

Convention Center Operations Audit March 2013

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Table of Contents

	<u>Page</u>
Executive Summary	1
Audit Scope and Methodology	3
Background	3
Detailed Audit Findings	10

Convention Center Operations



Office of the City Auditor
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Executive Summary

The Convention Center is run efficiently and effectively, with a high ratio of repeat business

Opportunities for Improvement

Implement performance measures related to capacity for the Experience Arlington

Analyze food and beverage periodic income statements

Comply with PCI standards for retention of credit card information

Strengthen controls over special event parking

Ensure that commission revenue is received timely

As part of the Fiscal Year 2012 Annual Audit Plan, the City Auditor's Office conducted an audit of Convention Center Operations. The audit was conducted in accordance with generally accepted government auditing standards, except for peer review. 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. The objectives of the audit were to determine if:

- Arlington Convention Center (ACC) Operations are efficient and effective;
- the City spent hotel occupancy tax revenue in accordance with state guidelines;
- the Convention Center verifies that revenue received under its catering, audio visual and security agreements is calculated accurately and submitted timely;
- the City has established adequate oversight over the professional services agreement with Experience Arlington (formerly the Arlington Convention and Visitors Bureau); and,
- Convention Center management has established adequate controls over special event parking revenue.

The City Auditor's Office noted that the ACC is run efficiently and effectively, with a high ratio of repeat business (repeat business accounted for more than 70% of the FY2012 events) and customer satisfaction. The ACC met its FY2012 occupancy goal of 65% and actual revenue exceeded the FY2012 budget amount.

Hotel occupancy tax has been spent in accordance with state guidelines and has allowed the City to increase funding to Experience Arlington and continue its contributions to the arts and downtown revitalization.

The City has entered into concession agreements for security, audio visual and food and beverage services. Under the agreement with the food and beverage service provider, the City pays the provider an annual management fee (\$67,000) in monthly installments and retains the rights to the net income from operations. The City Auditor's Office noted that the ACC does not perform sufficient analysis to verify the periodically reported net income. We also noted that the ACC did not receive audio visual commission revenue within the stated contractual timeframe.

Experience Arlington Convention Center bookings for FY2013 and FY2014 (through June 2012) are down from FY2008 through FY2011 levels. The City Auditor's Office did not perform any specific analysis to determine whether the decreased bookings were a result of a weakened economy, reduced focus or poor performance. However, the City Auditor's Office noted an opportunity to increase oversight over Experience Arlington's performance by establishing additional expectations related to capacity and the potential for revenue generation of Experience Arlington booked events. The City Auditor's Office also noted that the ACC and Experience Arlington should coordinate to adopt common terminology and timeframes related to reporting events booked.

The City Auditor's Office noted that the ACC retains credit card information for some clients in contrast with current Payment Card Industry (PCI) standards. The PCI standards are comprehensive standards and supporting materials intended to enhance payment card data security. Prevention, detection and appropriate reaction to security incidents are addressed to help ensure that companies responsible for processing, storing or transmitting credit card information maintain a secure environment. The ACC's current process does not minimize the opportunity for identity theft.

The City has received over \$700K in special event parking fees in FY2012. While the City Auditor's Office noted that the ACC has established critical controls over parking revenue, weaknesses related to the completion of the parking ticket log and the independent verification of car counts were noted.

These findings and related recommendations are discussed in the Detailed Audit Findings section of this report.

Audit Scope and Methodology

The audit was conducted in accordance with generally accepted government auditing standards, except for peer review. The following methodology was used in completing the audit.

- Interviewed Convention Center personnel regarding current policies and procedures
- Ensured the accuracy and control of the facility rental billing process
- Reviewed controls over parking revenue
- Reviewed oversight over concession agreements for food and audio visual services
- Reviewed the Lawson accounting system for proper recording of revenues and expenditures
- Reviewed expenditures and supporting documentation to verify compliance with hotel occupancy tax requirements
- Compared Experience Arlington performance measures to industry standards

Background

The Arlington Convention Center (ACC) was originally built in 1985. According to the City's website, the popular convention, trade show and meeting venue offers flexible banquet, meeting and exhibit space; a friendly, professional staff; multiple hotel choices; and a fantastic location. The center has 50,000 square feet of column-free exhibit space, a 30,000 square foot Grand Hall and 8,500 additional square feet in meeting rooms.

The look and feel of the Arlington Convention Center is open and airy. Guests are treated to dramatic views of Arlington's major attractions. Situated in the heart of the Entertainment District, the Arlington Convention Center is nestled among Rangers Ballpark in Arlington (home of the Texas Rangers), Cowboys Stadium (home of the Dallas Cowboys), Six Flags Over Texas, Six Flags Hurricane Harbor (America's largest water park), and Arlington's finest hotels and restaurants.

The mission of the Arlington Convention Center is to drive new dollars into the City's economy by facilitating national, regional, and state meetings and events. The entire community benefits from attendee patronage of hotels, restaurants, retail establishments, and tourist venues. In addition, the Convention Center provides space and services for local events that promote business and enhance the quality of life in the community.

Goals for the Arlington Convention Center, a part of the City Manager's Economic Development Services Team, are to provide a quality well-organized, overall event experience for clientele, ensure service delivery that meets or exceeds customer expectations, and to maximize utilization of the facility and its revenue-generating capacity.

Budget

The Convention and Event Services Fund includes funding for debt service and operations of the Arlington Convention Center, Experience Arlington and operational support to the Fielder House

Museum. Fund revenues are provided from operations of the Convention Center and the hotel/motel occupancy tax.

The Convention Center operating revenue is derived from facility rental, food and beverage services, parking, and other event services such as equipment rental and utility (electric, phone, water) services. The City maintains a contractual relationship with Experience Arlington, an independent organization that develops an annual marketing plan and budget prepared for approval by the City Council. City support of Experience Arlington operations is provided by hotel/motel occupancy tax revenues received in the Convention and Event Services Fund. The following charts summarize the source of budgeted revenue and inter-fund transfers over the past five fiscal years.

Convention and Event Services Fund					
Budgeted Revenue - FY 2009 to FY 2013					
Revenue Category	Fiscal Year				
	2009	2010	2011	2012	2013
Occupancy Tax	\$ (5,500,000)	\$ (5,000,000)	\$ (5,149,336)	\$ (5,600,000)	\$ (5,863,514)
Facility Rental	(970,000)	(1,107,500)	(1,022,000)	(920,625)	(941,800)
Facility Services	(330,000)	(310,000)	(320,000)	(309,000)	(308,500)
Parking Revenue	(380,000)	(275,000)	(300,000)	(290,000)	(280,000)
Parking - Special Events	(91,000)	(75,000)	(35,000)	(266,000)	(700,000)
Catering and Concession	(600,500)	(609,000)	(619,000)	(507,000)	(302,200)
Audio Visual	(100,000)	(120,000)	(120,000)	(110,000)	(100,000)
Security	(9,000)	(10,000)	(12,000)	(10,000)	(8,000)
Miscellaneous Revenue	(15,000)	(6,000)	(5,000)	-	(2,000)
Interest	-	(50,000)	(11,350)	(12,226)	(9,252)
Total	\$ (7,995,500)	\$ (7,562,500)	\$ (7,593,686)	\$ (8,024,851)	\$ (8,515,266)

Source: Lawson Financial System

Convention and Event Services Fund					
Budgeted Interfund Transfers - FY 2009 to FY 2013					
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Debt Service - Grand Hall	\$ (1,268,829)	\$ (1,280,829)	\$ (1,262,110)	\$ (1,267,353)	\$ (1,274,301)
Convention and Visitors Bureau Debt Service	(104,738)	(100,688)	(96,563)	(92,250)	(87,937)
(To) From Capital Maintenance Reserve	225,000	225,000	60,000	(500,000)	(150,000)
From Debt Service/Hotel Feasibility Fund	175,000				150,000
To General Fund - Indirect Costs	(354,748)	-	(354,748)	(494,748)	(581,604)
Total	\$ (1,328,315)	\$ (1,156,517)	\$ (1,653,421)	\$ (2,354,351)	\$ (1,943,842)

Source: Annual Operating Budgets

After payment of debt service and a transfer to the General Fund for indirect costs, the remaining available funds were budgeted as shown in the following schedule. For FY2013, budgeted payments to Experience Arlington equaled approximately 57% of the budgeted occupancy tax revenue. Experience Arlington uses this allocation to promote general tourism and to bring convention and

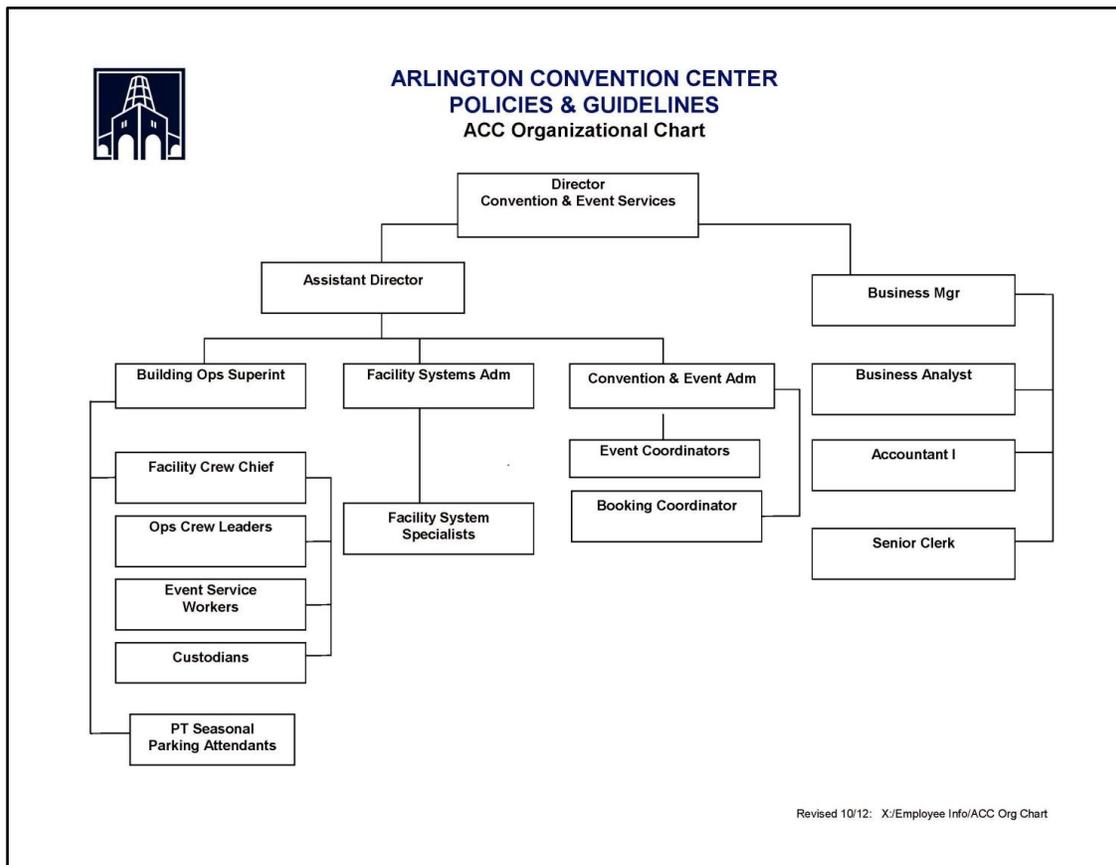
events not only to the ACC but to Arlington hotels and other venues. There is not a specific allocation of funds to be spent on marketing the ACC.

Convention and Event Services Fund Budgeted Expenditures - FY 2009 to FY 2013					
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Convention Center	\$ 3,454,035	\$ 3,310,176	\$ 3,029,152	\$ 3,349,241	\$ 3,248,709
Convention and Visitors Bureau	3,025,000	3,025,000	3,025,000	3,393,600	3,325,000
Arts Funding	100,000	100,000	100,000	100,000	100,000
Downtown Revitalization	50,000	50,000	50,000	50,000	50,000
Fielder Museum	20,000	30,000	30,000	30,000	30,000
Total	\$ 6,649,035	\$ 6,515,176	\$ 6,234,152	\$ 6,922,841	\$ 6,753,709

Source: City Operating Budgets

Staffing

Convention Center staffing has been relatively consistent (around 31 positions) over the past five fiscal years, as indicated in the organization chart from the ACC Policies and Procedures manual.



Source: ACC Policies and Procedures

Events

The Convention Center is used for a variety of events as presented in the following chart that summarizes the number of events held by type, excluding small municipal events.

Arlington Convention Center Number of Events Held by Type FY 2008 to FY 2012							
Type of Event	Fiscal Year					Total	Pct.
	2008	2009	2010	2011	2012		
Conference	16	14	14	17	16	77	8.6%
Convention	10	20	21	11	7	69	7.7%
Corporate	101	60	55	54	56	326	36.3%
Government	18	17	14	9	11	69	7.7%
Local	24	20	27	34	33	138	15.4%
Public	30	27	26	18	22	123	13.7%
Religious	13	4	4	6	9	36	4.0%
Trade	15	13	8	11	13	60	6.6%
Total	227	175	169	160	167	898	100.0%

Source: Arlington Convention Center

While corporate events represent the largest number of events held, conferences, conventions and public events bring in the most total revenue (facility rental, services, catering, audio-visual, etc.) per event, as shown in the following charts.

Arlington Convention Center Event Revenue by Type FY 2008 to FY 2012							
Type of Event	Fiscal Year					Total	Pct.
	2008	2009	2010	2011	2012		
Conference	\$ 404,383	\$ 438,021	\$ 414,049	\$ 432,482	\$ 340,566	\$ 2,029,501	11.0%
Convention	312,731	744,819	852,852	322,182	179,380	2,411,964	13.0%
Corporate	1,112,187	1,005,454	950,299	1,280,530	1,004,310	5,352,780	29.0%
Government	192,629	230,899	265,772	214,907	192,451	1,096,658	5.9%
Local	349,718	237,387	436,713	359,220	468,353	1,851,391	10.0%
Public	819,783	792,589	760,212	578,693	608,303	3,559,580	19.3%
Religious	256,126	106,495	149,252	104,501	257,251	873,625	4.7%
Trade	241,853	284,355	168,127	252,953	361,311	1,308,599	7.1%
Total	\$ 3,689,410	\$ 3,840,019	\$ 3,997,276	\$ 3,545,468	\$ 3,411,925	\$ 18,484,098	100.0%

Source: Arlington Convention Center

Arlington Convention Center Revenue per Event FY 2008 to FY 2012				
<u>Type of Event</u>	<u>Total # of Events</u>	<u>Total Revenue</u>	<u>Pct.</u>	<u>Revenue per Event</u>
Conference	77	\$ 2,029,501	11.0%	\$ 26,357
Convention	69	2,411,964	13.0%	34,956
Corporate	326	5,352,780	29.0%	16,420
Government	69	1,096,658	5.9%	15,894
Local	138	1,851,391	10.0%	13,416
Public	123	3,559,580	19.3%	28,940
Religious	36	873,625	4.7%	24,267
Trade	60	1,308,599	7.1%	21,810
Total	898	\$ 18,484,098	100.0%	\$ 20,584

Source: Arlington Convention Center

Experience Arlington

In September 2010, the City authorized and executed a three-year contract with Experience Arlington to provide services to promote convention and tourism, and to provide information to visitors. The agreement was amended for FY2012 to provide funding to allow Experience Arlington to engage in additional marketing, assume responsibility for the City's arts grant program, receive reimbursement for Super Bowl XLV costs and to address one-time expenditures for Experience Arlington building upgrades.

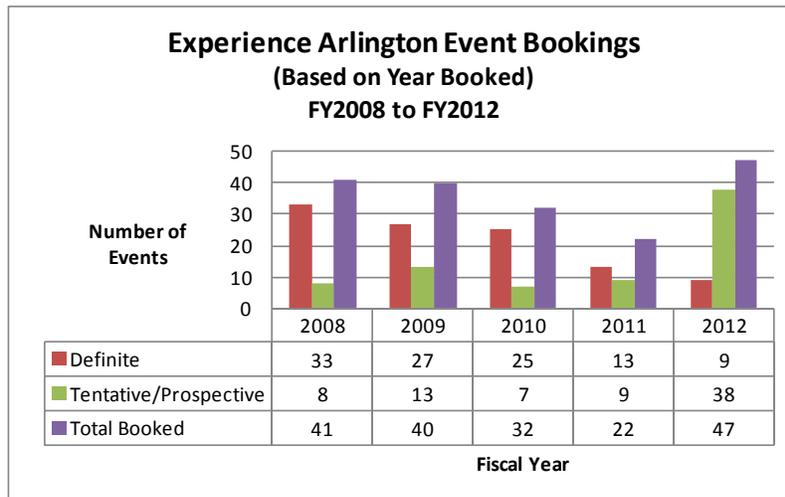
While Experience Arlington acts as a destination marketing organization for the City, it also is responsible for booking conventions at the ACC. By agreement, Experience Arlington is responsible for identifying and booking larger (state or national) events to be held at least 18 months in the future. The ACC is responsible for booking events to be held within 18 months.

As shown in the following table, Experience Arlington booked approximately 20% of the total events held at the ACC from FY2008 to FY2012. Revenue associated with the events booked by Experience Arlington accounted for 35% of the total revenue received.

Events Booked by Experience Arlington and ACC (Based on FY Event Held) FY2008 to FY2012						
Events	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Total
Booked by Experience Arlington	39	39	38	37	23	176
Booked by ACC	188	136	131	123	144	722
Total Number of Events	227	175	169	160	167	898
Pct. Booked by Experience Arlington	17.2%	22.3%	22.5%	23.1%	13.8%	19.6%
Pct. Booked by ACC	82.8%	77.7%	77.5%	76.9%	86.2%	80.4%
Total Revenue						
Events Booked by Experience Arlington	\$ 1,179,183	\$ 1,552,713	\$ 1,660,883	\$ 1,313,822	\$ 771,240	\$ 6,477,841
Events Booked by ACC	2,510,227	2,287,306	2,336,393	2,231,646	2,640,685	12,006,257
Total Revenue	\$ 3,689,410	\$ 3,840,019	\$ 3,997,276	\$ 3,545,468	\$ 3,411,925	\$ 18,484,098
Pct. Booked by Experience Arlington - Total Revenue	32.0%	40.4%	41.6%	37.1%	22.6%	35.0%
Pct. Booked by ACC - Total Revenue	68.0%	59.6%	58.4%	62.9%	77.4%	65.0%

Source: Arlington Convention Center

The above table is based on the fiscal year in which events were *held*. For clarification, of the 39 events held in FY2009 that were booked by Experience Arlington, 18 had been booked prior to FY2007. Although the table above indicates that Experience Arlington is booking events at a fairly consistent rate, ACC booking data (by year booked, not the year of the event) actually indicates that the number of events booked by Experience Arlington decreased in FY2011, before rebounding in FY2012. As noted in the following chart, the majority of the events booked by Experience Arlington in FY2012 (for events to be held in future years) are still considered tentative or prospective. These events will most likely become definite as event dates grow nearer.



Source: Arlington Convention Center

Parking

Since early 1990, the City has had a formal agreement with the Texas Rangers Baseball Club (Rangers) that allows the Rangers organization to use the ACC parking lot for baseball games when there are no ACC events scheduled and when ACC events only use a portion of the lot.

After the extension of Baird Farm Road south of I-30 in 2007, the ACC parking lot was reduced from 1,126 to 640 spaces. As a result, the City and the Texas Rangers amended the parking agreement to allow the ACC to use Ranger owned parking spaces when event attendance exceeded the ACC lot capacity.

In August 2010, through an agreement with Baseball Real Estate Inc., the City began selling game day parking during stadium events. The ACC now sells parking in the 640 space lot for Rangers games and other special events held at Cowboys Stadium. In FY2011, the City recorded \$569K in special event parking revenue and exceeded that amount in FY2012 (\$730K).

Detailed Audit Findings

1. Contractual performance measures do not result in an effective evaluation of the Experience Arlington's ability to meet City expectations regarding Convention Center bookings.

The Destination Marketing Association International (DMAI) is committed to providing strategic and operational guidance to destination marketing organizations (DMOs). The DMAI (formerly known as the International Association of Convention and Visitors Bureau, or IACVB) has published standards, best practices and systematic approaches to organizational functions to assist DMOs in employing analytical tools to identify organizational strengths, weaknesses and opportunities. Under contract with the City, Experience Arlington serves as the destination marketing organization for the City. In their handbook "Standard DMO Performance Reporting", the DMAI recommends that DMOs implement policies and procedures to accurately and systematically measure its activity, performance and productivity. The handbook provides examples of measures that can be utilized as applicable depending on the informational needs of DMO stakeholders. These include performance measures for number of bookings, booked room nights, booked attendance and booked attendee spending. While the City's agreement with Experience Arlington does not specifically require compliance with DMAI standards, the City can use these published performance measures in evaluating Experience Arlington's performance.

The City's agreement with Experience Arlington generally incorporates the performance measures recommended by the DMAI. However, the contractual measures do not clearly indicate the impact Experience Arlington booked events have in terms of building capacity and revenue generation. In regards to Convention Center bookings, Exhibit E of the agreement between the City and Experience Arlington identifies confirmed new bookings, confirmed repeat bookings, and booked room nights as performance measures. Although not specifically required by the agreement, the Experience Arlington also reports estimated attendance and attendee spending - additional performance measures noted in the DMAI handbook. However, more important to ACC operations, is the percent of capacity booked by Experience Arlington 18 months and out.

Historically, larger national and statewide events needed a longer lead time to plan events and ensure adequate space and accommodations could be reserved. The economy and industry changes (more availability, quicker communications) may have shortened required lead times, but generally, the larger impact conferences, conventions and public shows will be booked far in advance. According to ACC records, the following chart summarizes future ACC events booked by Experience Arlington through FY2012.

Experience Arlington Booked Convention Center Events Events Booked for 2013 and Forward									
Booked FY	Event FY								
	2013	2014	2015	2016	2017	2018	2019	2020	2022
2007	1	2	1						
2008	3	3	1	2	1				
2009	4	8	5	3					
2010	5	3	2	2					
2011	4	3	4	2					
2012	11	5	8	5	7	4	2	1	1
Total	28	24	21	14	8	4	2	1	1

Source: ACC Event Management System Data

The total number of events booked by Experience Arlington for FY2013 (28) and FY2014 (24) is less than the average number of events attributed to Experience Arlington from FY2008 through FY2011 (38), as shown in the chart on page 8. In addition, the amount of square footage booked by Experience Arlington by event year decreased for FY2012 and remains lower than the FY2008 to FY2011 period, as shown in the following chart.

Experience Arlington Share of Target Capacity Square Footage Booked As of 9/30/2012							
Booked FY	Event FY						
	2008	2009	2010	2011	2012	2013	2014
2001	422,848	219,936	219,936				
2003	661,872	391,272	529,872				
2004	687,072	689,112	721,120				
2005	347,160		1,486,064	522,672			
2006	3,387,920	3,063,824	-	511,984			
2007	1,250,944	1,718,616	1,647,728	1,171,816	-	171,336	228,448
2008	309,120	2,071,776	2,331,328	1,402,568	1,175,280	905,432	1,652,240
2009		30,000	850,872	1,251,600	1,294,680	439,872	1,843,376
2010			114,224	3,103,192	928,976	1,468,904	901,120
2011				343,416	1,226,208	1,666,640	1,171,232
2012					435,928	1,233,296	547,984
Total	7,066,936	8,184,536	7,901,144	8,307,248	5,061,072	5,885,480	6,344,400
Pct. of Target Capacity	34.2%	39.6%	38.2%	40.2%	24.5%	28.5%	30.7%

Source: ACC Event Management System Data

Because the ACC does not have its own professional, dedicated sales staff, it depends on Experience Arlington to attract events to the ACC. If Experience Arlington does not meet expectations, additional pressures are placed on ACC management and event coordinators to “fill” the schedule. For event coordinators, this may result in a reduced ability to focus on clients with upcoming or ongoing events. It may also result in less revenue, as events booked closer to the event date are generally smaller, more local events with less revenue generating potential. The City Auditor’s

Office did not perform a detailed analysis of Experience Arlington's performance, as the ACC has not clearly defined expectations regarding Experience Arlington-booked conventions for the ACC, in terms of capacity or the ACC revenue-generating potential of events. In addition, it was anticipated that Experience Arlington's performance over the past couple of years would be impacted by the country's economic downturn. Instead, the City Auditor's review focused on identifying those performance measures that would be most helpful in establishing and evaluating performance expectations in the future. Establishing clear booking expectations will allow management to adequately plan for future operational needs. Monitoring the achievement of those expectations will allow management to adjust staffing and other resources as necessary if the planned level of booking and resulting revenue is not obtained.

Historically, as shown in the charts on pages 6 and 7, conventions, conferences and public shows tend to have a larger economic impact (direct sales, hotel rooms, concessions, etc.) than government, local, religious and trade shows. However, aside from establishing a room night goal, the City does not specifically set expectations regarding capacity or projected revenue from Experience Arlington bookings. In addition, the ACC does not track estimated room nights, attendance and revenue for future events in its event management software. While some of this information (attendance, revenue) is recorded in the event management system for *past* events, it is generally not estimated and recorded for *future* events.

Recommendation:

The Convention Center Director should consider establishing Experience Arlington performance criteria related to booking capacity and/or revenue generation potential in future agreements with Experience Arlington.

Management's Response:

Concur. ACC and Experience Arlington have discussed performance measures based on revenue and facility utilization added to the contract in the past. The ACC Director will recommend adding these performance measures with the new Experience Arlington CEO when hired. CVB Board approval of performance measure changes will be required.

Target Date: October 2013

Responsibility: Mark Wisness, Convention Center Director

Recommendation:

The Convention Center Director should consider using the event management software to record estimated room nights, attendance and revenue for future events.

Management's Response:

Concur Partially. Estimated room nights and attendance are now being entered into the event booking software from Experience Arlington lead sheets. Revenue to the facility, including exhibitor and attendee spending, is not available as it is typically not shared by clients or other facilities.

Target Date: February 2013

Responsibility: Carla Henson, Booking Coordinator

2. Experience Arlington and ACC reporting methods and terminology are not consistent with standard industry guidance.

In their handbook “Standard DMO Performance Reporting”, the DMAI recommends that DMOs adopt the following definitions governing the convention sales function.

1. **Lead** – when an event inquiry by a corporation/association/organization/meeting planner includes a request for a minimum of 10 sleeping rooms per night. A lead is more formalized than just exchanging/forwarding business cards to hotels.
2. **Bid** – Proposal submitted (by the DMO) to a planner that includes defined dates and room blocks.
3. **Tentative** – Status assigned to a group/event after a bid has been submitted to the meeting planner and the destination (convention center) is waiting for a decision.
4. **Confirmed booking** – A future event confirmed in writing, via a letter or booking notice, signed by an authorized agent of the event and the convention center. The written confirmation should detail dates, space requirements and estimated room block. The DMO should record estimated attendance and attendee spending.
5. **Contracted booking** – A future event contracted in writing by the event organization with the convention center. The DMO should receive communication of this stage in writing from an authorized agent of the convention center.

In comparing Experience Arlington and ACC performance reports, the City Auditor’s Office noted differences in reported “booked” events for FY2011. Quarterly performance reports prepared by Experience Arlington identified 27 events as being booked by Experience Arlington, while the ACC reported only 13 of these events as being booked by Experience Arlington. The City Auditor’s Office noted the following factors that contributed to reporting differences.

- Since the ACC only reports “definites” (which is defined as a contracted booking with receipt of an initial or final payment) as bookings, the ACC did not include “tentative” or “confirmed booking” events as bookings. In contrast, and as defined above, Experience Arlington included both categories as bookings, as well as one event categorized by the ACC as “prospective”. This accounted for a difference of eight total bookings.
- Experience Arlington reported a cancelled event twice. The event (National Business Media, Inc.) was cancelled after it had been reported as a “booked” event by Experience Arlington. This accounted for a difference of two events.
- Experience Arlington reported one event (US Bowling Congress) as booked in both February and March 2011. This accounted for a difference of one event.
- The ACC recorded one event (Fitmarc) as being booked by the ACC, while Experience Arlington identified this event as being booked by Experience Arlington. Two other events (General Motors and Interweave Press, LLC) were incorrectly coded as being booked by the ACC. This accounted for a difference of three events.

- In addition to the 13 Experience Arlington booked events that were recorded as booked by ACC and Experience Arlington, ACC data also indicated a number of events that were recorded as being booked (“definite”) in FY2011 by Experience Arlington, although Experience Arlington had previously recorded the events as booked in a different period.

Differences in terminology and how events are recorded in the City’s event management software contribute to the inability to agree Experience Arlington reports to data maintained by the City. For example, the City does not use status codes in the event management system to differentiate between “confirmed” and “contracted” bookings. Doing so could help the ACC verify reported performance by Experience Arlington.

According to ACC management, Experience Arlington and the ACC have always reported separately to different boards. As a result, there has not been a focus on ensuring that information is reported consistently. However, to ensure that performance expectations are clearly communicated and evaluated, a consistent methodology that establishes common reporting guidelines is necessary.

Recommendation:

The Convention Center Director should consider adopting the terminology defined by the DMAI to record events in the City’s event management software.

Management’s Response:

Concur. While ACC uses terms that have a slightly different meaning from Experience Arlington’s, both organizations understand what each other means when events are discussed. Currently Experience Arlington has two designations for the status of an event, tentative and definite, while ACC has three, prospective, tentative, and definite. Both parties are in agreement that we do not want to go to the five designations that DMAI uses. Five designations are not feasible in the booking software we both use. We are aligning our terminology and have reflected the terminology agreed upon in the booking system.

Target Date: July 2013

Responsibility: Mike Hunter, Convention Center Assistant Director

Recommendation:

The ACC Director should reconcile Experience Arlington performance reports regarding events booked at the ACC to detail booking records recorded in the City’s event management software. Material discrepancies should be resolved with Experience Arlington before performance reports are published.

Management’s Response:

Concur. Since September 2012, events held at ACC that are the result of CVB bookings are included in the event performance section of the CVB Board Report. Prior to transmittal to Experience Arlington, the data is reviewed by the ACC event supervisor for accuracy and any differences are resolved prior to distribution.

Target Date: September 2012
Responsibility: Beverly Gooch, Business Manager

3. The ACC does not routinely perform formal analysis of income reports received from the food and beverage services vendor.

The City has contracted with Culinaire International Inc. to provide food and beverage services at the ACC. The contractor provides catering, concession, and beverage services for trade shows, banquets, conventions and other various events hosted at the ACC. The contract provides for a fixed annual management fee not to exceed \$67,500 plus an incentive bonus (to reward the vendor for profits returned to city) not to exceed \$67,500. The City retains the right to the net proceeds resulting from operations.

According to the agreement, the contractor is required to provide a financial operating statement within 20 business days after the end of each accounting period which details, on an accrual basis, all gross revenues, direct operating costs, and net proceeds resulting from the food and beverage service operation for the preceding accounting period. The vendor submits a check to the City in the amount of any net proceeds. As the amount payable to the City will vary based on operating results, it is important that the City perform sufficient analysis to determine/verify that the proper amount of net proceeds is submitted to the City. The City recorded \$616,363 in commission revenue in FY2011 and \$350,798 in FY2012.

The City Auditor's Office noted that the ACC performs a cursory review of the periodic income and bank statements submitted by the vendor. A representative of the vendor noted that ACC staff periodically inquires about operating results and unexpected events. However, ACC staff does not retain documentation that demonstrates how detailed a review was performed. Although it may be possible to perform a cursory review of periodic income statements and obtain confidence that recorded net income is accurate, a more detailed review of reported income and comparison to bank statements would provide reasonable assurance.

Because there were no documented analyses of the periodic income statements, the City Auditor's Office prepared an analysis of the periodic income statements submitted between June 2011 and June 2012. Results of the analysis indicated that operating results were fairly consistent in regards to significant ratios such as gross margin percentage, cost of goods sold as a percentage of revenue, marketing and administrative expense as a percentage of gross revenue and labor expense as a percent of gross revenue. Only a few deviations were noted that required further explanation, which was provided by the vendor. For example, a high cost of goods sold for alcohol in relation to revenue identified for October 2011 was a result of a vendor (Taste of Arlington) being allowed to serve alcohol at cost. Because the ACC does not document their cursory review, it was not evident to the City Auditor's Office as to whether the various deviations were questioned by the ACC.

The City Auditor's Office noted that ACC staff did not reconcile the periodic income statements with balance sheet reports and bank account data. By not performing detailed analysis of periodic income statements, the ACC may not identify situations that warrant further explanation and/or review. The food and beverage services agreement requires the contractor to make available to the City all accounting records, books of accounts, statements, receipts, inventories, documents and

other financial information related to operations. The ACC Director also has the right to conduct a full audit of the financial records and business activities of the contractor at ACC. Conducting closer analysis of monthly income statements may lead to discovery of errors, fraud, waste and or abuse related to financial reporting or operations. Such an analysis would include ensuring that submitted income statements agree with information reported on bank statements and accounting records.

According to ACC management, the ACC has always performed an informal, limited review of catering performance. However, management agreed that a more formal, detailed review may be beneficial.

Recommendation:

The Convention Center Director should ensure that staff documents its periodic analysis of income statements received from the food and beverage services vendor as a means of verifying net income and identifying potential operational concerns.

Management's Response:

Concur. ACC has reviewed every monthly statement from Culinaire during the length of the contract. We agree that these reviews should be documented and more comprehensive. Monthly meetings with the food and beverage general manager are now conducted to verify net income and analyze expenses on a broader level. Additional records are now being provided to ACC to ensure a more thorough analysis.

Target Date: February 2013

Responsibility: Beverly Gooch, Business Manager

4. The ACC retains payment records that contain credit card information.

Convention Center patrons are required to fax or e-mail service request forms with credit card information to pay for services requested. The service request forms, which contain credit card information, are retained in a locked filing cabinet. The credit card information retained includes its expiration date and the card verification value (CVV) code.

Payment card industry (PCI) standards allow retention of certain credit card information, including the personal account number, expiration date and cardholder name. However, the standards recommend that each merchant review the information commonly retained to determine whether it serves a valuable business purpose. In addition, the standards recommend that the credit card verification code never be retained. The standards are intended to prevent misuse of credit cards, identity theft and to maintain transaction integrity.

Generally, the City ensures PCI compliance through credit card transaction software provided by Chase Bank and software provider Cybersource. Chase Bank has provided the City with point-of-sale credit card processors for patrons who pay in person. The credit card software is utilized for all web-based payments for City services. Chase Bank, the card clearinghouse for the City, transmits transaction information to the City's Financial and Management Resources Department in order to apply the revenue to the appropriate general ledger accounts.

Since charges associated with ACC events include customized facility rental charges and standard charges for water, electricity, telephone and Wi-Fi hook ups, there is no set price. Alternatively, the web payment software provided to the City by Chase Bank and Cybersource is capable of accepting payments for items with a set price. It cannot accept individually customized payments for items.

Software used by the ACC staff for event planning does not consist of a web payment module for patrons. The website maintained by the ACC therefore provides general information related to goods and services available to plan an event, but does not offer payment capability.

Accepting customized payments for facility rental would require a vendor-sourced PCI compliant web module compatible with the event management software. However, the event management software vendor, used by ACC staff to plan events, does not have any immediate plans to introduce a compatible web module capable of accepting payments.

Credit card information manually retained in forms is susceptible to misuse. According to PCI Security Standards Council literature, a security breach and subsequent compromise of payment card data has far-reaching consequences for affected organizations, including:

- Regulatory notification requirements
- Loss of reputation
- Loss of customers
- Potential financial liabilities (for example, regulatory and other fees and fines)
- Litigation.

Recommendation:

The Convention Center Director should consider discontinuing the practice of retaining credit card information associated with payments for event services and consider obtaining credit card information from customers over the telephone and process the payment as it is obtained.

Management's Response:

Concur. ACC completed the PCI Self Assessment and drafted a credit card policy that ensures credit card information obtained by ACC complies with PCI standards. Faxed order forms can now only be retrieved by a limited number of staff who process and redact the numbers on hard copy reports. When possible, the client will be asked to give their number over the phone for real time processing, with no record of the number being retained. ACC is working on contracting with a third party that processes electronic transactions according to PCI standards. E-mail will no longer be used for receiving account information.

Target Date: October 2013

Responsibility: Beverly Gooch, Business Manager

5. Control weaknesses were identified over special event parking revenue, including an incomplete ticket log and lack of verification of recorded sales.

The ACC has established adequate controls over special event parking revenue. The department has established a Parking Operations Guide which outlines ticket sales procedures, deposit preparation,

revenue verification, and staffing. The City Auditor's Office noted the procedures contain the following critical control points:

- The Building Operations Superintendent issues sequentially numbered parking tickets to parking attendants
- The parking attendants are required to account for their ticket sales on the "Seller's Record of Ticket Sales" form
- Event Coordinators or the Parking Supervisor (Building Operations Superintendent) escort attendants from the parking hut to the parking office inside the ACC
- Event Coordinators verify that tickets turned in match the ticket numbers recorded on the "Seller's Record of Ticket Sales"
- Event Coordinators are required to place cash, credit card receipts and the completed "Seller's Record of Ticket Sales" in a drop safe
- The next business day, the Business Analyst retrieves the revenue and verifies the cash received as recorded on the "Seller's Record of Ticket Sales", completes a deposit slip and prepares the deposit for armored car pickup.
- The Business Analyst will periodically conduct unannounced audits

In addition to the controls noted in the procedures manual, the City Auditor's Office also noted that the department maintains a log of tickets issued and monitors/reviews parking revenue by event. Although the ACC has implemented reasonable controls over special event parking, the City Auditor's Office noted weaknesses in some of the more critical control points.

- The ticket log details the event, ticket number sequence issued, ticket color and attendant. The ticket log is not updated when tickets are issued and is not updated regularly. A properly completed log documents that management has verified that parking attendants have properly accounted for tickets issued and sold. At the time of audit testing (July 2012), the ticket log had only been updated through April 23, 2012.
- Although the Parking Operations Guide indicates that periodic unannounced audits would be performed, the City Auditor's Office did not find documentation that unannounced audits had occurred. Although it is possible that management periodically performed informal assessments to compare revenue with spaces occupied, any such reviews were not formally documented and available for audit review.
- Although the procedures require that event coordinators verify the "Seller's Record of Ticket Sales" and the form has a "verified by" line for a signature, the City Auditor's Office noted that signature line is often blank. For example, the five "Seller's Record of Ticket Sales" for April 6 and 7, 2012 were only signed by the parking attendant, not an Event Coordinator or member of management. According to ACC staff, the event coordinator verification is not performed if special events are held on days/times when no events are scheduled at the ACC.
- Only one armored car pickup is scheduled per week. Due to the large amount of cash collected for parking, more frequent armored car pickup may be warranted. ACC staff noted that they intend to schedule an additional weekly pickup in the future. However, ACC staff noted that the cost of additional pickup may be prohibitive.

Through analytical review of parking revenue, ACC management is able to obtain reasonable assurance that parking revenue is not materially understated. During the three-month period April to

June 2012, approximately 16,528 parking spaces were sold during 38 special events, an average of 435 spaces per event. Because additional parking capacity is usually available, the lack of controls does result in a small risk that theft or irregularities could occur and go undetected. As the City received more than \$730,000 in FY2012 for special event parking, further strengthening internal controls would help to reduce that risk.

Recommendation:

The Convention Center Director should strengthen internal controls over parking revenue by:

- Requiring the ticket log to be updated regularly
- Requiring that the Building Operations Superintendent or Event Coordinator sign the “Seller’s Record of Ticket Sales” form, verifying recorded ticket sales
- Arranging for more frequent armored car pickups

Management’s Response:

Concur. The ticket log is now updated whenever a parking deposit is made. The Seller’s Record is being signed by an event coordinator or the business analyst, depending on whether there is an event concurrent with special event parking. The scheduled day for armored car pick up has been changed to minimize the time cash is held on site.

Target Date: February 2013

Responsibility: Lee Howell, Business Analyst

6. The ACC does not receive audio visual commission payments in a timely manner.

The City has an agreement with J&S Audio Visual, Inc. (J&S) to serve as the preferred provider of all audio/visual and rigging services for the ACC. The agreement gives the contractor exclusive rights for operating and monitoring all house sound and lighting systems. The agreement is a concession-based agreement whereby the contractor pays the City a specified percentage of gross revenue for audio/visual (40%) and rigging (20%) services provided to ACC clients. The City received \$103K in commission revenue under the agreement in FY2011 and \$118K in FY2012.

The Financial Provisions section of the agreement states “the Contractor shall submit an accounting of operations during the previous calendar month to the Center on or before the 20th of each month, during the term of the formal Agreement. Along with such accounting, the Contractor shall pay to the Center the applicable percentages of gross receipts from its operations for the previous calendar month.”

While the City Auditor’s Office noted that commission payments were calculated correctly in accordance with the audio/visual agreement, payments were not received from J&S Audio Visual by the 20th of each month. For example, the payment for events held in April 2012 was received and recorded as deposited in the Lawson financial system on August 7, 2012, as indicated in the following table.

FY2012 Audio/Visual Commission Payments			
Month	Year	Commission	Date Deposited
August	2011	\$ 977.34	11/29/2011
September	2011	8,558.80	12/6/2011
October	2011	12,976.91	1/24/2012
November	2011	10,917.46	2/2/2012
December	2011	3,058.38	2/13/2012
January	2012	7,448.34	3/26/2012
February	2012	3,907.65	4/13/2012
March	2012	2,547.58	7/10/2012
April	2012	<u>30,759.68</u>	8/7/2012
Total		\$ 81,152.14	

Source: Lawson Financial System

According to the ACC, the City has been receiving the reports of operations in a timely manner – only receipt of the actual payment has been delayed. ACC staff noted that attempts have been made to require the contractor to submit payments in a timelier manner. Delayed submittal of payment results in less interest earned by the City and increases the possibility that payment is never received.

Recommendation:

The Convention Center Director should ensure that the audio/visual contractor complies with the contract by submitting required commission payments by the 20th of each month.

Management's Response:

Concur. ACC was aware of the problem when it occurred and has put steps in place to ensure contractor payments are received in a timely manner.

Target Date: October 2012

Responsibility: Lee Howell, Business Analyst