

**REPORT TO THE CITY COUNCIL**

**BY THE CITY INTERNAL AUDITOR**

**AUDIT OF THE GROUND LEASE  
DATED MARCH 10, 1993 BETWEEN  
THE CITY AND THE RIVERBOAT CASINO**

**IAR 220498-07**

**NOVEMBER 12, 1998**



November 12, 1998

Councilman James Green  
Chairman, Shreveport City Council  
P. O. Box 31109  
Shreveport, LA 71130-1109

Dear Councilman Green:

Subject: IAR 220498-07 - Audit of the Ground Lease Dated March 10, 1993, Between the City and the Riverboat Casino

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Radford K. Snelding, CFE, CGFM, CIA  
City Internal Auditor

jm

**EXECUTIVE SUMMARY  
AUDIT OF THE GROUND LEASE  
DATED MARCH 10, 1993 BETWEEN  
THE CITY AND THE RIVERBOAT CASINO  
INTERNAL AUDIT REPORT (IAR) 220498-07**

The purpose of the executive summary is to convey in capsule form the significant issues of the audit report. The executive summary is a vehicle for reviewing the report and should only be used in conjunction with the entire report.

**INTRODUCTION**

On March 10, 1993, the City entered into a five-year lease agreement with Red River Entertainment (Harrah's). Harrah's was chosen over other respondents largely because of its corporate reputation, commitment to the community, and commitment to utilization of local and minority employees and businesses. The end of 1997 was Harrah's fourth year of operation.

In 1998, the contract was amended. This report covers the review of the design and operation of the lease agreement for 1995 through 1997. Additionally, the "Equal Opportunity Employment and Affirmative Action Plan" sections of the 1993 and 1998 agreements were compared.

**OVERVIEW OF SIGNIFICANT ISSUES**

Based on the results of our audit, we believe that an adequate system of control is in existence over the areas examined with the exception of the findings specifically noted. We believe that Harrah's is making good faith efforts to meet goals of the lease agreement. We also believe that management could enhance the control environment by addressing the following:

- ? City management had not been monitoring the design and operation of the ground lease regarding employee hiring and vendor procurement.
- ? The Equal Opportunity Employment and Affirmative Action Advisory Board had not been established.
- ? The procedure to certify vendors as minority/women owned should be strengthened.

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**AUDIT OF THE GROUND LEASE  
DATED MARCH 10, 1993 BETWEEN  
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INTERNAL AUDIT REPORT (IAR) 220498-07**

**OBJECTIVES**

We have completed an audit of the ground lease dated March 10, 1993, between the City as landlord, and the Red River Entertainment (Harrah's) as tenant. Our objectives were to determine whether, as defined in the lease agreement, the City received the following from the tenant:

- ? The correct amount of fixed rent, percentage rent, and additional rent;
- ? The correct amount of boarding fees; and
- ? The semi-annual progress reports on the tenant's Equal Opportunity Employment and Affirmative Action Plan.

**SCOPE AND METHODOLOGY**

Our audit was performed in accordance with generally accepted governmental auditing standards. The scope of the study of internal control was limited to the general controls surrounding our objectives for the operating years 1995 through 1997. Additionally, the "Equal Opportunity Employment and Affirmative Action Plan" sections of the 1993 and 1998 agreements were compared. Audit procedures applied included the following:

- ? Statistically sampling from workforce demographic reports provided by Harrah's and verifying the information against applicable supporting documentation.
- ? Reviewing applicable records and documents.
- ? Interviewing appropriate operating personnel and management.

**BACKGROUND**

On March 10, 1993, the City entered into a five-year lease agreement with Red River Entertainment (Harrah's). Harrah's was chosen over other respondents largely because of its corporate reputation, commitment to the community, and commitment to utilization of local and minority employees and businesses. The end of 1997 was Harrah's fourth year of operation. In 1998, the contract was amended.

**CONCLUSIONS/FINDINGS/RECOMMENDATIONS**

The Internal Audit Office expresses appreciation to the management and personnel of

Harrah's for their cooperation and assistance provided during our audit.

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Based on the results of our audit, we determined that the City received the correct amount of fixed rent, percentage rent, and additional rent. We also determined that the City received the correct percentage of boarding fees.

**1. City Responsibility for Monitoring the Ground Lease**

**Criteria:** The lease agreement between Harrah's and the City establishes many procurement and employment initiatives. As part of the control system to help ensure that the intent of the contract is being achieved:

- ? The City is to review the quarterly reports submitted by Harrah's that detail accomplishments towards vendor procurement goals and employment.
- ? Per the 1993 agreement, Appendix 35.0, "Equal Opportunity Employment and Affirmative Action Plan," an advisory board was to be established to help with planning, executing, and monitoring accomplishments with M/WBE procurement and minority employment.

**Condition:**

- ? There is no system in place to review and monitor Harrah's M/WBE quarterly reports to determine progress towards goals and contract compliance.
- ? The Equal Opportunity Employment and Procurement Advisory Council was not established until March of 1998, under the 1998 amended agreement, Article XXXIV, "Equal Opportunity Employment and Affirmative Action Plan."

**Effect:**

- ? Without a system of monitoring, accomplishments towards M/WBE initiatives cannot be reviewed.
- ? Lack of an Advisory Council foregoes visibility and meaningful community participation in planning, executing, and monitoring procurement and employment initiatives.

**Cause:** Lack of administrative oversight.

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**Recommendation:** We recommend that the City of Shreveport create an effective system to review Harrah's quarterly reports. This system should, at a minimum, document the stated goals and the quarterly progress towards those goals.

Additionally, the City should review the goals and structure of the recently established Advisory Council to determine whether there is a reasonable assurance that the Advisory Council will function as intended.

**Management's Plan of Action:**

CAO: The Department of Community Development, in addition to its role in monitoring Harrah's quarterly report, will monitor and participate in the activities of the Advisory Council.

Harrah's: In March 1998, the Equal Opportunity Employment and Procurement Advisory Council (the "Advisory Council") was created. The "Advisory Council" consists of six members, three of whom have been appointed by the Landlord. Although the lease allows for a change in the number and method of member appointment by mutual consent, the Department of Community Development is not a current member of the Advisory Council. Therefore, they are unable to participate in the Council's activities.

The Department of Community Development is appropriate to review the quarterly reports that are sent to the Louisiana Gaming Control Board. These reports clearly indicate if our goals have been achieved.

Community Development: A point of coordination should be established by the Administration for all aspects of the City's relationship with Harrah's. This point of coordination would gather the information from the Budget Office on the receipt of city tax and revenue funds; information from Community Development relative to M/WBE goals; information from Personnel or whichever area would best monitor the minority management positions hiring goals; would work with Purchasing relative to the local business procurement goals; and would work with the recently appointed "Equal Opportunity Employment and Affirmative Action Advisory Board" (as required by the contract), and with other contract areas (ex: building of the Hotel).

Within the above-mentioned structure the Department of Community Development's Business Development and Services Unit will monitor the M/WBE goals submitted by Harrah's on a quarterly basis according to the contract agreement. The Business Development and Services Unit will also assist with the certification of W/MBE businesses that will be utilized by Harrah's to meet the established local goals.

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The Business Development and Services Unit will also work with monitoring Harrah's as listed in #2 below.

**Timetable:** CAO: This will occur immediately.

## **2. Verification of Minority/Women-Owned Vendor Status**

**Criteria:** As a measure of Harrah's accomplishments towards minority/women vendor procurement, Harrah's submits a quarterly report to the City detailing minority/women vendor procurement. Reliance is placed on the accuracy of this report and the surrounding control environment to determine Harrah's compliance with minority/women procurement goals.

**Condition:** Harrah's utilizes vendor's notarized affidavit as to minority status. There is no documented verification of the vendor's status, i.e., review of ownership documentation, site visits, etc.

**(Auditor's Note:** A quarterly report is submitted to the City of Shreveport detailing expenditures to minority and women-owned businesses. The quarterly report provides a measure of Harrah's stated goals of 25% minority business enterprise procurement and 10% female business enterprise procurement. Harrah's 1997 procurement average as shown on those reports is 26.3% for minority-owned vendor procurement and 18.9% for women owned vendor procurement.)

**Effect:** The control environment surrounding the verification of a vendor's minority status could be enhanced to provide better assurance as to the vendor's M/WBE qualifications.

**Cause:** Harrah's vendor verification process is designed to meet the state's M/WBE requirements.

**Recommendation:** We recommend that Harrah's consider utilizing the City of Shreveport's M/WBE vendor program, whereby vendors could be evaluated for minority/female and disadvantaged business status. Alternatively, Harrah's could adopt a formal process of evaluating a vendor's minority status. This process, at a minimum, should include documented site visits and review of appropriate documentation.

**Management's Plan of Action:**

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Harrah's: Harrah's is willing to utilize the City's vendor certification program to verify vendor ownership structure if the City Administration deems this necessary.

Community Development: The Department's Business Development and Services Unit will work with Harrah's to make some modification to our DBE certification procedure to be able to utilize our certification process to more definitively certify W/MBE businesses claimed, for Harrah's goals.

**Timetable**: Harrah's: Immediately upon resolution.

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CAO  
City Council  
Clerk of Council  
City Attorney  
External Auditor