclusion

The Center has made some changes since our prior review in the use of employees to assist management in supervising day-to-day activities. However, some of the internal review work is done by personnel who are not independent of the operations reviewed; therefore, the Center should reexamine its procedures and make every reasonable effort to use Center personnel who are not involved in the operations, to provide for independent reviews.

JOHN F. KENNEDY CENTER FOR THE PERFORMING ARTS

January 24, 1975

Mr. Victor Lowe
Director, General Government Division
General Accounting Office
Washington, D. C. 20548

Dear Mr. Lowe:

This letter is to set forth the views of the John F. Kennedy Center for the Performing Arts concerning the proposed Report to the Committee on Public Works, United States Senate, Operations of the John F. Kennedy Center for the Performing Arts B-154459. Our counsel has already transmitted suggestions for technical changes in the Report and they will not be repeated here.

Application of Cost Allocation Formula

It has been suggested that the current method of cost allocation, based on hours of use, has not been updated for changes in hours of building operations and theater operations. In the Kennedy Center's view the current method and application of it is fair and equitable to the Government. As reimbursement for the share of operation and maintenance expenses allocable to performing arts activities, the Kennedy Center made cash payments in FY 1973 and FY 1974, to the National Park Service, in the amounts of $420,800 and $428,400 respectively. In addition, substantial non-cash contributions to Park Service activities were made in the form of services rendered by the Friends of the Kennedy Center for tour and other functions. We estimate the value of these services at $250,000 per year.

Further, the Kennedy Center considers that the allocation formula may overstate, rather than understate, the performing arts share of joint costs, because in other theatrical operations, the house costs for items for which the Kennedy Center pays the Park Service are less annually than the payments made.

Finally, we note that the GAO determination that the building has been used 29 hours per week for theater activities is overstated because this figure includes rehearsal hours. Generally the primary use of the building is for nonperforming

Washington, D. C. 20566 / phone: 202 872-0466

activities while much of this rehearsal time occurs. And the performing arts proportion of total use was increased as a result of the unilateral action of the Park Service, which is opening the building to the public at 10:00 a.m., rather than 9:00 a.m., as originally contemplated.

Accordingly, the Kennedy Center considers that the cost allocation formula as now applied does not result in insufficient payments by the Kennedy Center for the performing arts share of building operation and maintenance expenses.

Sharing of Concession Income and Reimbursements

The Kennedy Center considers for several reasons that it would be unreasonable to require the payment of a portion of concession income and reimbursements to the Park Service, in addition to the payments already being made under the cost allocation formula.

It was not contemplated by the Congress that any portion of payments received by the Kennedy Center from concessionaires be paid over to the Park Service. Rather, the operating costs associated with those revenues are fully reimbursed pursuant to the cost allocation formula. The Park Service has not provided any of the capital funds which were required to construct the concession facilities, and entitlement to share in revenues should arise only from a contribution of the capital investment necessary to generate the revenue. The GAO Report makes no recommendation that there should be reimbursement to the Kennedy Center of the capital investment made in concession facilities; this should be required if the Park Service is to share in revenues. We submit, in any event, that this is not the intent of Congress.

Internal Audit

Because of the relatively small size of its operations, and existing audit functions which are regularly performed, the Kennedy Center does not concur with GAO's recommendation that the Kennedy Center's staff be augmented with an internal auditor. At present, the audit functions are performed as an integral part of their attest function by an outside CPA firm which is experienced in theater operations.

Also, audit functions of theater operations are now being regularly performed by Center personnel not directly involved therein. Further, there is an inherent audit function performed at each settlement on attractions at the Kennedy Center, when the Center must account in full for all box office receipts and house expenses incurred to the outside producer booking the attraction.

Parking Revenues

The determination of reasonable and adequate parking charges is a difficult one, which is done periodically with APCOA, the Center's experienced parking concessionaire. Rates will be reviewed in accordance with GAO's recommendation.

Claim of the Architect

Subsequent to GAO's review of Center operations, the architect for construction of the Kennedy Center building filed a petition in the Court of Claims against the United States, seeking damages of $295,798.79. Edward Durell Stone v. United States, No. 277-74. This claim is in dispute and is being defended by the Department of Justice. Counterclaims are being asserted.

We appreciate the time and attention given by the GAO staff to this review of Center operations; and, with the exceptions of the above comments, concur generally with the conclusions in the proposed Report.

We wish to point out, however, that the Report fails to even comment on the effectiveness and substance of the Kennedy Center's performing arts and educational programs, which are basic to the mandate of Congress to provide a living memorial to John F. Kennedy.

In its three and one-half years of operation, the Kennedy Center has taken its place as a major arts institution and a national showcase, previously non-existent, for the finest in performing arts activities from this country and abroad. Its programming has been critically acclaimed throughout the country and the world.

The Center's educational commitment significantly predates

Mr. Victor Lowe -4- January 24, 1975

the completion of the building and, with the aide of its auxiliary organization, the Friends of the Kennedy Center, has included support and sponsorship of such programs as the American College Theatre Festival, the American College Jazz Festival and the International Choral Festival. It has also fostered the development of the Alliance for Arts Education, a national project in conjunction with the U. S. Department of Health, Education and Welfare, and offered a wide variety of public service activities, including weekly arts symposia which are open to the public at no charge, free performances of all kinds, and a number of exhibitions devoted to various aspects of the performing arts.

The Center also maintains a special ticket program through which tickets for Center-produced attractions are made available at half-price to students, the handicapped, retired persons over the age of 65, low-income groups, and military personnel in grades E-1 through E-4. The attendant costs, in terms of reduced revenue potential and administrative overhead, are borne entirely by the Center. During FY 1974, for example, 88,589 tickets for Center-produced attractions were sold through the program. The sale of these same tickets at full-price would have resulted in additional gross income to the Center in excess of $350,000.

Subject to our limited financial resources, the Center's Trustees are committed to continuing the sponsorship and presentation of the nation's outstanding performing arts attractions and to continuing our efforts to expand the nation's understanding and appreciation of the performing arts. We also look forward to continuing and expanding our educational activities, which have already had a significant impact upon the people of all the states.

As requested, there is enclosed a copy of our auditor's report.

Sincerely,

Roger L. Stevens

Roger L. Stevens
Chairman

Enclosure

GAO note: We are furnishing the Committee with a copy of the enclosure.

United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

NOV 27 1974

Mr. Henry Eschwege
Director, Resources and
Economic Development Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Eschwege:

We have reviewed your draft report on "Operations of the John F. Kennedy Center for the Performing Arts, B-154459."

Although we are in general agreement with the findings and suggestions in the draft report, the Department is severely limited in initiating direct corrective action. The Kennedy Center Act (72 Stat. 1968), as amended, Sec. 5.(c) provides "The actions of the Board, including any payment made or directed to be made by it from any trust funds, shall not be subject to review by any officer or agency other than a court of law." The Board is not required to submit its annual reports to the Secretary of the Interior, nor was the Secretary given authority over the performing arts functions. The draft report enumerates the services the Secretary is authorized to provide to the Center for the nonperforming Arts functions. But it does not disclose the foregoing limitations under which the Department operates.

In response to the suggestions made by GAO on page 5 of the draft report, the National Park Service (NPS) informs that they will review the allocation formula and include the results in the new agreement to be negotiated with the Center. The Associate Solicitor's office believes that we have no legal authority to make internal audits of the Center's operations. Consequently, we are not in a position to perform audits nor to require use of an internal auditor or other internal review procedures by the Center. Further, we note that the Center has engaged a certified public accounting firm. We will attempt to obtain copies of audited financial statements.

NPS further informs that they will include the following items in future discussions and negotiations with the Center:

-- Sharing in utility reimbursements and net income received from concessioners.

-- Obtaining reimbursement from the parking garage operator for electrical services.

-- Encouraging the Center to increase its parking revenues through wider use.

With respect to these items, the Director, National Capitol Parks has met with officials of the Center and Pepco to determine the feasibility of separate metering of the garage and other areas. NPS is waiting to hear from Pepco on this.

Now that the Tourmobile stops at the Center, possible tourist parking at the Center is being considered.

We appreciate the opportunity to review and comment on the draft report. I am sure NPS will be guided by your suggestions in future negotiations with the Center.

Sincerely yours,

A L Reynolds

Allan L. Reynolds
Director of Audit and Investigation