

OFFICE OF THE CITY AUDITOR

AUDIT OF INTERNAL CONTROLS IN CONVENTION AND EVENT SERVICES ELECTRICAL DIVISION



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Memorandum



CITY OF DALLAS

September 2, 2005

Honorable Mayor and Members of the City Council
City of Dallas

We conducted a performance audit of the internal controls for Electrical Services, a division of the Convention and Event Services Dallas Convention Center (DCC). 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.

We determined that the DCC needs to improve controls governing electrical use during events. In addition, the DCC needs to facilitate timely reconciliation and verification of revenue by developing procedures related to the recording and accounting of credit card payments.

We appreciate the cooperation of City staff during our audit.

Paul T. Garner

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Assistant City Auditor

c: Mary K. Suhm, City Manager

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INTRODUCTION

Authorization

We conducted a performance audit of the internal controls for Electrical Services, a division of Convention and 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. The audit was limited to the electrical services related processes as provided through Convention and Event Services Dallas Convention Center (DCC).

The objectives of our audit were to determine the adequacy of the internal controls relating to:

- The authorization process for providing electrical lines to users, including the capturing, recording, and billing of all outlet installation; and
- Fee collection, including credit card payments and processing.

Our audit covered events held from October 2003 through December 2004, although we examined certain events and transactions occurring before and after that period.

We developed an understanding of relevant internal control structure policies and procedures through:

- Inquiring of management and staff;
- Reviewing statements of policies and procedures;
- Examining documents prepared during the departmental reviews;
- Observing proceedings during shows/events; and
- Observing inventory done by electrical services staff of the power usage by exhibitors.

Overall Conclusion

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

- **Procedures should be considered to improve the controls for electrical services at the Convention Center.**
 - The DCC does not require from all exhibitors a deposit or credit card number to be used for unordered electrical use or other event services.
 - The DCC does not impose a penalty or surcharge to exhibitors that are discovered using electricity without paying.

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- Inspectors need to improve electrical usage verification procedures such as using updated floor plans to aid in their verification.
- **The credit card payments recording and accounting processes do not facilitate timely reconciliations and verification of revenue.**
 - Reconciliations are not performed timely and may impact the proper accounting and timely receipt of revenue.
 - Reconciliations are not reviewed or approved by management. Without qualified and continuous supervision, the personnel may not ensure that reconciliations are performed properly and that all revenue for services provided is received.
 - The DCC does not record work order numbers or any portion of the credit card number on its Revenue Recap report making it difficult, at reconciliation, to match credit card sales to bank statements and work orders.

Specific issues are discussed in the Opportunities for Improvement section of this report.

Background

The DCC is a multipurpose facility owned and operated by the City of Dallas. DCC hosts a large number of conventions, trade shows, consumer shows, and commercial exhibitions. In addition to national, regional, and local trade shows, DCC leases its facilities for various athletic, cultural, and other events.

DCC Utility Service revenues are derived primarily from providing electrical and plumbing services. These services are provided to show management and event exhibitors exclusively through the DCC Convention Services offices. The manager of Electrical Services is responsible for ensuring installation/ dismantles of all extension cords, cable, and all lighting and light fixtures, electrical devices.

Exhibitors use preprinted forms, tailored for each event, to request these services. Order forms show discount and standard prices for the various services. Convention Services personnel receive and process orders, provide requested services, process received payments, and record revenues.

OPPORTUNITIES FOR IMPROVEMENT

We identified certain policies, practices and procedures that should 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 improvements presented in this report may not be inclusive where improvement may be needed.

1. Conditions exist that impair DCC’s ability to manage utility services.

- The DCC only requires exhibitors that procure utilities to provide a credit card number as a deposit against additional labor and/or services. All other exhibitors do not leave a deposit or credit card number. However, many customers of the event center frequently access utilities without authorization.

We reviewed five events/shows and noted that the verifications conducted prior to the event discovered unauthorized use of electricity. Based on price lists provided by DCC, the estimated value of unauthorized electricity use in these instances ranged from \$1,000 to \$2,000 per event. The following table denotes the five events and the instances of unauthorized use:

| Name of Event/Show | Number of Unauthorized Use | Total number of booths |
|---------------------------------------|----------------------------|------------------------|
| Great American Trucking Company | 10 | 254 |
| Dallas International Motor Cycle Show | 6 | 48 |
| Home & Garden Show | 15 | 80 |
| Dallas Home Show | 18 | 86 |
| South West Dental Association | 19 | 190 |
| Totals | 68 | 658 |

Exhibitors discovered to be using electricity without authorization are required to pay the listed rate for the type of electricity. The DCC does not impose a penalty on exhibitors that are discovered using electricity without paying. A penalty, such as a higher charge for services, may discourage exhibitors from using electricity without authorization. Requiring all exhibitors to leave deposits or credit card slips may also mitigate the risk of unauthorized electrical use by giving DCC an effective means to charge for electricity when unauthorized use is discovered.

- Inspectors do not verify electrical usage during events and do not use an updated floor plan to aid in their verification. To minimize disruptions, the inspections are usually conducted prior to the event and by one electrician. No inspections are performed while the event is occurring. To assist in their inspections, the inspectors use a floor plan that lists the areas where electricity has been procured. We found that these floor plans have not always been current. The inspectors have autonomy in that their verification results are not reported to or approved by a supervisor. Without periodic inspections during the event, the DCC may not discover unauthorized use initiated after the original

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inspection. Without an updated floor plan, inspectors may not discover new additions and deletions of electrical services. Without qualified and continuous supervision, the inspectors may not ensure that verifications are conducted properly and all electricity use is paid.

- Customer electricity orders are not centralized and can be accepted by two different DCC units. The Convention Services (CS) unit receives most of the orders from exhibitors. The Electrical unit receives orders from event organizers and/or associations that are staging the convention. CS receives payments directly from exhibitors and relies on the Electrical unit to forward their orders received from event organizers and/or associations. CS bills the event organizers and/or associations from the orders forwarded by the Electrical unit. The Electrical unit fills all orders. Centralizing electricity orders through CS would strengthen the order process, reduce the document flow, enhance monitoring, and expedite the billing of event organizers and/or associations.

We recommend the Director of Convention and Event Services

- A. Institute measures to have a customer credit card charge slip on file or obtain deposits from all exhibitors for use of electricity. This is a common practice in the hotel industry. Develop procedures to charge a penalty for using unauthorized electricity.
- B. Develop written procedures to ensure that inspections use updated floor plans and occur prior to and during events and that inspection results are reviewed and approved by supervisors
- C. Centralize the processing of customer electricity orders.

Management's Response:

The Convention Services (CS) division is responsible for the entire order processing of electrical service at the Dallas Convention Center (DCC). CS has written standard operating policies and procedures (SOP) that are periodically revised to reflect current operating practices. These SOP's are followed for every type show that is held at DCC.

All customer orders are centralized and are processed by CS. A payment method is noted on each order and is collected in full at the start of the show. Credit card information is noted on the customer invoice and a copy of the payment receipt is attached. Any service that is requested that was not submitted on the pre-order is noted with an "N" to indicate no pre-order. All requested electrical services are documented on a floor plan which then becomes the authorization for the work to be performed by the electrical division. The electrical staff will review the floor plan and call on exhibitors to verify the service order and call on those that have not requested service. If there are any additions, the electrician will note and contact CS to approve an invoice for the requested service.

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The electrical division has SOP's that are followed for each show. Included in the SOP is a section for inspection of the show floor. This procedure reduces the risk of unauthorized electrical usage. The electrician will use the floor plan and audit the inventory of exhibitor booths for compliance. Any exhibitor that is found to be in non-compliance is noted in a log and forwarded to the CS service desk. An "N" invoice is issued and the non-compliance exhibitor is given the option to pay for the electrical service or unplug. Periodically the electrician will re-inspect the exhibitor booth that did pay for the electrical service. This inspection process is completed for each show and all documentation is maintained in CS. The five events listed in the audit report for unauthorized use all have documentation to support that the procedure noted above was followed.

Auditor's Comment:

On January 8, 2005, one of the booths had a power failure during the event. Upon our visit to the booth with the electrician, we noticed that the booth operator used his own cord to draw unauthorized electricity from the pocket thus causing the power failure.

We did not see any evidence of periodic re-inspections by the electricians during the event

2. The credit card payment processing does not facilitate timely reconciliations and verification of revenue.

- We reviewed three events held during 2004 and noted that the reconciliation statements were not performed.

| <i>Event</i> | <i>Date held</i> |
|---------------------------------------|-------------------|
| Great American Trucking Show | September 9, 2004 |
| Dallas International Motor cycle Show | November 19, 2004 |
| Home & Garden Show | October 15, 2004 |

Additionally where reconciliations were performed, they were not reviewed or approved by management.

- The Revenue Recap does not provide sufficient detail for credit card transactions to facilitate reconciliation to the bank statement. Therefore, DCC staff must attempt to match the credit card amount on the Revenue Recap to an amount on the bank statement. This process is tedious and increases the risk of clerical error and causes reconciliation delays. We reported this condition to DCC and on February 1, 2005 they added a column to the Revenue Recap to be used to record the last four digits of the customer credit card.
- Utility services are ordered by and then paid for by customers using credit cards. DCC records these credit card receipts on the Revenue Recap. However DCC

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does not document the work order number on the Revenue Recap to the specific credit card sale. At reconciliation, it is difficult to match credit card sales to work orders and to ensure that all work orders were paid.

Reconciliation is a control mechanism that ensures that all credit card collections are properly accounted for and differences resolved in a timely manner. Without qualified and continuous supervision, the personnel may not ensure that reconciliations are performed properly and that all revenue for services provided is received. Untimely or lack of reconciliations may result in un-recovered revenue.

We recommend the Director of Convention and Event Services establish and implement procedures to:

- Ensure timely reconciliations are performed and approved;
- Redesign the Revenue Recap schedule to include columns for (a) the last four digits of the customer credit cards and (b) the work orders number applicable to each credit card sale.

Management's Response:

As noted in the audit report new credit card reconciliation procedures were initiated in February 1, 2005. The new procedures implemented by the department addressed the internal control opportunities of timely reconciliations. Current reconciliations are periodically review by the supervisor. All invoices are paid in full and copies are filed with the appropriate supporting documentation.

All electrical service that is requested and added to pre-orders is properly documented and included in the revenue recap report. A revenue recap sheet is prepared for each electrical show by CS. The information included in the revenue recap is the name of exhibitor, booth number, credit card information (last 4 digits of credit card number), and a list of electrical services purchased. The back-up that is maintained by CS for the invoiced amount includes the pre-order form, "N" invoice, and any work order tickets.

The Staff Accountant in financial services reviews the revenue recap and utilizes this document in the credit card reconciliation.