

MANATEE COUNTY CLERK OF THE CIRCUIT COURT
INTERNAL AUDIT DEPARTMENT

CONVENTION AND VISITORS DEPARTMENT
CONVENTION & CIVIC CENTER – EVENT ACCOUNTABILITY AUDIT

A U D I T R E P O R T

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A U D I T R E P O R T

The Internal Audit Department conducted an audit of event accountability under the Convention and Visitors Department Event Services Section (referred to thereafter as the Convention & Civic Center) for the audit period March 1, 2007 through May 31, 2008. The audit was performed in accordance with *Generally Accepted Governmental Auditing Standards* issued by the Comptroller General of the United States; and the *Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

BACKGROUND:

The Convention & Civic Center is part of the Convention and Visitors Department which manages the Convention & Civic Center Administration and Event Services section. The Convention & Civic Center Administration is responsible for maintaining, scheduling, and contracting for rental of facilities at the Convention & Civic Center and the Crosley Estate. The Event Services section provides for concession and banquet facilities and services for events held at the Convention & Civic Center or the Crosley Estate. In this section, food services for events are catered by Convention & Civic Center staff lead by Chef Sean Connelly or by outside catering companies. The Convention & Civic Center maintains food, nonfood, alcoholic, and nonalcoholic beverage inventories. The Crosley Estate maintains inventories of alcoholic and nonalcoholic beverages.

PURPOSE/OBJECTIVES:

The main audit purpose/objectives included, but were not limited to, the following:

- To determine whether adequate controls and procedures are in place to ensure effective and efficient event accountability such as proper recording and reporting of revenues, expenses, cash, and inventory.
- To determine whether adequate controls and procedures are in place to safeguard inventory.
- To determine whether controls are implemented and adequate to monitor and report event services costs and profitability.

PURPOSE/OBJECTIVES: Continued

- To evaluate overall event services operational efficiency and effectiveness.
- To determine whether policies and guidelines exist for providing event services, event services discounts and waived charges.
- To determine whether event services accountability and reporting are effective and efficient.
- To verify whether cost accounting controls have been implemented and are adequate to determine event costs such as food and beverage as well as non-food costs per event.
- To verify that revenues and expenses are adequately tracked and reconciled to the County's Integrated Fund Accounting System (referred to thereafter as IFAS).

SCOPE:

The scope of the audit included examining on a test basis evidence supporting the controls implemented by the Convention & Civic Center in managing event services at both the Convention & Civic Center and the Crosley Estate for the fifteen-month period ending May 31, 2008.

METHODOLOGY:

Internal control evaluations were accomplished by flowcharting processes, reviewing key operations of this specified area through discussions with management and staff, observations, and analytical and substantive testing of individual internal controls. Risk analysis was used to establish priorities of audit objectives.

IRREGULARITIES, ABUSE, OR ILLEGAL ACTS:

No indications of irregularities, abuse, or illegal acts were discovered for the period ending May 31, 2008 in audit of the Convention & Civic Center Event Services.

TEST OF COMPLIANCE:

Internal Audit tested compliance with certain laws and regulations, obtained an understanding of internal controls and assessed control risk. Tests performed were limited to the specific areas included in the Purpose/Objective section of this report and appeared to provide sufficient evidence to support an opinion on compliance and internal controls for the areas tested. Except as noted in our audit report, tested items were in compliance with resolutions and other policies established by the Convention & Civic Center Event Services section.

STATEMENT ON INTERNAL CONTROL STRUCTURE:

In planning and performing the audit of the Convention & Civic Center Event Services section for the fifteen months ended May 31, 2008, the internal control structure was considered in order to determine the auditing procedures for the purpose of this report. As a result, we noted in the audit report matters involving the internal control structure and its operations that are considered reportable conditions under standards established by the U.S. General Accountability Office, *Government Auditing Standards*. Reportable conditions involve matters relating to deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize and report on data consistent with management's intentions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions, as defined above. In addition, due to the inherent limitations in any internal control structure, deficiencies in the design or operation of the internal control structure may exist and not be detected. We believe the conditions identified in our audit report may constitute reportable conditions as previously defined.

MANAGEMENT TEAM AND MANAGEMENT ACTION PLAN:

A Management Action Plan will be given for each Area for Improvement. Management Action Plans are corrective actions with implementation dates developed in cooperation with the Convention and Visitors Department's management team and the Internal Audit Department. The management team included Larry White, Convention and Visitors Department Director and Elliott Falcione, CVB Administrator.

MANAGEMENT SUMMARY:

The Convention & Civic Center is managed and staffed by dedicated individuals who are enthusiastic and pride themselves on customer service. The Convention & Civic Center, however, continues to lack fiscal accountability relating to inventory, pricing, and reporting. In a previous audit report issued September 12, 2000, Internal Audit identified areas where additional controls were needed to give Management the ability to ensure event purchases are reasonable, inventory used is being charged to an event, the possibility of theft is minimized and inventory waste is controlled. At a time when the Convention & Civic Center is requesting additional funding from the Tourist Development Council, implementing such controls would give management the ability to measure profitability goals, and reexamine those areas not meeting management's expectations. The audit continues to identify similar areas where improvements can be made. These improvements and Management Action Plans include:

- Expenditures are neither captured nor tracked separately by individual events. Currently, limited documentation of alcohol usage, food purchases, and labor is available by event but not carried forward to the event folders to allow for the compilation of costs. By capturing, compiling, and reporting the available information for individual events, Management will

MANAGEMENT SUMMARY: Continued

have the necessary support for their pricing resolution and can determine whether events are meeting the desired profit margins. Management through its Management Action Plan is in the process of periodically capturing all costs on selected events to support their pricing resolution and amounts charged to nonconforming contracts. **(See Area for Improvement #1 at page 6.)**

- The Manatee County Convention & Civic Center performs a physical inventory each calendar quarter of alcohol, food, non-food, and beverages using Accubar, the Convention & Civic Center's inventory software program. This information is used to calculate the cost of sales which is determined by computing the difference between beginning and ending inventory and adding the purchases made during that quarter. The Convention & Civic Center does not relieve inventory for individual events usage. As a result, Management is unable to know what portion of the cost of sales amount is due to spoilage, unintentional errors, or theft. Management through its Management Action Plan will begin tracking the consumption of alcohol sales by event and deduct that from alcohol inventory. The balance will be compared to the physical count and discrepancies can be investigated for possible theft or errors. Upon successful implementation of this process, the Convention & Civic Center will consider expanding the process to other inventories.

The quarterly physical inventory counts do not include free items given to the Convention & Civic Center by food distributors, left-over food, and alcohol paid for by customers for private events that were not consumed during the events. These items are used during "CHEF SEAN'S CAFE" luncheons held at the Convention & Civic Center and special events at the Crosley Estate. Recording these items in the inventory system would reduce the unit cost of inventory items, increasing profitability for events that use the items. In addition, failure to account for these "free" items increases the risk of theft and conceals the true cost of the "CHEF SEAN'S CAFE" events. Management through its Management Action Plan will include all food and alcohol items in inventory regardless of price.

(See Area for Improvement #2 at page 7.)

- The Convention & Civic Center produces three internal reports: the Monthly Utilization Report, the Quarterly Inventory Report, and the Food & Beverage Quarterly Report. These reports provide Management with information relating to the Convention & Civic Center's utilization, the amount of inventory on hand, revenues generated by events, and the percentage of cost of sales. Internal Audit found that revenues included in the Monthly Utilization Report were not always accurate and events did not always agree to the Events Calendar. The Quarterly Inventory Report was found to have missing prices of food & beverage items. The Food & Beverage Quarterly Report does not produce complete and accurate information on which to base management decisions for pricing, inventory usage, labor usage and other direct costs of individual events. Inaccurate information was being used to compile this report and direct labor was not considered as part of cost of sales. The Management Team through its Management Action Plan will begin to include all events in the Monthly Utilization Report and record revenue figures from IFAS. In addition, all inventories will be recorded at the appropriate cost and included in the Quarterly Inventory Report. Furthermore, IFAS will be used to obtain the necessary information included in the Food & Beverage Quarterly Report and Management will consider adding labor and other

MANAGEMENT SUMMARY: Continued

direct expenses not currently captured in the report or include a footnote that explicitly states that labor is not included in their cost of sales calculation.

(See Area for Improvement #3 at page 8-9.)

The findings listed in this report were discussed with Larry White, Convention and Visitors Department Director. Other minor findings noted during the audit were discussed and/or corrected during the audit, and were not included in this report. We would like to thank the Event Services Section management and staff for the cooperation and courtesy afforded to our auditors throughout the audit. We appreciate the efforts and timeliness in addressing the issues raised during the audit and aggressively seeking solutions to these matters. We look forward to the continued effort on monitoring controls and maintaining accountability over all of their operations.

AUDIT REPORT AUTHORIZATION:

This audit report has been reviewed and authorized by:

Millie Diaz-Blevins, CPA
Director of Internal Audit

R. B. "Chips" Shore
Clerk of the Circuit Court & Comptroller

AREA FOR IMPROVEMENT #1.....
EVENT ACCOUNTABILITY

The Convention & Civic Center contracts with customers to host and/or promote a wide range of events at both the Convention & Civic Center and the Crosley Estate. Revenues from events are compiled and recorded in the Monthly Utilization Report produced internally for Convention & Civic Center management. The related expenditures necessary to provide for the individual events are neither captured nor tracked separately by event. Without accountability of expenditures by event, management does not know whether prices charged exceed the cost of producing the events. The Convention & Civic Center management instead relies on subjective information for determining their pricing resolution and for event price negotiations with customers on nonconforming events. Nonconforming events are events where pricing has been negotiated outside of the Board approved Resolution. Pricing of services are based on personal evaluations and experience of management. While management's experience and their ability to know their customers' price sensitivities are important, this information is not supplemented by financial data of actual direct costs of similar past events held at the Convention & Civic Center.

Internal Audit has recommended event accountability for the Convention & Civic Center since our audit report issued September 12, 2000. At that time, the focus was on performing periodic inventory counts so that the Convention & Civic Center could better ensure that inventory quantities are controlled, inventory purchases are used and properly charged to an event, inventory waste is accounted for, and the possibility of theft is deterred. In the subsequent follow-up audit memorandum issued February 5, 2002, the Management Action Plan focused on purchasing a software package that would facilitate in controlling the inventory and documenting the costs. While the software has been purchased and installed, it has only been used to perform quarterly physical inventory counts, and not to track inventory costs for the events.

Limited controls have been implemented for liquor inventory by controlling access and manually documenting activity during events, however, this documentation is not carried forward to the event folders. Major food purchases for events are documented on the food invoices but not captured as well. Labor costs are ignored both for event accountability and reporting; however, it appears that this information may be captured through the scheduling files. By capturing, compiling, and reporting the available information on individual events, Management will have the necessary support for their pricing resolution and can determine whether their non-conforming events are meeting the desired profit margins.

Management Action Plan:

Management is in the process of developing a revised "Event Revenue Recap" worksheet to include an "Expenses Recap" section which will list the direct expenses associated with an event. The expenses recap section will be completed for selected events on a pre-determined schedule to begin a process of implementing a total event accountability report. For conforming contracts, this information will be compared to the pricing included in the current rate resolution to ensure desired profit margins are being met. For nonconforming contracts, individual event pricing will be analyzed to determine whether the negotiated contract met the expected rate of return and such information will be used for future negotiations on recurring events. Management anticipates implementation by October 31, 2009.

AREA FOR IMPROVEMENT #2.....
INVENTORY CONTROLS

The Manatee County Convention & Civic Center performs physical inventory counts each calendar quarter of alcohol, food, nonfood, and beverages using Accubar, the Convention & Civic Center's inventory software program. The most recent inventory count is valued and subtracted from the beginning inventory value after adding the purchases made during the quarter. The resulting figure is reported as a cost of sales amount. Since the Convention & Civic Center does not relieve inventory for individual events usage, the resulting cost of sales amount from this calculation is considered by Management to be the total cost of alcohol, food and beverages (excluding non food items) for all of the events held at the Convention & Civic Center during the calendar quarter. This calculation does not enable management to know what portion of the cost of sales amount is due to spoilage, unintentional errors, or theft.

It was also learned during the audit that the quarterly physical inventory counts do not include free items given to the Convention & Civic Center by food distributors, left-over food, and alcohol paid for by customers for private events that were not consumed during the events. These "free" food and alcohol items have been used during "CHEF SEAN'S CAFE" luncheon held at the Convention & Civic Center and special events at the Crosley Estate. These meals are offered at a nominal fee, for County employees and special invitees from the public. If bonus items given to the Convention & Civic Center by distributors and left-over food and alcohol from events were recorded in the inventory system like any other inventory item the per unit cost of inventory items would be reduced, increasing profitability for events that use the items. In addition, failure to account for these "free" items increases the risk of theft and conceals the true cost of the "CHEF SEAN'S CAFE" events.

Management Action Plan

Management understands the importance of better inventory controls but is concerned with the cost of implementing the controls and the practicality of relieving all inventory used. As a result, Management will begin with alcohol sales and use the information currently produced during alcohol related events that show consumption, and deduct that from alcohol inventory. By doing this, Management will have a balance of what alcohol inventory should be and compare that number to the physical count. Discrepancies can now be investigated for possible theft or errors. Upon the successful implementation of alcohol inventory, Management will consider expanding these procedures to eventually include concession and food inventory. Management anticipates implementation by May 31, 2010.

Management has agreed to include all food and alcohol items in inventory regardless of price. Management anticipates implementation by October 31, 2009.

AREA FOR IMPROVEMENT #3.....
FINANCIAL REPORTING

The Convention & Civic Center produces three internal reports: the Monthly Utilization Report, the Quarterly Inventory Report, and the Food & Beverage Quarterly Report. These reports provide Management with information relating to the Convention & Civic Center's utilization, the amount of inventory on hand, revenues generated by events, and the percentage of cost of sales. Review of these reports found the following areas where improvement can be made and Management's plan for resolution to these deficiencies:

1. The Monthly Utilization Report lists individual events and their revenues. Information is compiled from Convention & Civic Center invoices to customers and bank cash receipts generated by the event. Auditors noted that revenues included in this report were not always accurate. By reconciling the revenue figures to IFAS, the Convention & Civic Center can ensure the accuracy in the information being reported. In addition, events included in the Utilization Report did not always agree to the Events Calendar. The Convention & Civic Center allows certain events at no cost. Management included only revenue producing events when compiling the Utilization Report. By including all events, Management will be able to determine total usage of the Convention & Civic Center's facilities and be able to make business decisions as to whether to continue, limit, or discontinue non-revenue events.

Management Action Plan

Management will begin to include all events in the Monthly Utilization Report. In addition, Management is in the process of implementing a change in the way the Utilization Report is being compiled to include all revenues related to an event (event billable revenues) and all other non-billable revenues (concession sales, alcohol sales, parking, adjustments, catering commission and other miscellaneous revenues). Furthermore, the name of the report is being revised to "Event Revenue/Utilization Report." This report will include total billable revenues and total revenues for the month which will be reconciled with IFAS. Management anticipates implementation by June 30, 2009.

2. The Quarterly Inventory Report lists prices and quantity on-hand of food, non-food, alcohol and non alcoholic beverages. Information is compiled from the quarterly physical inventory counts using Accubar inventory summaries. Detailed testing found that some prices of food & beverage items were missing and therefore those quantities were not included in the total cost of inventory. In addition, free items obtained from vendors, as well as left-over items purchased during an event and not opened, were not put back into inventory at a zero cost. (See Area for Improvement #2 for more details.) By not including all items in inventory at their appropriate cost, the risk of loss increases since there is no record of that inventory existing.

Management Action Plan

Management will begin to record all inventories at the appropriate cost and include these items in the Quarterly Inventory Report. The report will be analytically reviewed for reasonableness to ensure that all items have a price, whether or not that price is a zero value. Management anticipates implementation by August 30, 2009.

AREA FOR IMPROVEMENT #3.....Continued
FINANCIAL REPORTING

- 3) The Food & Beverage Quarterly Report calculates the cost (percent) of sales for food, non-alcoholic beverages, and alcoholic beverages. Information is compiled from the Monthly Utilization Report for revenues, the Quarterly Inventory Report for beginning and ending inventory, and accumulated invoices of inventory purchases for the quarter. Auditors found that as a result of the inconsistencies noted in the Monthly Utilization Report and the Quarterly Inventory Report, inaccurate information is carried forward to the Food & Beverage Quarterly Report. In addition, accumulated invoices used are not reconciled to IFAS, to ensure its accuracy. As noted earlier, while revenues from the events are captured, direct labor costs are not taken into consideration. As a result, this internally used report does not produce complete and accurate information on which to base management decisions for pricing, inventory usage, labor usage and other direct costs of individual events. Without adequate financial accountability and reporting, management decisions are subjective and could lead to financial losses for individual events through underestimation of expenses. (See Area for Improvement #1 for more details.)

Management Action Plan

Management will begin using IFAS to obtain the necessary information included in the report. In addition, Management will consider adding labor and other direct expenses not currently captured in the report or include a footnote that explicitly states that labor is not included in their cost of sales calculation. Implementation is anticipated by June 30, 2009.



Manatee County

R.B. "Chips" Shore

Clerk of the Circuit Court and Comptroller

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MEMORANDUM

TO: Larry White, Director of Convention and Visitors Department

FROM: R. B. "Chips" Shore, Clerk of the Circuit Court, County Comptroller and Auditor

DATE: July 3, 2009

RE: Convention & Civic Center - Event Accountability

Enclosed is the Internal Audit Report for the Convention & Civic Center – Event Services Accountability as of May 31, 2008. I wish to thank you and your staff for your courteous and professional cooperation with our Internal Auditors throughout the audit. If you have any further questions regarding this report, please feel free to contact Millie Blevins at 749-4017.

RBS/MDB/BJM

Enclosures

"Pride in Service with a Vision to the Future"

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