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Concession Revenue Audit

September 4, 2015



**City of Fort Worth
Department of Internal Audit**

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Fort Worth, Texas 76102

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The Concession Revenue Audit was conducted as part of the Department of Internal Audit's Fiscal Year 2015 Annual Audit Plan.

Audit Objectives

The objectives of this audit were to:

- identify sources of City concession revenue;
- determine compliance with contract terms; and,
- determine whether management oversight of concession revenue is efficient and effective.

Audit Scope

Our audit included a review for the period October 1, 2012 to September 30, 2014.

Opportunities for Improvement

- Improve monitoring of vendor contracts and revenue received
 - Include specific terms for subcontractor revenue in future contracts
- Require all departments to use the beverage and snack vending contracts
- Move responsibility for managing the beverage and snack vending contracts to the Property Management Department
- Add late fee terms to Will Rogers Memorial Center catering contracts

Executive Summary

As a part of our FY2015 Annual Audit Plan, the Department of Internal Audit conducted a concession revenue audit that covered FY2013 and FY2014. Our audit results indicate that concession vendors generally complied with contract terms. However, control weaknesses were identified within contract monitoring.

Based on our audit, vendor operations had continued after contract expiration. The most recent Coburn's Catering Services, Inc. (Coburn's) catering contract expired in FY2012, and the most recent snack vending contract expired in June 2014. Although both contracts expired and had not been renewed, operations continued for related services provided to the City.

We also concluded that internal controls for monitoring concession stand and catering contract revenues were not sufficient to ensure that contract terms were followed and all revenue was received. Opportunities for increasing concession contract revenue were, therefore, noted.

The majority of concession revenue is received from services provided through the Fort Worth Convention Center and the Will Rogers Memorial Center (WRMC).

- The Fort Worth Convention Center has an exclusive catering and concession stand contract with Trinity Food & Beverage (Trinity), a division of Omni Hotels. The contract with Trinity does not include a higher commission percentage for net subcontractor revenues, which is a standard practice for concession contracts. As a result, Trinity pays the City a lower percentage of subcontractor revenues than would be received if specific subcontractor terms had been included.
- The WRMC has an exclusive contract for concession stand services with Coburn's. There is not an exclusive catering services contract for the WRMC. Instead, each catering vendor at WRMC is required to sign a standard catering contract. The standard catering services contract used does not include penalties for late payments.

The Department of Internal Audit concluded that because City departments other than Public Events have separate vending agreements that were not approved by the Council, the City does not receive all potential revenues from beverage and snack vending contracts. In most cases, revenues from departmental vending contracts are not deposited or recorded in City accounts.

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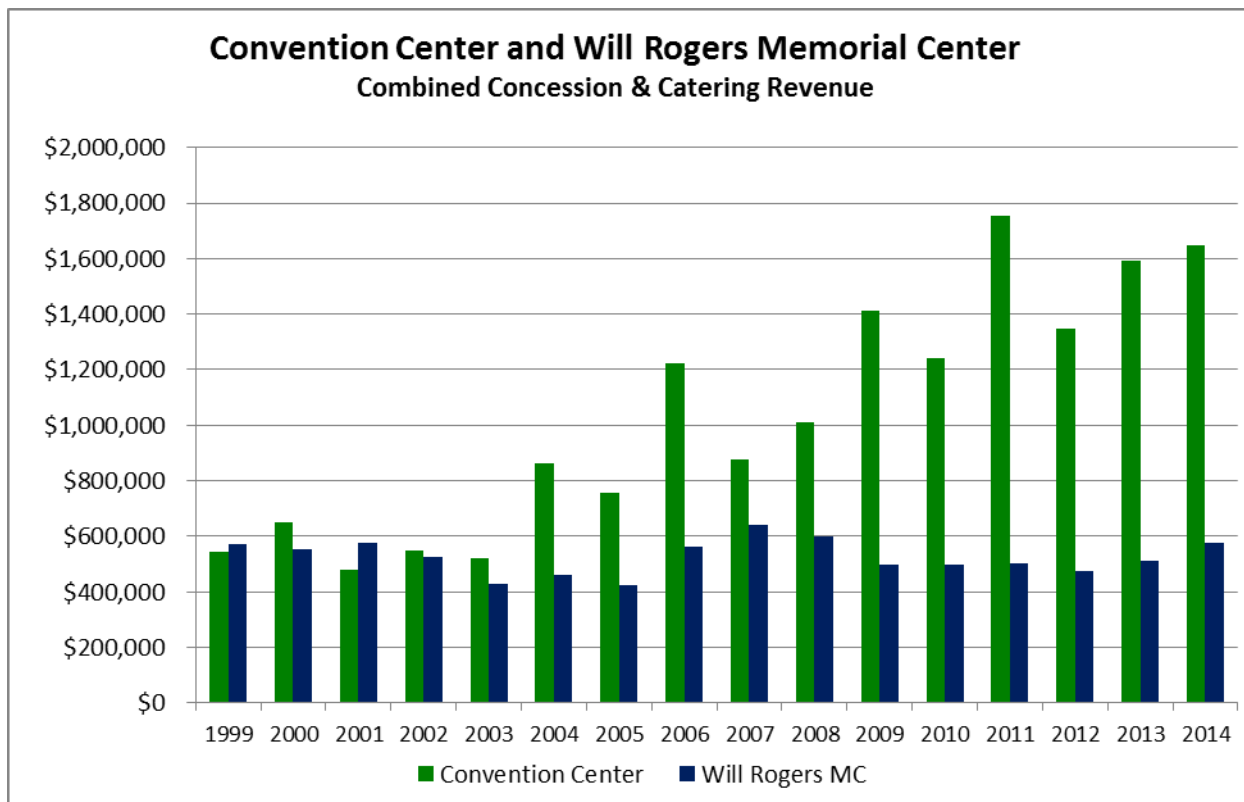


Background

Concession Revenue Sources

The City receives concession revenue from vendors that contract to provide services at City facilities. The services include concession stands, catering services, vending machines and other categories. These services include relatively large revenue sources such as the catering and concession stand contracts for the Convention Center and the Will Rogers Memorial Center (WRMC).

The Convention Center and the WRMC make up 94% of concession revenue. Sources of concession revenue also include the beverage and snack vending machine contracts that include all City facilities, as well as smaller sources of concession revenue that were considered outside the scope of this audit.



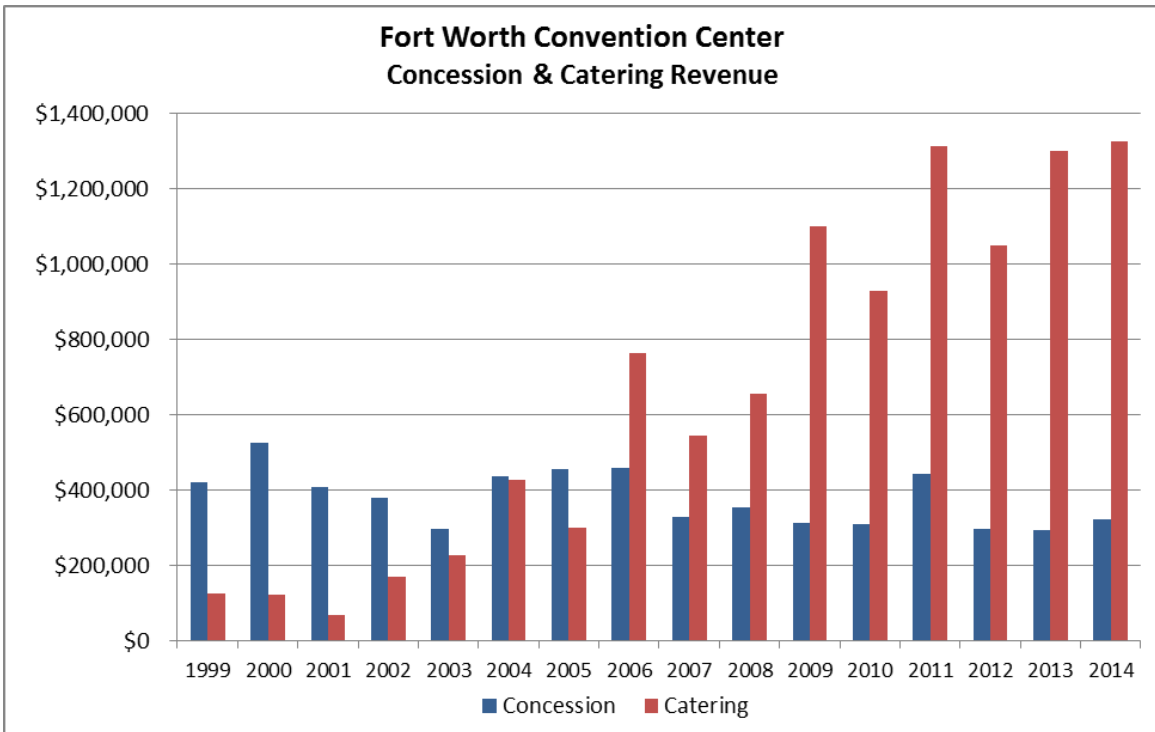
Source: General ledger account balances



Convention Center

The City signed an exclusive ten-year catering and concession stand contract for the Convention Center with the Omni Hotels Management Corporation in April 2005. The concession stand contract was to begin after completion of the hotel in 2009 and with a term ending in July 2019. The contractor operates under the name Trinity Food & Beverage (Trinity).

Catering revenues for the Convention Center have increased significantly since FY2004, after a facility renovation, with catering revenue exceeding concession stand revenue. Concession stand and catering revenues for FY2014 were \$321,300 and \$1,326,966, respectively.



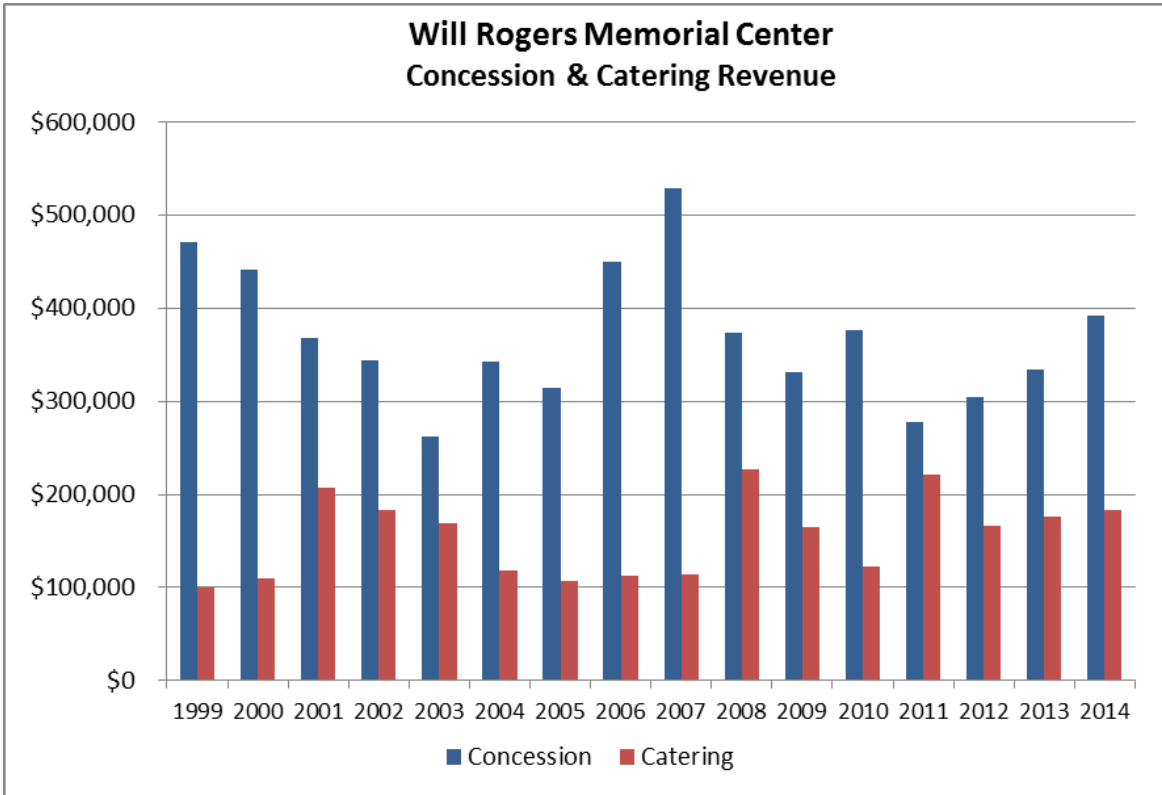
Source: General ledger account balances



Will Rogers Memorial Center

The City signed an exclusive concessions stand contract for the WRMC with Coburn’s Catering Service, Inc. (Coburn’s) in February 2012. The contract has a term ending in January 2017 and five additional one-year terms permitted. There is not an exclusive catering contract vendor at the WRMC.

Revenues have remained relatively flat since 1999, with modest increases for both catering and concession stand revenues in the last three years. Variations in revenue occur due to changes in the number and mix of events, along with other factors. Concession stand and catering revenues for FY2014 were \$392,624 and \$182,526, respectively.



Source: General ledger account balances

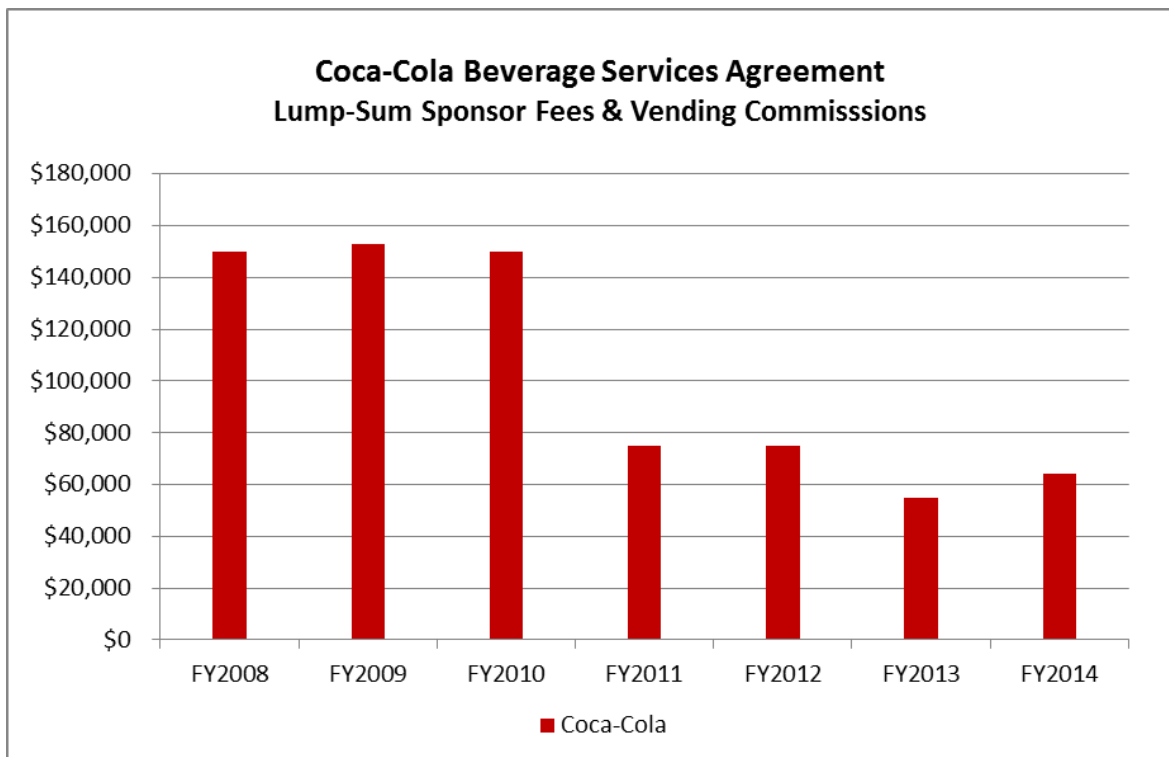


Beverage Vending Contract

The City has a beverage services agreement with Coca-Cola Enterprises Inc. (Coca-Cola) that includes an exclusive right to sell beverages at most City facilities, along with marketing and merchandising rights. The agreement includes the right to install beverage vending machines at specific City facilities along with other provisions pertaining to fountain drinks and marketing. The ten-year term of the agreement expires in January 2018.

The contract includes fixed, decreasing annual sponsorship payments to the City totaling \$850,000 over the life of the agreement, along with a percentage of vending machine revenue beginning in the sixth year of the contract (FY2013).

Another contract requires payment of 12% of the amount received to The Active Network for negotiating the Coca-Cola agreement. The fixed and commission percentage revenue received from Coca-Cola in FY2014 totaled \$64,233.



Source: General ledger account transactions

Snack Vending Contract

The vending agreement with Supreme Distributing, LLC (Supreme) expired in June 2014. The expired contract included the right to install snack machines at City facilities in return for 25% of the gross receipts received net of taxes. Snack vending revenue from Supreme for FY2014 totaled \$6,738.



Objectives

The objectives of this audit were to:

- identify sources of City concession revenue;
- determine compliance with contract terms; and,
- determine whether management oversight of concession revenue is efficient and effective.

Scope

The scope of the concession revenue audit was from October 1, 2012 to September 30, 2014 (FY2013 to FY2014).

Methodology

To achieve the audit objectives, the Department of Internal Audit performed the following:

- identified concession revenue sources throughout the city;
- conducted concession revenue surveys;
- reviewed concessionaires and catering contracts;
- performed analytical procedures to determine trends of concession revenue;
- conducted interviews with applicable staff and third-party vendors;
- reviewed internal control procedures maintained by third-party vendors; and
- conducted tests of judgmental samples of concession revenue sales.

We conducted this audit in accordance with generally accepted government auditing standards, except for peer review¹. 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.

¹ Government auditing standards require audit organizations to undergo an external peer review every three years. A peer review is planned in 2017 for the three-year period ending December 31, 2016.



Audit Results

As noted in the Executive Summary of this report, contract vendors generally complied with contract terms. However, internal controls over contractor payments were not sufficient to ensure that all revenues were received for all events and from all revenue sources.

- Vendor contracts for catering and snack vending expired without a replacement or renewal contract in place. However, the vendors continued to provide services and pay commissions, with one payment lower than that specified within the contract.
- Managerial review of vendor reports and cash controls was not sufficient to ensure that all revenues were received.
- Although the Convention Center contract requires late fees, the City’s standard catering contract used for the WRMC does not require late fees for payments not made by the due date. Inconsistencies were also noted between the two major concession contracts (Convention Center and WRMC vendors) where subcontractor concession stand vendors are utilized to augment operations. The WRMC contract specifies that the City should receive 50% of the net receipts from subcontractors. The Convention Center contract does not specify a different compensation percentage or basis for subcontractors. As a result, the City receives only 36% of the *net* receipts for subcontractors, although the contract specifies 36% of *gross* receipts. Other local government concession contracts reviewed include a separate commission rate for subcontractors.
- Also, City departments (other than Public Events) have entered into beverage and snack vending arrangements with vendors that result in funds not being recorded or deposited in City accounts. The funds received are deposited in non-City bank accounts and used for unbudgeted purposes.

Overall Evaluation

High	Medium	Low
Non-renewal of expired vendor contracts		
Unauthorized vending machines		
Inconsistent subcontractor commission rates		
Monitoring of contractor revenues and controls		
Catering contract without late payment provisions.		



Detailed Audit Findings

1. Catering and snack vending services were provided based on expired contracts.

Contracts are critical for specifying the terms and conditions of agreements and for providing recourse if a vendor does not perform as required. Revenue generating services require contracts to specify the terms of service and specify the revenue sharing arrangements.

- The most recent Coburn's contract for catering services at the WRMC expired in FY2012.
- The snack vending contract with Supreme expired in June 2014.

The two vendors have continued to provide services specified within the expired contracts. Coburn's has continued to make payments based on the contracted rate. However, after expiration of the snack vending machine contract, Supreme lowered the commission rate from the contracted rate of 25% of gross sales to 20% of gross sales, resulting in a quarterly payment \$498 lower than the contracted commission rate, reportedly due to a computer system change. After notification during the audit, the vendor agreed to return to the 25% rate. Without an effective contract, the City's recourse may be limited when non-performance occurs and/or the amounts received are lower than initially contracted amounts.

Catering vendors at the WRMC must sign a new catering contract every year.

Recommendation 1A:

The Director of Public Events, in conjunction with the City Attorney's Office, should ensure that expired contracts are renegotiated or that services are advertised to prospective bidders.

Auditee's Response: Concur. The WRMC has an exclusive contract for concessions and alcohol services with Coburn's. The Coburn's contract for concessions and alcohol has always been valid. Coburn's, along with many other caterers, occasionally provide catering services to events. The one expired contract was a catering agreement with Coburn's. This occurred when the Associate that managed the Coburn's catering agreement retired and it did not get turned over to the new Associate. During the time, Coburn's continued to provide catering services under the terms and conditions of the contract. Once it was discovered that the agreement had expired, it was corrected.

Staff recommends that the Will Rogers Memorial Center engage one firm to handle all concessions, alcohol and catering, using the same model as the Fort Worth Convention Center. This model will deliver a consistent guest food and beverage experience, provide for consistent revenues and will keep staff from having to try to collect commissions from various food providers that sometimes choose to not pay the City. It will also reduce the amount of contract management that is required for caterers at the WRMC.

Target Implementation Date: Catering Agreement executed on June 9, 2015

Responsibility: Completed

Recommendation 1B:

The Director of Public Events should (until the snack vending contract is rebid or renegotiated) request that the vendor continue to pay the commission percentage stated within the expired contract.

Auditee's Response: Concur. The snack vending contractor has corrected the commission percentage and paid the difference that occurred when the contractor changed their systems. The snack vending



contract for all of the various City facilities will be transferred to the responsibility of the Property Management department.

Target Implementation Date: Not Applicable

Responsibility: Completed

Recommendation 1C:

The Director of Public Events should require the establishment and maintenance of a calendar that includes all public events-related contracts, along with expiration dates and established timelines by which contract renewals, extensions, etc. should be executed.

Auditee's Response: Concur. Traces will be added to [the] existing software system to track expiration of contract periods including lead time for renewals and council action. Staff is also working on establishing a master list that will be maintained on the shared drive.

Target Implementation Date: December 31, 2015

Responsibility: Vicki Mitchell at FWCC and Belinda Norris at WRMC for Multi-year agreements such as concessions and technology and electrical providers, etc.

Allison McNamara at FWCC and Lakeesha Dodson at WRMC for the annual purchasing agreements such as temporary labor, water treatment, etc.

2. City departments, other than Public Events, maintain vending machine agreements without adequate oversight.

While our audit results did not cover machines outside the contract, survey results indicated that departments have vending machines that are not provided by the City's contracted vendors. The following information was obtained, based on departmental responses to our audit survey.

- Departmental vending machine receipts are deposited into non-City bank accounts, although City Code Chapter 2, Article 1, Section 2-6 requires that funds belonging to the City be deposited with the City Treasurer. One location provided documentation to support approximately \$1,600 per year in collections from vending machines.
- Funds from the City's vending contracts are used to benefit city operations, while funds from the departmental vending machines are used for parties and department-specific purposes.
- Collections from one vending machine (purchased and operated by a department) were deposited into a Special Revenue Fund account, while vending items were purchased with a City purchasing card and charged to the General Fund.

Recommendation 2A:

The City Manager should require a city-wide inventoring of vending machines at all City owned facilities.



Auditee's Response: Concur. The Property Management Department has been working with staff from the ERP group, Risk Management and Budget staff from the Financial Management Services Department to develop a process to gather city asset information for input into the PeopleSoft system. The Property Management Department has taken the lead on developing the process to gather this information. Draft copies of the correspondence to be sent to departments have been developed for review by the new Director, Assistant City Manager, and City Manager.

Target Implementation Date: October 1, 2015

Responsibility: Property Management Director, Steve Cooke

Recommendation 2B:

The City Manager should consider reassigning responsibility for city-wide vending machine contracts to the Property Management Department.

Auditee's Response: Concur

Target Implementation Date: October 1, 2016

Responsibility: Property Management Director, Steve Cooke

3. The Convention Center concession contract does not include a separate commission rate for subcontractor revenues.

Section 3.01 (A) of the Convention Center concession contract requires payment of 36% of **gross** sales on all basic concession items sold. Although Section 12.11 (H) describes gross receipts as the total amount of money received or to be received by the Omni or by any agent, employee or subcontractor from all sales, 36% of **net** subcontractor receipts were remitted to the City. Concession contracts observed from other entities typically included a higher commission rate (e.g., 50% or 75% of net sales) for subcontractor receipts based on the **net** amount received.

- If the 36% of **gross** revenues basis specified by the contract were used, the city would have received an additional \$10,394 for the two months tested; and,
- If the 50% of **net** revenue basis required for the WRMC were used, the city would have received an additional \$1,732 for the two months tested.

Recommendation 3A:

The Director of Public Events should ensure that all future concession contracts have provisions pertaining to subcontractor revenues. The contracts should include the specific commission percentage and the basis for calculation.

Auditee's Response: Concur. When the Omni contract was negotiated, it was not envisioned that there would be future subcontracting opportunities. In working to deliver an outstanding guest food and beverage experience, subcontractors are occasionally brought into the building to offer additional food and beverage experiences. The existing contract expires on November 30, 2018. Staff will communicate with Omni to determine if they have an interest in amending the existing agreement.

Target Implementation Date: December 31, 2015



Responsibility: Kirk Slaughter

Recommendation 3B:

The Director of Public Events should request that revenue reports, submitted by Trinity, be modified to include a separate listing for subcontractor revenues.

Auditee's Response: Concur. Request will be made as soon as possible.

Target Implementation Date: November 1, 2015

Responsibility: Kirk Slaughter

4. Concession collections controls are not adequate to prevent or detect underpayments.

Public Events staff do not routinely request detailed collections reports that concession vendors are required, by contract, to provide upon request. WRMC event personnel monitor revenue for events and have identified missing payments for entire events held. However, the monitoring is not sufficient to detect partial underpayments. For example, funds could be missing for one or more concession stands and not be detected.

While concession contractors are contractually obligated to implement cash controls, the responsibility for ensuring that all funds are received remains with the City's contracting department. Financial Directive 18, *Contract Management*, stipulates that departments are responsible for monitoring contracts.

Operations where large amounts of currency are received are vulnerable to losses and require diligent monitoring to ensure that collections are received from all sales locations and that amounts collected are consistent with event attendance.

Recommendation 4:

The Public Events Director should require a review of detailed collection reports for all events including a comparison to scheduled events and reported revenues. Concession revenue per attendee should be calculated for all events and maintained in a log, along with the number of concession stands opened and the collections for each stand.

Auditee's Response: Concur. This does occur regularly at the WRMC and will be implemented at the FWCC. The current agreement at WRMC expires on January 2017 and the agreement with Omni expires in November 2018. Both agreements include what records and reports are required. Staff will request the information permitted under the existing agreements.

Target Implementation Date: December 31, 2015

Responsibility: Andrea Wright at FWCC and Brandy Archuleta



5. The standard catering contract used at the Will Rogers Memorial Center does not include late payment provisions.

A standard contract is used for catering services at the WRMC. However, the contract does not include late payment provisions that encourage prompt payment.

Good business practice requires that standard contracts include late payment penalties or other terms to encourage prompt payment. The exclusion of prompt payment provisions could discourage timely payments, which in turn, could negatively impact the City's cash flow. We did not identify late catering payments during the audit period. However, it is good business practice to include late payment provisions in vendor contracts.

Recommendation 5:

The Director of the Public Events Department, in conjunction with the City Attorney's Office, should revise the standard catering contract used at the WRMC to include late payment penalties.

Auditee's Response: Concur. Staff forwarded the WRMC catering agreement to City Legal for consideration relating to late payment provisions and to explore what may be allowed by current laws.

Target Implementation Date: December 31, 2015

Responsibility: David Reeves



Acknowledgements

The Department of Internal Audit would like to thank the Public Events Department for their cooperation and assistance during this audit.