



CITY OF SAN ANTONIO

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November 7, 2008

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SUBJECT: Convention Sports and Entertainment Facilities Audit Report

We are pleased to send you the audit report of the Convention Sports and Entertainment Facilities Temporary Utility Services License Agreement. This audit began in February 2008 and concluded with an exit meeting with department management in October, 2008. Management's verbatim response is included in Appendix B of the report. The Convention Sports and Entertainment Facilities Department should be commended for its 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,

Park E. Pearson
Park E. Pearson, CPA
Interim City Auditor
City of San Antonio

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CITY OF SAN ANTONIO
OFFICE OF THE CITY AUDITOR



Audit of Temporary Utility Services License Agreement

Convention Sports and Entertainment Facilities

Project No. AU08-004

November 7, 2008

Executive Summary

As part of the FY2008 Annual Audit Plan, we conducted an audit of the Convention Sports and Entertainment Facilities (CSEF) Temporary Utility Services License Agreement (Agreement). We performed the audit to determine whether:

Service providers are complying with the Temporary Utility Services License Agreement

We determined that service providers are in compliance with the following Agreement terms:

- Obtaining applicable electrician and plumbing licenses
- Obtaining City-issued electrical permits
- Maintaining Workers' Compensation and liability insurance coverage
- Maintaining required surety bond or other security
- Adhering to the City's Small Business Economic Development Advocacy (SBEDA) policy of providing opportunities to Small, Minority, and Woman-Owned Business Enterprises.

However, we determined that not all service providers have consistently reported gross receipts to the City for services provided. Specifically:

- Edlen Electrical Exhibition Services underreported gross receipts for events from 2003-2008 by \$43,865, resulting in an underpayment of \$11,890 in license fees before interest. Interest due through October 15, 2008 totals \$4,315, for a total amount due the City of \$16,205. During the audit, Edlen paid \$14,048 to the City, which CSEF accepted as final payment.
- Harper Wood Electric Company did not report gross receipts of \$10,890 for utility services provided for one event in April 2007, resulting in an underpayment of license fees of \$3,267. During the audit, Harper Wood paid this amount to the City.

Also, Harper Wood provided discounts in the amount of \$3,055 for one event contracted in October 2007 without prior approval, and paid the City license fees on the discounted rates. These unauthorized discounts resulted in an underpayment of \$917 in license fees. During the audit, Harper Wood paid the City \$917.

CSEF personnel are monitoring the license agreements, yet there are areas that need improvement.

- License fee revenues from some events were posted to incorrect internal order numbers in the City's SAP accounting system.
- Some event reports from CSEF's Event Business Management System did not indicate that utility service providers were used when in fact they were. The service provider was not listed in reports for 50% of the events at the Convention Center, Lila Cockrell Theater, and Municipal Auditorium or any events at the Alamodome.

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Background

The Convention, Sports and Entertainment Facilities Department (CSEF) plans, directs and manages events at the City's Convention, Sports and Entertainment Facilities (Facilities). CSEF also monitors license agreements between the City and contractors that perform services at the Facilities. These facilities consist of the Henry B. Gonzalez Convention Center, the Lila Cockrell Theatre, the Alamodome, Municipal Auditorium and Nelson Wolffe Municipal Stadium.

The Temporary Utility Services License Agreement (Agreement), effective March 15, 2003 through September 14, 2007, authorized Edlen Electrical Exhibition Services (Edlen) and Harper Wood Electric Company (Harper Wood) as preferred service providers of temporary utility services; including electrical power, water, and compressed air for events at the Facilities. Event holders, such as associations, are required to use preferred service providers contracted by the City. A new License Agreement became effective September 15, 2007.

The Agreement requires service providers to pay the City license fees at the applicable percent of gross receipts from services they perform at the Facilities. The license fee in effect from March 2003 through March 2006 was 25% of gross receipts. The license fee increased to 30% effective March 15, 2006 when the Agreement was extended for a total of 18 months until September 14, 2007. In FY2007, the City collected a total of \$841,786 in license fees from both service providers.

In accordance with the Agreement, service providers are required to submit to the City detailed monthly statements of the prior month's gross receipts, along with the license fees. Past due payments shall bear interest at the lesser of 18% or the highest rate allowed by law from the date the payment was due.

The Agreement also requires service providers to obtain applicable electrician and plumbing licenses, City-issued electrical permits, Workers' Compensation and liability insurance coverage, and surety. They must also adhere to the City's Small Business Economic Development Advocacy (SBEDA) policy of providing opportunities to Small, Minority, and Woman-Owned Business Enterprises.

Audit Scope and Methodology

The original audit scope consisted of 372 events held at the Facilities from October 2005 through September 2007 for which the City received license fees. Based on our observations during the audit, we expanded the scope to include events for which Edlen paid license fees from March 2003 through September 2005 and from October 2007 through May 2008. Additionally, we included events for which Harper Wood paid license fees from January through May 2008. The total number of events in the population is 555, with a total value of \$2,040,802 in license fees.

Of the 372 events in the original scope above, we chose a sample of 89 events with City license fees greater than \$4,000. We selected five additional events with license fees less than \$4,000 which may be expected to have higher revenue based on the event type and attendance. Due to the scope expansion explained above, we increased our sample size from 94 (89 + 5) to 349. The value of the sample of events reviewed is \$1,841,478, or 90% of the population value. See Table 1 for a summary of event population and samples tested.

Table 1

Population	Harper Wood	Edlen	Total
Events with license fees	274	281	555
Amount of license fees	\$ 1,027,868	\$1,012,934	\$2,040,802
Sample			
Events in Sample	68	281	349
License fees in Sample	\$ 828,545	\$1,012,934	\$1,841,479
% of Total Population Reviewed	81%	100%	90%

We verified the accuracy and proper recording of license fee revenue for events. We also verified service provider rates were in accordance with provisions of the license agreement. We reviewed support for service provider insurance, surety, licenses, permits and SBEDA reporting requirements. Auditors interviewed personnel from CSEF, Edlen, Harper Wood, as well as the City Attorney's Office. We reviewed written policies and procedures related to the audit and observed and created flowcharts of relevant processes to gain an understanding of the process flow and related systems.

We conducted this audit from February 2008 to September 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate information to provide a reasonable basis for the results based on the audit objectives. We believe that the information obtained provides a reasonable basis for the results based on the audit objectives.

Audit Results and Recommendations

A. Edlen did not Report all Gross Receipts

Edlen did not report all gross receipts for utility services provided at the Facilities. In addition, Edlen over reported gross receipts for one event in 2003. The net unreported gross receipts from 2003-2008 is \$43,865. See Table 2 below for a summary of unreported/over reported receipts, as well as license fees and interest due by year of license agreement.

Table 2

Edlen Unreported, Over Reported Gross Receipts and License Fees Due					
Year	# Events with Unreported Gross Receipts	Unreported/ (Over Reported) Gross Receipts	License Fees Due on Unreported Gross Receipts	Interest Due on Unreported Gross Receipts	Total Due
2003	10	\$ 7,624	\$ 1,709	\$ 891	\$ 2,600
2003	N/A	(19,289)	(3,858)	N/A	(3,858)
2004	12	5,518	1,379	602	1,981
2005	17	19,821	4,955	1,552	6,507
2006	25	18,879	4,311	911	5,222
2007	17	8,053	2,416	306	2,722
2008	5	3,259	978	53	1,031
Total	86	\$ 43,865	\$ 11,890	\$ 4,315	\$ 16,205

The Utility Service License Agreement requires service providers to pay the City license fees at the applicable percent of gross receipts from services conducted at the Facilities. It also states that any payment becoming past due shall bear interest at the lesser of 18% or the highest rate allowed by law from the date the payment was due. We calculated the interest due using a 10% interest rate and license fees amount due beginning the month after the event took place. Ten percent is the highest interest rate allowed per the Texas Finance Code. The interest due amount was calculated through October 15, 2008 and totals \$4,315.

Edlen under-reported gross receipts to the City because they did not classify all advance payments for services from CSEF event holders as revenue. As a result, Edlen underpaid license fees to the City by \$15,748 (\$11,890 + \$3,858). Due to the over reporting of gross receipts in 2003, Edlen overpaid the City \$3,858 in license fees. The net effect is an underpayment of \$11,890 in license fees before interest, for a total amount due the City of \$16,205.

During the audit, CSEF management collected \$14,048 from Edlen. Therefore we are not making a formal recommendation regarding this matter.

Recommendations:

A. CSEF personnel should review service provider reports thoroughly for accuracy and completeness.

B. Harper Wood did not Report Gross Receipts for one Event

Harper Wood did not report gross receipts of \$10,890 for utility services provided for one event in April 2007 at the Convention Center.

The Agreement requires service providers to pay the City license fees at the applicable percent of gross receipts from services conducted at the Facilities.

Harper Wood did not report gross receipts to the City for this event because they sub-contracted the event from another company and did not receive billing details from the company to submit to the City. As a result, Harper Wood did not pay license fees of \$3,267 to the City.

During the audit, CSEF management collected \$3,267 from Harper Wood. Therefore we are not making a formal recommendation regarding this matter.

C. Harper Wood Provided Unauthorized Discounts for one Event

Harper Wood provided discounts in the amount of \$3,055 for one event contracted in October 2007 without prior approval, and paid the City license fees on the discounted rates.

The Agreement effective September 2007 contains language (not in previous agreements) which states that service providers may not barter, trade, or discount any and all services that are commissionable to the City, unless prior written approval is received from the Director.

Harper Wood provided unauthorized discounts because they had previously provided discounts to associations prior to the new Agreement effective 2007. The local office was not aware that the new Agreement required prior approvals for discounts. As a result, Harper Wood underpaid license fees to the City for this event by \$917.

During the audit, CSEF management collected \$917 from Harper Wood. Therefore we are not making a formal recommendation for collecting these license fees.

Recommendations:

C-1 CSEF Fiscal personnel should review event invoices for all Harper Wood events contracted after September 15, 2007 and collect license fees due from Harper Wood for any unauthorized discounts.

C-2 CSEF Fiscal personnel should also require contractors to obtain prior approval for all discounts and provide event invoices with their monthly commission reports. They should review the reports to ensure all gross receipts are reported, no unauthorized discounts are provided, and license fees are paid on the full rates for services provided.

D. CSEF Monitoring of License Agreements

During the audit, we noted two issues regarding monitoring of the license agreements:

1. License fee revenues from some events were posted to incorrect internal order numbers in the City's SAP accounting system.

When an event is booked at one of the Facilities, CSEF fiscal personnel set up the event with an internal order number in SAP. Contract Administration personnel review event reports which are generated from their Event Business Management System (EBMS) to identify the events for which the service providers are remitting license fees. The EBMS reports did not reflect the SAP internal order numbers for each event so Contract Administration personnel queried the event name in SAP. This resulted in events which were posted to incorrect internal order numbers in SAP.

During the audit, CSEF updated EBMS to include a field for the SAP Internal Order number and now require personnel to input this information for each event. Therefore we are not making a formal recommendation for this matter.

2. Some event reports from EBMS did not indicate that utility service providers were used when in fact they were. The service provider was not listed in reports for 50% of the events at the Convention Center, Lila Cockrell Theater, and Municipal Auditorium or any events at the Alamodome.

Event Services Division Operating Policies & Procedures specifies that Event Coordinators are required to obtain final production and schedule information from the CSEF customers' contracted service providers. All final information should be entered into EBMS two weeks before the event. Contract administration personnel use EBMS Event Listing reports as a control to ensure that service providers remit all required license fees to the City; therefore it is crucial that the system contain accurate and current information.

Recommendation:

D-2 Event coordinators should follow the Event Services Division Operating Policies & Procedures and ensure all final event information for service providers is input in EBMS no later than two weeks prior to event dates.

Appendix A – Staff Acknowledgment

Barry Lipton, CPA, DABFA, Deputy City Auditor
Theresa Cameron, CPA, CIA, Audit Manager
Dawn Oppermann, CPA, CIA, CGAP, CCSA Auditor-in-Charge
Sylvia Esparza

Appendix B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

November 4, 2008

Park E. Pearson
Interim City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Temporary Utility Services License Agreement Audit

The Convention Sports and Entertainment Facilities Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
A	<p>Edlen did not Report all Gross Receipts</p> <p>CSEF personnel should review service provider reports thoroughly for accuracy and completeness.</p>	3	Accept	Liz Rodriguez, Contract Officer	10/1/08
<p>Action plan: Based on recommendations from the City Auditor's Office the department has amended its service provider reports generated in EBMS to include fields for SAP event internal order to aid in reconciling events for crediting of commission revenue. In addition, event coordination staff is now proactively entering text for every service provider for each event, even if service providers are not utilized. This requires event coordination staff to consider each service for each event and identify whether that service is being provided and by whom. Also, the department has implemented the same service provider report process for Alamodome events where none previously existed. Contract staff cross-references service provider reports on a monthly basis with events declared on commission reports submitted by service providers. Contract staff works with event coordination staff to investigate and rectify discrepancies in either the service provider or commission reports.</p> <p>As for under-reporting of gross receipts by Edlen, the department has received payment of \$14,048 for commissions and interest due on advance payments and overpayments to Edlen from March 2003 through May 2008. This amount consists of \$11,890 in commissions and 2,158 in interest. The total interest calculated was \$4,315, but after negotiations with Edlen this amount was reduced 50% since Edlen was apparently unaware that advance payments and overpayments were considered by the City as gross receipts. For the future the department has advised Edlen that commission must be paid on overpayments and that the City will not subsequently allow commission credits if advance payments or overpayments are subsequently found to be invalid or are refunded to clients.</p>					

Audit of the Convention Sports and Entertainment Facilities
Temporary Utility Services License Agreement

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
C-1	<p style="text-align: center;">Harper Wood Provided Unauthorized Discounts for one Event</p> <p>CSEF Fiscal personnel should review event invoices for all Harper Wood events contracted after September 15, 2007 and collect license fees due from Harper Wood for any unauthorized discounts.</p>	4	Accept	Liz Rodriguez, Contract Officer	10/31/08
<p>Action plan: Contract staff is in the process of reviewing the commission reports from all four current service providers for the period September 15, 2007, through the present. In order to ensure the City receives information regarding discounts, monthly commission reporting has been amended to also require copies of all client invoices and to add discount information to the summary reports. Discounting of services to event clients is a necessary practice to compete for business. For the future, the department will be requiring each service provider to submit a blanket waiver request for approval by the department to provide up to a certain percentage discount without any further need for approval by the department. If service providers wish to provide larger discounts they will have to submit individual requests to the department in a format prescribed by the department; however, service providers will have to pay the City full commission on the undiscounted services provided (i.e. commission would be calculated on the full value of services before any discounts). All four service providers have been reminded of the discount provisions and advised of the impending policies surrounding discounts and commissions on discounted services.</p>					
C-2	<p style="text-align: center;">Harper Wood Provided Unauthorized Discounts for one Event</p> <p>CSEF Fiscal personnel should also require contractors to obtain prior approval for all discounts and provide event invoices with their monthly commission reports. They should review the reports to ensure all gross receipts are reported, no unauthorized discounts are provided, and license fees are paid on the full rates for services provided.</p>	4	Accept	Liz Rodriguez, Contract Officer	10/31/08
<p>Action plan: See action plan for item C-1 above.</p>					

Audit of the Convention Sports and Entertainment Facilities
Temporary Utility Services License Agreement

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
D-2	<p>CSEF Monitoring of License Agreements</p> <p>Event coordinators should follow the Event Services Division Operating Policies & Procedures and ensure all final event information for service providers is input in EBMS no later than two weeks prior to event dates.</p>	5	Accept – Except for events occurring in less than two weeks	Yolanda Gutierrez, David Lucero, Event Services Mgr.	10/1/08
<p>Action plan: See also action plan to item A above. Though the operating polices stipulate that this information is to be entered two weeks in advance of an event, this is a general operating goal for most events, but is not always possible. For instance, many events are smaller in nature and do not involve significant planning. As such, some of the service providers may not be known two weeks prior to an event. In other circumstances, service providers initially identified by clients may change, and may change within two weeks of an event. Event management staff regularly reviews and reinforces their operating policies and procedures with event coordination staff, including emphasizing the critical role event coordinators play in safeguarding departmental contract revenue by documenting in a continuous, timely and accurate manner which service providers are servicing events. Though the key milestone for contract staff to have this information is at the time of commission reporting, which occurs generally the month after events occur, nonetheless event coordination staff should and do regularly enter this information during the event planning process and in the ensuing time immediately before, during and after events. As additional and continued emphasis is placed on this task and its importance now and in the future, event coordination staff will be more cognizant to ascertain service provider information as early as possible in the process and enter and update it in the EBMS system.</p>					

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

Sincerely,



Jim Mery
Interim Director
Convention Sports and Entertainment Facilities



Penny Postoak-Ferguson
Assistant City Manager
City Manager's Office