



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

May 28, 2013

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Councilman, District 10

SUBJECT: Audit Report AU13-005 Audit of Rio San Antonio Cruises Contract Revenue Reporting

Mayor and Council Members:

We are pleased to send you the audit report of AU13-005 Audit of Rio San Antonio Cruises Contract Revenue Reporting. This audit began in 1/22/2013 and concluded with an exit meeting with department management in 5/20/2013. Management's verbatim response is included in Appendix B of the report. The Downtown Operations Department management and staff should be commended for their cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully Submitted,

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



**AU13-005 Audit of Rio San Antonio Cruises Contract
Revenue Reporting**

Project No. AU13-005

May 28, 2013

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan approved by City Council, we conducted an audit of the Downtown Operations Department (DTOD), specifically the revenue contract between the City of San Antonio (City) and Rio San Antonio Cruises. The audit objective, conclusions, and recommendations follow:

Is the City and Rio San Antonio Cruises compliant with revenue contractual terms?

Yes, the City and Rio Cruises appeared to be compliant with key contractual terms and conditions.

Is the contract appropriately monitored by Downtown Operations?

Yes, revenue generated from paid ticket sales were appropriately monitored by Downtown Operations staff. However, we noted items such as valuation of complimentary tickets and verification of safety training and state licensing, in which DTOD's monitoring efforts could be improved in order to comply with the contract and effectively safeguard the City's interests.

We recommend that the Downtown Operations Director:

Ensure that contractual terms and conditions as they relate to complimentary tickets, safety training, and state licensing are appropriately monitored in accordance with city policy.

Downtown Operations Department Management's verbatim responses are included in Appendix B.

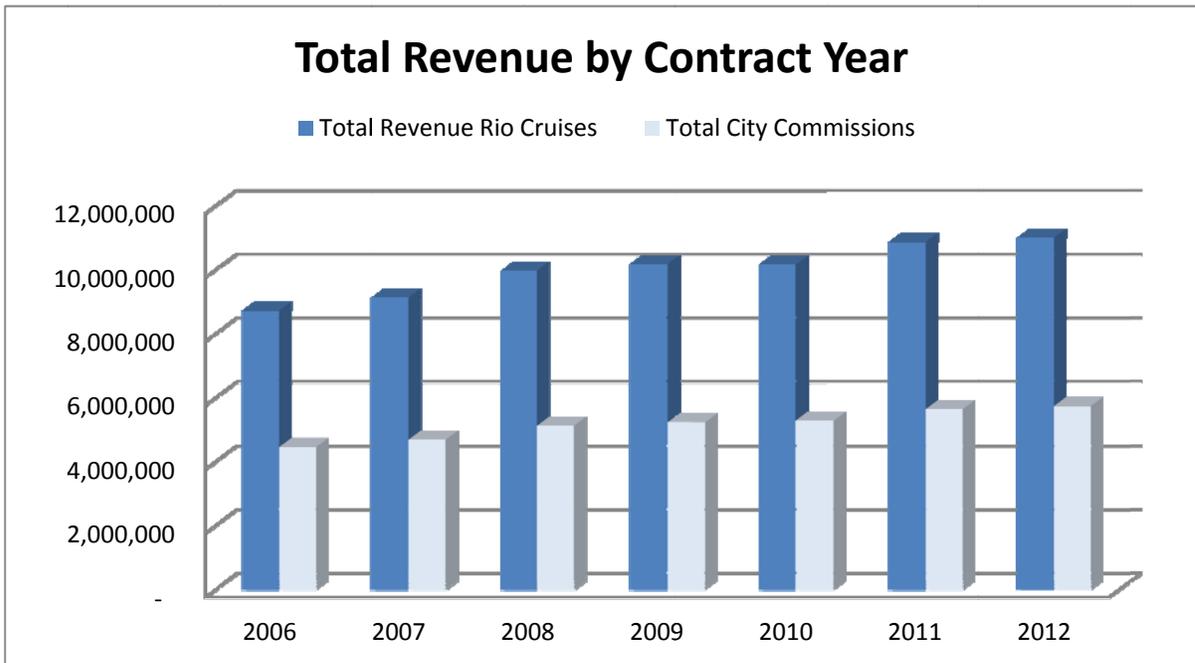
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Background

The City of San Antonio (City) awarded a contract to Rio San Antonio Cruises (Rio Cruises), allowing exclusive rights to provide river barge services through San Antonio’s scenic River Walk. Rio Cruises offers a variety of services to visitors to include: river barge tours/taxi services, charter cruise services (dining/cocktail cruises), and merchandise sales. The contract was awarded for a 10 year period beginning on September 1, 2005 and is due to expire on August 31, 2015.

The City earns commissions on all ticket and merchandise sales generated through this contract. For the seven year period of September 2005 – August 2012, Rio Cruises has earned over \$70.1 million in sales revenue, while the City collected over \$36.2 million in commissions. The following graph illustrates a comparison of revenue earned by Rio Cruises and the City for the first seven years of the contract.



Audit Scope and Methodology

While the contract became effective in September 2005, our test work focused on the period September 2011 through April 2013.

We interviewed City and Rio Cruises management and staff. We verified commission revenue, as well as reviewed internal controls associated with the execution and monitoring of this contract. In addition to commission test work, we

reviewed other pertinent contractual terms as determined by our risk assessment, specifically insurance coverage, letter of credit, marketing expenses, utility billings/payments, safety training, and state licensing provided by the contractor's for new and existing barge drivers. Testing criteria primarily included the contract and City Administrative Directives.

We relied on computer-processed data in the SAP System, the City's principal accounting system, to validate payments submitted to the City by Rio Cruises. Our reliance was based on performing direct tests on the data rather than evaluating the system's general and application controls. Our direct testing included comparing payments recorded in SAP to source documentation provided by Rio Cruises such as audited adjusted gross sales statements, state sales tax filings, and financial schedules. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

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 Results and Recommendations

Contract Monitoring

Non-verification of the value of complimentary tickets

The contract allows Rio Cruises to provide complimentary tickets and services for promotional, marketing, or special event activities up to a maximum value of \$100,000 annually as part of their required total marketing expenditure of \$200,000. DTOD staff currently utilizes audited Adjusted Gross Sales (AGS) Statements to verify revenue and commission documentation submitted to the City. However, the audited AGS statements do not reflect the value of complimentary tickets and services offered by Rio Cruises during a contract year. The City is relying on an excel spreadsheet provided by the contractor as proof of the value of complimentary tickets and services offered by Rio Cruises. The spreadsheet is not verified for accuracy by the city. By not validating the accuracy of the value of complimentary tickets issued during the year, the City's commission payments could be affected.

Lack of monitoring for safety training of barge operators and state licensing of barges utilized by the contractor

The contract requires Rio Cruises to offer safety training to all new and existing barge operators. In addition, Rio Cruises is required to comply with all Texas Parks and Wildlife water safety regulations (licensing) as it pertains to their operations. DTOD staff currently does not verify whether the contractor has complied with safety training or state regulatory requirements. By not appropriately monitoring safety training or state licensing of the barges, the City could be at risk of financial loss if an accident were to occur on the river.

Effective contract monitoring and verification is critical in appropriately safeguarding the City's interests. The primary purpose is to ensure that the City and the contractor are in compliance with all contract terms and conditions. By enhancing the verification and monitoring efforts for complimentary tickets and safety areas mentioned above, the City will be more effective in early identification of potential issues related to contract performance; thereby ensuring that the contractor as well as the City fulfils its expected obligations.

Recommendation: The Downtown Operations Director should ensure that contractual terms and conditions as they relate to complimentary tickets, safety training, and state licensing are appropriately monitored in accordance with city policy.

Appendix A – Staff Acknowledgement

Sandy Paiz, CFE, MBA, Audit Manager

Kimberly Weber, CIA, CFE, CGAP, CRMA, MPA, Auditor in Charge

Christopher Moreno, MPA, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

May 14, 2013

Kevin W. Barthold, CPA, CIA, CISA
 City Auditor
 San Antonio, Texas

RE: Management's Corrective Action Plan for AU13-005 Audit of Rio San Antonio Cruises Contract Revenue - Reporting

Downtown Operations Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Decline	Responsible Person's Name/Title	Completion Date
1	<p>Contract Monitoring</p> <p>The Downtown Operations Director should ensure that contractual terms and conditions as they relate to complimentary tickets, safety training, and state licensing are appropriately monitored in accordance with city policy.</p>	3	Accept	Bruce Martin, Contract Mgr	April 2013
	<p>Action plan:</p> <p>A. Downtown Operations Dept. has requested and received written commitment from Rio SA Cruises to include within their annual audit validation that the value of complimentary or reduced fare barge rides not exceeds \$100K per contract year.</p> <p>B. Downtown Operations Dept. will conduct a review of no less than 25% of Rio SA Cruises' barge drivers safety training records to confirm required safety training has been documented; reviews will be conducted no less than once per calendar year.</p> <p>C. Downtown Operations Dept. will include within quarterly site visit checklists a check of expiration dates on state license stickers.</p>				

Audit of Rio San Antonio Cruises Contract Revenue

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

Sincerely,



Jim Mery
Interim Director
Downtown Operations Department

5/14/13

Date



Edward Belmares
Assistant City Manager
City Manager's Office

5/17/13

Date