

OFFICE OF THE CITY AUDITOR

PERFORMANCE AUDIT OF EVENT REVENUE PROCESSING BY THE DALLAS CONVENTION CENTER



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April 23, 2004

Memorandum



CITY OF DALLAS

April 23, 2004

Honorable Mayor and Members of the City Council
City of Dallas

We have conducted an audit of Event Revenue Processing by the Dallas Convention Center (DCC) for the period October 1, 2001 through September 30, 2003. This audit was conducted under the authority of Chapter IX, Section 2 of the Dallas Charter and in accordance with the annual Audit Plan approved by the City Council.

We conclude that the DCC invoices events at approved rates and compiles transaction detail sufficient to account for revenue, receivables, discounts, and uncollectible amounts. However, there are areas in event processing, document handling, and internal controls that can be improved.

Related Opportunities for Improvement and recommendations are presented in this report.

We appreciate the cooperation of City staff during our audit.

Thomas M. Taylor

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City Auditor

c: Teodoro J. Benavides, City Manager

“Dallas, the City that works: diverse, vibrant, and progressive.”

Performance Audit of Event Revenue Processing by the Dallas Convention Center

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INTRODUCTION

Authorization

We have conducted a performance audit of Event Revenue Processing Administration by the Dallas Convention Center (DCC), a division of the Department of Event Services. We conducted this audit under the authority of Chapter IX, Section 2 of the Dallas City Charter and in accordance with the Annual Audit Plan approved by the City Council.

Scope and Methodology

We performed our audit in accordance with generally accepted government auditing standards and included tests of the accounting records and other audit procedures that we considered necessary in the circumstances. This audit was limited to convention center event customer related processes as provided through the DCC.

The objectives of our audit were to determine whether:

- The DCC invoices event customers at approved rates and that the City has reasonable assurance of its ability to collect.
- Event transaction details fully account for all revenue, receivables, discounts, and uncollectible amounts.
- Appropriate action is taken on unpaid balances in a timely manner.
- DCC complies with City directives related to the revenue cycle.

Our audit covered events scheduled/held October 1, 2001, through September 2003, although we examined certain events and transactions occurring before and after that period.

To develop an understanding of relevant control structure policies and procedures, we reviewed the financial records, applicable laws, ordinances, and contracts.

Additionally, we interviewed the management and staff of DCC concerning internal controls. We examined departmental reports, compared data of various reports, observed operating procedures, and analyzed historic results.

Overall Conclusion

As a result of our inquiries and analysis, we conclude that:

- The DCC invoices events at approved rates and compiles transaction detail sufficient to account for revenue, receivables, discounts, and uncollectible amounts.
- The event invoicing process needs to be improved.
- The DCC does not follow procedures to provide reasonable assurance of its

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ability to collect amounts due.

- Duties of the accountant need to be segregated.
- Procedures related to the event processing cycle and required documentation and processes need to be developed and implemented.
- Current software is not being utilized.

Related Opportunities for Improvement are presented in this report.

Background

The DCC is a multi-purpose facility with the primary priority of promoting events and activities that generate economic benefits to the City of Dallas. The DCC schedules its facilities for conventions, exhibits, meetings, special events, banquets, entertainment venues, and other activities.

Events scheduled over two years in advance are made through the Convention and Visitor's Bureau. The DCC usually schedules events that are made less than two years in advance. The DCC works with potential lessees to finalize event dates and contract requirements (i.e., insurance, deposit) after commitments are confirmed.

Several weeks prior to a scheduled event, the DCC assigns an Event Coordinator from the Event Coordination Section to ensure that all event requirements are satisfied. The Event Coordinator acts as the liaison between the DCC and the lessee for the entire event duration. The Coordinator prepares a worksheet that notes the services provided to the lessee and the amounts charged. The Coordinator forwards this worksheet to the Accountant for use in preparing the invoice. The Convention Services Section sends cost data to the Accountant for additional utilities provided to the lessee during the event.

The lessee may sublet space to vendors for various displays. These vendors are responsible for utilities specific to their areas (displays) and are required to pay in advance for these services. These services are usually procured through credit cards verified by the DCC at time of purchase.

The City leases approximately 12,000 square feet of office, theater, exhibit, and restaurant space to The Black Academy of Arts and Letters, Inc. (TBAAL) for \$58,000 annually. In addition, TBAAL is annually authorized to schedule up to 175 performance days in the theatre at \$390 a day. TBAAL can sublet the theater during these dates and retain amounts in excess of the daily charge. The City is responsible for maintenance as well as the cost of all heating/air conditioning, electric, gas, sewer, water, and waste disposal.

OPPORTUNITIES FOR IMPROVEMENT

We identified certain policies, procedures, and practices that can be improved. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the opportunities for improvement presented in this report may not be comprehensive of the areas where improvements may be needed.

1. Invoice preparation and distribution need improvement.

In our review of 41 randomly selected events, we observed 6 instances (15%) where the issuance of the final invoice exceeded 30 days past the event closure:

Event Close Date	Invoice Date	No. of Days
6/14/03	8/05/03	52
5/27/03	6/30/03	34
2/22/03	4/04/03	41
2/11/03	4/04/03	52
4/07/02	6/06/02	60
1/11/02	3/08/02	56

We contacted Houston and San Antonio to ascertain their practices for invoicing. San Antonio attempts to mail a final invoice within 5 days of event finish. Houston's policy requires that cost reports be submitted to accounting within 14 days of event closure. Currently, Houston's submittal time has been 4.5 days, enabling invoices to be mailed sooner.

Invoices should be prepared and issued promptly to expedite receipt of funds. DCC has not established goals or performance measures related to invoice preparation and issuance. Funds that could be earning interest or used for budgetary expenditures are not being collected in a timely manner. Delays increase the opportunities for misplacing or misfiling invoices.

We recommend that the Director of Event Services ensure that:

- Performance measures are developed for invoice preparation and issuance that are comparable to industry standards.
- Operations are periodically reviewed to evaluate whether actual performance meets the goals and objectives. These reviews should be conducted no less often than every six months.

Management's Response:

We concur. Event Coordinators currently are required to prepare event worksheets within five (5) days after the closing of a show as stipulated in their performance plans.

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The worksheets are then utilized by the accountant to create an invoice. As an added improvement to the process, performance measures will be put into place to ensure that the accountant creates and issues an invoice within two working days after receipt of the worksheet from the Event Coordinator. Reviews of the invoice preparation and distribution process will be reviewed quarterly to ensure timeliness.

2. Delinquent accounts are not pursued in accordance with Administrative Directive (AD) 4-10.

DCC does not send demand letters within two business days following payment due dates, and delinquent accounts are not sent to the City Attorney's Office as required by AD 4-10. Ten percent of the forty-one randomly selected files reviewed did not contain any documentation that shows an attempt was made for a second demand for payment.

AD 4-10 states that:

- Departments shall establish and follow detailed procedures for collecting delinquent accounts.
- Detailed records of collection efforts shall be maintained.
- A demand letter must be sent no later than two business days following the payment due date.
- If the account remains unpaid 30 days following the payment due date, the department must immediately draft and transmit a demand letter to the City Attorney's Office for signature.

The DCC does not have or follow written procedures for collecting delinquent accounts that comply with AD 4-10. Revenue may be lost due to a risk that accounts may be lost or aged beyond a reasonable collection period.

We recommend that the Director of Event Services ensure that procedures are established and implemented to pursue delinquent accounts. Procedures should comply with AD 4-10.

Management's Response:

We concur. While procedures are in place to pursue delinquent accounts that follow AD 4-10, periodic exceptions are made by the Director or Assistant Director to the Administrative Directive that requires that a demand for payment letter be sent from the City Attorney's Office. Exceptions to the demand for payment letter are made depending on the size of the account, direct spending and estimated economic impact of the show to the City, client payment history, if invoices are in dispute by the client and whether future dates are being held that could be jeopardized by sending the demand letter.

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3. Accountant's duties are not adequately segregated.

The DCC accountant is performing duties that conflict with basic internal controls. The DCC accountant receives event cost reports and makes adjustments according to information received from lessees (clients) and DCC personnel. The following cash application and revenue reporting functions are among the accountant's duties:

- Creating invoices and billing lessees for services.
- Opening and recording mailed payment from lessees.
- Depositing lessee payments.
- Discussing, approving, and including client adjustments in invoice billings.

Standard internal control procedures include the separation of basic billing and payment functions along with the separation of duties in the areas of service billings, receiving and recording of cash, and the approval and recording of discounts or adjustments to accounts receivable records. The City's Resource Information Guide, Section 2.3.7 states, "Employees opening mail, receiving or depositing cash/checks should not have access to accounts receivable or cash records. Conversely, those having access to accounts receivable or cash records are not to have access to cash or checks." AD 4-9, on Internal Control, Section 5.3.4, states, "Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions must be separated among individuals to prevent any one person from being in a position both to perpetrate and conceal errors or irregularities in the normal course of duty."

Segregating the cash receiving function from the billing and recording function helps to prevent theft and theft cover-up. Ideally the billing for services, receipt of payment, and the recording of payment should be separated into separate employee responsibilities.

The staff accountant is effective in performing these duties and has initiated some changes that have made the billing cycle more efficient. However, some duties were combined, and management was unaware of the segregation of duties conflicts.

We recommend that the Director of Event Services ensure that duties performed by the staff accountant are properly segregated.

Management Response:

We concur. Due to reductions in force, the billing and payment functions were consolidated. The accountant will continue to create invoices and update the accounts receivables. However, any adjustments to the billing which vary from the Event Coordinator's worksheet will require a signature from the Assistant Director. The Contract Coordinator will receive and log all payments. The Accounts Payable Manager will then deposit and record the deposit in RESOURCE.

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4. Event processing and filing procedures need improvement.

There is not a systematic method to quickly determine event status and whether all documents have been requested and received. We reviewed 41 randomly selected events and the related event documentation to determine whether:

- Documentation was segregated by events (file folder).
- Proper documentation was present for each event.
- Documentation substantiated timely deposits, proper approval, and accurate computation of invoice amounts.

We found that:

A. Some event files were incomplete, and deposits on cancelled events are processed inconsistently.

- One event folder did not have a receipt to acknowledge a \$2,075 lessee payment.
- Four event folders did not have copies of insurance policies.
- Three event folders did not contain event worksheets.
- Two original event folders were misplaced and never found, requiring DCC personnel to create substitute file folders.
- Full deposits for three events were not received within the specified time period (60 days before the event date).

Folders do not have an established criterion for contents or order, and there is not a system for file accountability. Event file folders are stored in unlocked filing drawers in a common unsecured area of the administrative section. One individual is responsible for the folders; however, Event Coordinators can remove the folders without leaving behind notification (i.e., removal card).

B. Procedures for handling deposits on cancelled events are inconsistent and are not documented and approved.

There are no written procedures for event processing, filing procedures, and deposit retention or for document review, approval, and monitoring. Occasionally, events are cancelled after the deposit is made. DCC may:

- Retain the deposit.
- Return the deposit to the Event Coordinator.
- Use the deposit for a re-scheduling of the event.

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We observed a three-day event that was cancelled after the first day (March 26, 2003). The lessee requested a refund from the deposit for the days not used. DCC staff was unsure what to do and did not return the remainder of the deposit or complete a final invoice. The City Council approved facility rates states that a lessee may be subject to forfeiture of deposit when the event is cancelled within twelve months of the event.

According to the Accountant, there have been several occasions where she has not received the final documents from the Event Coordinators; therefore, final processing is delayed. Inconsistent deposit handling could lead to accusations of favoritism and unfair treatment.

We recommend that the Director of Event Services ensure that:

- A. Procedures are established to ensure file folder accountability. Such procedures should address management review of file folders, notification of file folder removal, and file folder contents and order. Management should consider using a check off sheet to quickly determine event status and any outstanding issues that need to be resolved.
- B. Procedures are established to ensure consistent treatment of deposits after event cancellation.

Management's Response:

We concur. Management has assigned an Office Assistant to monitor file folders and restrict access. The files have been relocated from a common area into the Office Assistant's office and remain locked. A file check out system is in place and a tracking sheet will be added to the file folders to denote receipt of deposit, an executed contract, and an insurance certificate. Procedures for a format of file folder contents and order will be developed. The procedures to ensure consistent treatment of deposits for cancelled events are currently under review.

5. Current software is not being utilized.

In 2001, the Convention and Visitor's Bureau purchased management software, ConCentRics (Convention Center Resource Information and Control System), for the DCC facility. The intent of the purchase was to enhance event scheduling and processing. As of December 2003, the software had not been utilized since all areas in which the software could be of some use had not been identified.

Software designed to enhance operations should be tested and employed; if not, software costs may be wasted. The DCC may be missing opportunities for more efficient operations and reduced costs.

According to DCC staff, the training provided by the vendor was inadequate due to a language barrier, and further training was not pursued. However, some DCC staff

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attended additional training in December 2003. An instructor with better communication skills provided the training and should assist DCC staff in implementing the software.

We recommend that the Director of Event Services ensure that software is tested, staff is trained, and software is utilized in all areas of possible benefit.

Management's Response:

We concur. Management is meeting weekly with staff and a Communication and Information Systems manager to implement the Concentrics system. Four employees were sent to the software home office for training in December 2003 and are assisting in training other employees. All events have been entered and the appropriate DCC staff is learning the essential functions of the system. Management expects full utilization by summer of 2004.