

REPORT TO THE CITY COUNCIL BY THE CITY INTERNAL AUDITOR

AUDIT OF THE SHREVEPORT CONVENTION CENTER (SCC)

INTERNAL AUDIT REPORT 180111-03

August 1, 2011





The Council
City of Shreveport

Leanis L. Graham, CPA, CIA
City Internal Auditor
P.O. Box 31109
Shreveport, LA 71130-1109

E-Mail Address:
Leanis.Graham@shreveportla.gov
Phone: 318.673.7900
Fax: 318.673.7911

August 1, 2011

Councilman Oliver Jenkins
Chairman, Shreveport City Council

Dear Councilman Jenkins:

Subject: IAR180111-03 — Audit of the Shreveport Convention Center (SCC)

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

Sincerely,

Leanis L. Steward, CPA, CIA
City Internal Auditor

EXECUTIVE SUMMARY
AUDIT OF THE SHREVEPORT CONVENTION CENTER (SCC)
INTERNAL AUDIT REPORT (IAR) 180111-03

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

The Shreveport Convention Center (SCC) is a multi-purpose, state-of-the-art facility designed to accommodate any event, from major conventions and trade shows to intimate gatherings such as wedding receptions and banquets. The SCC has more than 350,000 square feet meeting space that can be tailored to any group's needs and offers food service and catering to clients. It is managed by SMG, the world leader in private management of private facilities.

In December 2003, the City of Shreveport entered into a management agreement with SMG. Under the management agreement, SMG manages all of the activities and operations of the SCC including, but not limited to, the rental of space, advertising, promotion, marketing/sales, events management, box office, public relations, procurement, maintenance, security, custodial and support services for any and all events taking place at the SCC.

RECOMMENDATION EVALUATION RISK CRITERIA

The chart below summarizes the recommendations outlined in the report and our evaluation of risk for the recommendations. The risk levels were determined based on the possible results for the entity if the recommendation is not implemented. This report contains three findings with three recommendations.

<i>Risk Levels</i>	<i>Recommendations</i>
<p style="text-align: center;">High Risk</p> <p>Possibility of fraud, waste, and abuse of City assets; Interrupted and/or disrupted operations; Entity's mission not being met; Adverse publicity.</p>	None
<p style="text-align: center;">Medium Risk</p> <p>Possibility of continuing, significant operating inefficiencies and high-level non-compliance issues.</p>	<ul style="list-style-type: none"> • Implement a facility maintenance system. (Finding 1) • Ensure fixed assets are tagged. (Finding 2)
<p style="text-align: center;">Low Risk</p> <p>Possibility of continuing operating inefficiencies and some low-level non-compliance issues.</p>	<ul style="list-style-type: none"> • Include an online Request for Proposal Form on website. (Finding 3)

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AUDIT OF THE SHREVEPORT CONVENTION CENTER (SCC) INTERNAL AUDIT REPORT (IAR) 180111-03

OBJECTIVES

We have completed an audit of the Shreveport Convention Center (SCC). The objective of this audit was to determine the economy and efficiency of operations of the SCC.

SCOPE AND METHODOLOGY

The scope of the study of internal control was limited to the general controls surrounding our objectives for the operating years of 2009 through June 2010. Audit procedures applied included the following: reviewing applicable records and documents, and interviewing operating personnel and management.

We conducted this audit in accordance with generally accepted government auditing standards, except that a peer review has not been performed, and included such test of procedures and controls as considered appropriate. We believe that the evidence obtained provides a reasonable basis for our findings, conclusions, and recommendations based on our audit objectives.

BACKGROUND

The SCC is a multi-purpose, state-of-the-art facility designed to accommodate any event, from major conventions and trade shows to intimate gatherings such as wedding receptions and banquets. The SCC has more than 350,000 square feet meeting space that can be tailored to any group's needs and offers food service and catering to clients. It is managed by SMG, the world leader in private management of private facilities.

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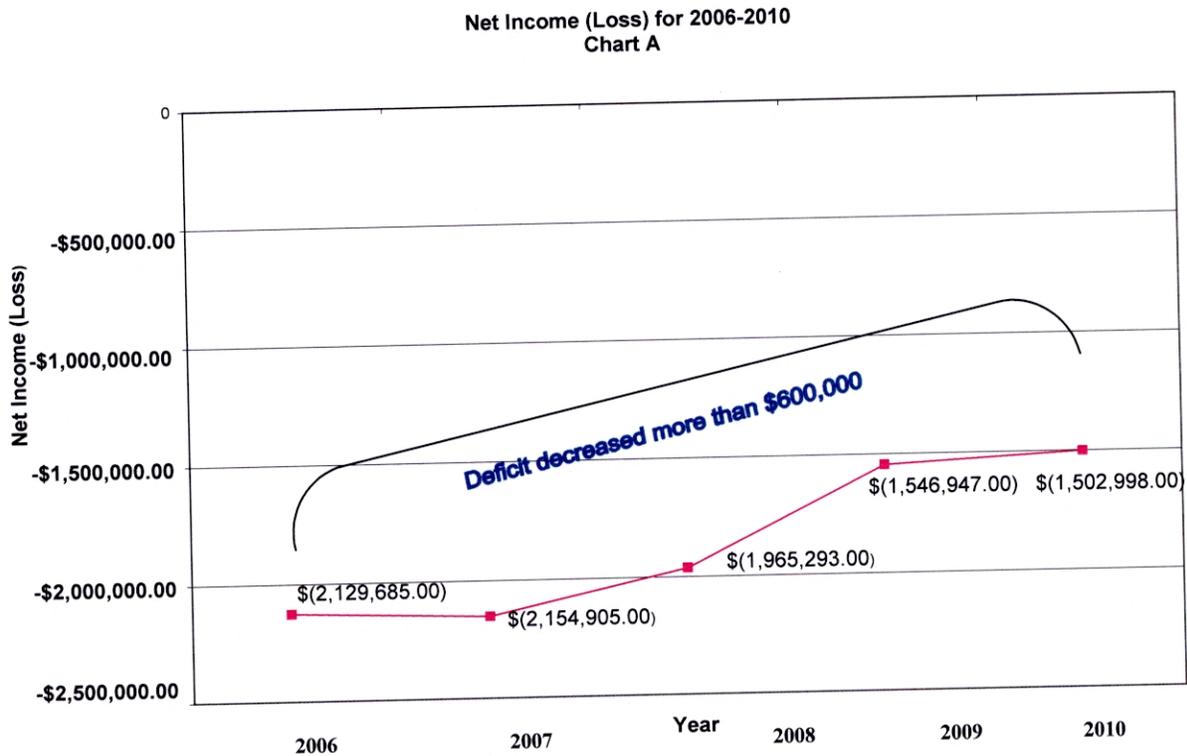
Accomplishments of SMG include but are not limited to the following:

- Decreased the total operating deficit by more than \$600,000 since the start of operational management in 2006. **(See Chart "A")**
- Increased revenue by more than \$900,000 since 2006. **(See Chart "B")**
- Surpassed the 2009 budget by \$242,779. **(See Chart "C")**
- Hosted 22 major conventions with an estimated total delegate attendance of 158,569 in 2009.



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- Hosted 12 local not-for-profit organizations in 2009 utilizing the not-for-profit policy adopted.
- Budgeted to host 306 event days, but actually hosted 352 at the SCC in 2009.
(See Chart "C")



Source: 2009 Recap/2010 Outlook and December 31, 2010 Financial Statements (Unaudited)



Revenue and Expenses for 2006-2010
Chart B



Source: 2009 Recap/2010 Outlook and December 31, 2010 Financial Statements (Unaudited)

Budget to Actual
Chart C

	2009 Actual	2009 Budget	Positive/(Negative) Variance
Number of Event Days	352	306	46
Attendance	298,613	241,750	56,863
Direct Event Income	\$687,003.00	\$825,841.00	\$(138,838.00)
Ancillary Income	\$1,188,277.00	\$1,106,494.00	\$81,783.00
Total Event Income	\$1,875,280.00	\$1,932,335.00	\$(57,055.00)
Other Operating Income	\$221,159.00	\$272,500.00	\$(51,341.00)
Adjusted Gross Income	\$2,096,439.00	\$2,204,835.00	\$(108,396.00)
Indirect Expenses	\$3,643,386.00	\$3,994,561.00	\$351,175.00
Net Income (Loss)	\$(1,546,947.00)	\$(1,789,726.00)	\$242,779.00

Source: December 31, 2009 Financial Statements (Unaudited)



CONCLUSIONS/FINDINGS/RECOMMENDATIONS

The Internal Audit Office expresses appreciation to the management and personnel of the SCC for their cooperation and assistance. Based on our review, we have offered recommendations that may serve to enhance and improve the operating effectiveness and efficiency of the SCC.

- Implement a facility maintenance system.
- Ensure fixed assets are tagged.
- Include an online Request for Proposal Form on the website.

1. Facility Maintenance System

Criteria: An overall facility maintenance system will help to ensure that the City's investment in the Convention Center is adequately preserved.

Condition: Although management had purchased a facility maintenance system, it was unable to capture and generate some beneficial information and perform certain operations. Therefore, it was not being fully utilized due to these problems implementing the system. However, preventive maintenance and repairs have been performed. We did note that some permanent repairs to the facility, due to storm damage in October 2009, have not been completed yet. The delay in repairs was due to the insurance company delaying payment for the repairs. Management stated that the repairs were about 95% complete.

<Auditor's Note>: Management is in the process of updating and revamping the facility maintenance system to implement it in 2011.

Effect:

- Inability to efficiently determine the number of repairs, total maintenance costs, and number of preventative maintenance actions performed.
- Facility may not be getting the preventative maintenance it needs in a timely manner.
- Potential decrease in value of facility if not properly maintained.
- Potential increase of repairs.
- Potential increase of risk of repairs or replacement of expensive major equipment.
- Failure to perform preventive maintenance on time can lead to excessive maintenance costs and downtime.
- Maintenance history may be lost.

Cause: The facility maintenance system has not been implemented due to technical difficulties.

Recommendation: We recommend management implement a facility maintenance system to track maintenance activities such as preventative maintenance, repairs



performed, percent work orders completed, operations and maintenance cost per sq. ft., and average cost per event day (or event).

Management Plan of Action: While communication and expedition of facility maintenance needs has been timely and conducted as needed, we have upgraded the existing maintenance software to "Smart Maintenance" comprehensive management software. This installation was completed prior to the finalization of this report. To date, all applicable employees have been trained on its use.

Timetable: April 2011

2. Tagging of Fixed Assets

Criteria: Tagging fixed assets provides an accurate method of positively identifying individual assets.

Condition: During the test of fixed assets we noted that eight assets out of 18 (44%) did not have a City of Shreveport Property Tag with the property identification number or the tag could not be located on the asset.

Effect:

- May not be able to positively identify assets.
- Assets may be misused, lost, or stolen.

Cause: Per SCC employees, the former City fixed asset representative for the Shreveport Convention Center retired before an indeterminate amount of assets could be tagged. This was prior to the opening of the SCC.

Recommendation: Management should ensure that fixed assets are tagged with City of Shreveport Property Identification Tags.

Management Plan of Action: Due to original facility construction and completion delays, many items remained crated and not placed into use until a later date. Other applicable assets received were tagged then put into usage.

Moreover, there were many items that were small or in several pieces that it would not have been practical to place a tag on them. Our staff was instructed by the former assets manager with the City of Shreveport to attach those tags to the fixed asset paperwork and keep in our files. We are in the process of reevaluating and reviewing the filed fixed asset tags to determine which applicable items qualify for a physically fixed tag.

Timetable: July 2011



3. Enhancement of Website

Criteria: As Internet use continues to skyrocket, organizations that are interested in maximizing profits, service, and exposure have established web sites detailing information about their organizations and related services or products.

Condition: The SCC does maintain a website. However, the website does not include an online Request for Proposal form that will allow prospective clients to plan their events more efficiently with the SCC.

Effect: Possible inconvenience to potential clients.

Cause: Currently potential clients contact the SCC by email and phone calls.

Recommendation: SMG should consider including an online Request for Proposal form on the website to make the planning process easier and more convenient for potential clients and to compete with other convention center websites.

Management Plan of Action: We are in the process of adding a "Request for Proposal (RFP)" form to our website. While this form is certainly a great convenience, we believe that its past absence has not deterred prospective customers from contacting us directly for questions and bookings.

Timetable: September 2011

Prepared by:

A handwritten signature in cursive script that reads "Tamika Ford".

Tamika Ford
Staff Auditor

Approved by:

A handwritten signature in cursive script that reads "Leanis L. Steward".

Leanis L. Steward, CPA, CIA
City Internal Auditor

TF:nw

c: Mayor
CAO
City Council
Clerk of Council
City Attorney
External Auditor
SMG