



CITY OF SAN ANTONIO

P. O. BOX 839966
SAN ANTONIO TEXAS 78283-3966

June 26, 2012

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Councilwoman, District 9

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Councilman, District 10

SUBJECT: Audit Report of Convention Sports and Entertainment Facilities Catering Contracts

Mayor and Council Members:

We are pleased to send you the audit report of the Audit of Convention Sports and Entertainment Facilities Catering Contracts. This audit began in November 2011 and concluded with an exit meeting with department management in May 2012. Management's verbatim response is included in Appendix B of the report. The Convention Sports and Entertainment Facilities Department should be commended for its cooperation and assistance during this audit.

The Office of the City Auditor is available to discuss this report with you individually at your convenience.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Kevin W. Barthold".

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
City of San Antonio

Distribution:

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Michael Sawaya, Director, Convention Sports and Entertainment Facilities Department
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CITY OF SAN ANTONIO

OFFICE OF THE CITY AUDITOR



Audit of Convention, Sports, and Entertainment Facilities Department
Catering Contract

Project No. AU12-004

June 26, 2012

Kevin W. Barthold, CPA, CIA, CISA
City Auditor

Executive Summary

As part of our annual Audit Plan, we conducted an audit of the Convention, Sports, and Entertainment Facilities Department (CSEF) catering contracts, focusing specifically on the RK Group Food and Beverage Service and Concessions Services contract. The audit objectives, conclusions, and recommendations follow:

Are catering companies complying with City contracts?

While commission revenue paid to the City appears appropriate, we identified two instances of noncompliance:

- RK Group has not met contractual Small Business Economic Development Advocacy (SBEDA) revenue utilization levels for the period between February 2010 and January 2012.
- CSEF staff has not finalized a physical inventory of all catering and concession property and equipment for the past three years as required by the contract and City policy.

In addition, we identified insufficient monitoring of concession sales commissions, which was driven primarily by inconsistent documentation provided by RK Group.

We recommend that the CSEF Director:

- Continue working with the Economic Development Department to ensure both CSEF and RK Group receive the appropriate training surrounding the City's Contract Monitoring System (CCMS)¹ in order to ensure contractor compliance with all contractual SBEDA participation rates.
- Request that RK Group's external auditors include SBEDA compliance within future agreed upon procedures engagements to add more robust monitoring of the contract.
- Ensure a physical inventory is conducted every year as required by the contract. In addition, all appropriate adjustments should be recorded in SAP in accordance with City policy.
- Continue working with RK Group to standardize reporting templates that will help catalyze consistent, complete documentation and allow for more effective monitoring by CSEF staff.

¹ CCMS is used to assist City staff in tracking SBEDA activity associated with a prime contractor's utilization of subcontractors.

Management concurred with our recommendations and has developed a positive action plan. See CSEF Management's verbatim response in Appendix B on page 6.

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Background

The City of San Antonio (COSA) Convention, Sports and Entertainment Facilities Department (CSEF) entered into a contract with RK Group L.L.C. (RK Group) for the purpose of providing exclusive food and beverage services (catering) at the Henry B. Gonzalez Convention Center and Lila Cockrell Theater and exclusive concession services at the Convention Center, Lila Cockrell Theater, and the City's Municipal Auditorium. The Amendment and Restatement of the Henry B. Gonzalez Convention Center Food and Beverage Service and Concession Services Agreement was approved by City Council on November 4, 2004. This agreement was for a five year term that commenced on February 1, 2005 and expired on January 31, 2010. On August 14, 2008, City Council approved the extension of the Amendment and Restatement of the Henry B. Gonzalez Convention Center Food and Beverage Service and Concession Services Agreement with RK Group through September 30, 2015. In addition to the contractual term, services were also extended to cover the club level (4th floor) of the Alamodome.

RK Group assigns all catered events and services to its members, invoices and collects payments from clients, and pays COSA a commission. As a result of the agreement, the City has earned over \$29 million in special revenue fund income through January 2012. See the table listed below for breakdown by fiscal year.

Total Revenue from RK Group Contract		
Fiscal Year	Total Commissions	
2005	\$	1,983,933
2006	\$	3,777,583
2007	\$	4,177,233
2008	\$	4,980,198
2009	\$	4,238,428
2010	\$	4,226,439
2011	\$	4,430,469
2012*	\$	1,386,741
Total Revenue	\$	29,201,024
*Commission Payments (10/1/11 through 1/31/12)		

As of September 2011, the RK Group was comprised of the following members: Catering by Rosemary, Inc; Taco Flats, Inc. d/b/a Black Tie Affairs Catering; Manuel H. Garza, Jr.'s La Casita Enterprises, Inc. d/b/a Catering by Nick; Chelsea's Sandwiches of Texas, Inc; True Flavors, L.L.C.; and JAD Services, Inc. d/b/a Absolutely Everything Catering Services. The RK Group has been the

food and beverage service provider to the San Antonio Convention Center since 1971 and the Alamodome since 2008.

Audit Scope and Methodology

While the contract became effective in February 2005, our test work focused on the period of February 1, 2010 through January 31, 2012.

We interviewed COSA and RK Group management and staff. We verified commission revenue, as well as reviewed internal controls associated with the execution and monitoring of this contract. In addition to commission test work, we reviewed other pertinent contractual terms as determined by our risk assessment, specifically the Small Business Economic Development Advocacy (SBEDA) program, insurance coverage, inventory tracking, security and background checks, recycling, and external audit engagements.

We relied on computer-processed data in SAP, COSA's principal accounting system, to validate the commission payments paid to the City by RK Group. We also relied on the data in the City Contract Management System (CCMS) and RK Group's Accounts Receivable (A/R) system to validate commission and SBEDA transactions. Our reliance on all three systems was based on performing direct tests on the data rather than evaluating the systems' general and application controls. Our direct testing included comparing payments recorded in SAP and CCMS with the appropriate source documentation provided by RK Group's A/R system, state sales tax filings, subcontractors, and City staff. We do not believe that the absence of testing general and application controls had an effect on the results of our audit.

We conducted this audit from November 2011 to April 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our audit results and conclusions based on our audit objectives. Our audit included tests of management controls that we considered necessary under the circumstances.

Audit Results and Recommendations

A. Non-Compliance with SBEDA Revenue Utilization Levels

RK Group has not met contractual SBEDA revenue utilization levels for the past two years (February 2010 – January 2012). Section 20.4 of the contract requires utilization levels of 31 percent for all minority owned business enterprises and 5 percent for all woman owned and African American owned business enterprises. Utilization is determined by sales for catering and concession services for the Convention Center, Lila Cockrell Theater, City's Municipal Auditorium², and the Alamodome over a one year period (February 1 – January 31st). The following table illustrates the utilization thresholds noted in the contract in comparison to the actual utilization realized by RK Group:

<i>SBEDA Categories</i>	<i>Contractual Sales Percentage</i>	<i>Actuals for Contract Period (2011/2012)</i>	<i>Variance (2011/2012)</i>	<i>Actuals for Contract Period (2010/2011)</i>	<i>Variance (2010/2011)</i>
Minority Business Enterprise	31%	30.13%	-0.87%	25.39%	-5.61%
Women Owned Business Enterprise	5%	7.70%	2.70%	3.45%	-1.55%
African American Owned Business Enterprise	5%	10.17%	5.17%	4.18%	-0.82%
Small Business Enterprise	50%	100.00%	50.00%	100.00%	50.00%

In an effort to assist City staff and contractors in tracking subcontractor utilization levels as required by various contracts, the Economic Development Department (EDD) installed CCMS in October 2010 to track all SBEDA activity, yet CSEF staff did not begin utilizing CCMS until February 2012. RK Group has been using CCMS since the system's implementation; however, it has received limited training. Due to the lack of experience and training on the CCMS system, we noted errors in the system, such as incomplete subcontractor profiles. In addition, we noted inappropriate confirmations of subcontractor activities by both CSEF and RK Group staff were made at the direction of EDD. Without sufficient training, CSEF and RK Group risk remaining noncompliant with contractual SBEDA requirements.

Recommendation

CSEF Director should continue working with the EDD to ensure both CSEF and RK Group staff receive the appropriate training on the CCMS system. In addition, the CSEF Director should request that RK Group's external auditors include

² The Municipal Auditorium, a venue typically assigned to minority partners, was closed for renovation beginning in June 2010, and the Lila Cockrell Theatre was closed from August 2009 through November 2010.

SBEDA compliance within future agreed upon procedures engagements to add more robust monitoring of the contract.

B. Non-Compliance of Contractual Physical Inventory Counts

As of April 2012, CSEF and RK Group staff are in the process of completing a joint inventory count of all catering and concession property. However, section 24.3 of the contract requires a joint inventory to be taken by the City and RK Group on the annual anniversary date of the agreement. In addition, the City's Administrative Directive 8.7, *Financial Management of Capital Assets and Tracked Property*, requires a physical inventory count to be taken by departments no less than every two years to verify the correctness of all city-owned property and equipment. Any equipment unaccounted for is to be replaced by the contractor. Since the required inventory counts have been conducted but not finalized since 2009 (i.e. subsequent replacements and adjustments have not been made), we have noted the instance of non-compliance. By not completing the inventory count, the City's financial records may be incomplete since the appropriate adjustments have not been made to the City's accounting system (SAP).

Recommendation

CSEF Director should ensure a physical inventory is conducted every year as required by the contract. In addition, all appropriate adjustments should be recorded in SAP in accordance with City policy.

C. Insufficient Monitoring of Concession Sales Commissions

Sales data is not documented consistently by RK Group, thus making it difficult for City staff to effectively and efficiently monitor the reconciliation process over commission sales revenue. We identified incomplete documentation, such as missing register tapes and lack of approval signatures, which are necessary to build accountability and allow for effective monitoring of the process. Without sufficient monitoring of concession sales commissions, the risk of financial loss to the City increases.

Recommendation

CSEF Director should continue working with RK Group to standardize reporting templates that will help catalyze consistent, complete documentation and allow for more effective monitoring by CSEF staff.

Appendix A – Staff Acknowledgement

Andre DeLeon, CPA, MSA, Audit Manager
Kimberly Weber, CIA, CFE, CGAP, CRMA, MPA, Auditor in Charge
Rosalia Vielma, MPA, CFE, Auditor

Appendix B – Management Response



CITY OF SAN ANTONIO

SAN ANTONIO TEXAS 78283-3966

May 31, 2012

Kevin W. Barthold, CPA, CIA, CISA
City Auditor
San Antonio, Texas

RE: Management's Corrective Action Plan for the Audit of Convention, Sports, and Entertainment Facilities Department Catering Contracts

Convention, Sports, and Entertainment Facilities Department has reviewed the audit report and has developed the Corrective Action Plans below corresponding to report recommendations.

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
A	Non-Compliance with SBEDA Revenue Utilization Levels CSEF Director should continue working with the EDD to ensure both CSEF and RK Group staff receive the appropriate training on the CCMS system. In addition, the CSEF Director should request that RK Group's external auditors include SBEDA compliance within future Agreed Upon Procedures engagements to add more robust monitoring of the contract.	3	Accept	Rebecca Johnson/Contract Officer	October 1, 2012

Audit of Convention Sports and Entertainment Facilities Department
Catering Contract

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p>Action plan:</p> <p>CSEF will work with EDD to coordinate additional CCMS training for both CSEF and RK Group staff.</p> <p>To reiterate CSEF's understanding of the future confirmation of subcontractor activities in CCMS, neither CSEF nor RK Group staff will confirm subcontractor activities. As stated, utilization reports will include all data, whether it is confirmed or not; therefore, unconfirmed activities are assumed to be confirmed after the time period allowed.</p> <p>CSEF has also begun drafting revised Agreed Upon Procedures (AUP) to incorporate SBEDA. CSEF will have the City Auditor's Office review the revised AUP to ensure they fully capture the intent of this recommendation.</p> <p>It is important to note that during this audit period, the City permanently closed the Municipal Auditorium and temporarily closed the Lila Cockrell Theatre for major remodeling. These two venues previously provided increased concessions opportunities for the small, minority and woman-owned LLC members. In addition to the closing of these two venues, the RK Group's WBE member faced challenges with the death of its owner. The RK Group continues to work with the WBE member's remaining management group; however, utilization of this member has decreased in light of these circumstances.</p> <p>With the reopening of the Lila Cockrell Theatre, the RK Group has exceeded their goals for Feb. 2011 through Jan. 2012 for AABE and WBE utilization and has improved their utilization of MBEs from an average of 27% to 30.13% (less than 1% from goal).</p> <p>The RK Group has recently added new subcontractors that are AABE and WBE certified and are actively searching for additional subcontractors. The RK Group also attends Bexar County's annual SMWVBO Conference to recruit and cultivate additional suppliers and potential members.</p>				
B	<p>Non-Compliance of Contractual Physical Inventory Counts</p> <p>CSEF Director should ensure a physical inventory is conducted every year as required by the contract. In addition, all appropriate adjustments should be recorded in SAP in accordance with City policy.</p>	4	Partially Accept	Rebecca Johnson/Contract Officer	October 1, 2012

Audit of Convention Sports and Entertainment Facilities Department
Catering Contract

Recommendation					
#	Description	Audit Report Page	Accept, Partially Accept, Decline	Responsible Person's Name/Title	Completion Date
	<p><u>Action plan:</u></p> <p>CSEF conducts a very thorough physical inventory on an annual basis of all catering and concessions property assigned to the RK Group. The inventory process is a manual one involving the visual inspection and recordation of over 1,300 pieces of equipment by several City and RK staff members over several weeks. The inventory process requires access to concessions stands, warehouses, and kitchens inside the 2.9m sq. ft. facilities' space and has to be scheduled around the 400+ events scheduled at the facilities. The RK contract requires the inventory of all property, including assets valued less than \$1,500.00, which exceeds the City's A.D. 8.7. Also, the RK contract requires the RK Group to replace missing property at full replacement value, but the City's A.D. 8.7 requires the depreciation of assets valued in excess of \$5,000.00 over a five-year period.. Finally, due to the vastness and openness of the facilities, property that may be missing on an annual inventory may be found on a subsequent inventory. CSEF will work with Finance to explore the capabilities of SAP in these areas</p> <p>CSEF staff has made a commitment to conduct the annual inventory, to include making all appropriate adjustments, by May 1st of every year and to complete the current inventory, including making all adjustments, by October 1st of this year.</p>				
C	<p>Insufficient Monitoring of Concessions Sales Commissions</p> <p>CSEF Director should continue working with RK Group to standardize reporting templates that will help catalyze consistent, complete documentation and allow for more effective monitoring by CSEF staff.</p>	4	Partially Accept	Rebecca Johnson/Contract Officer	October 1, 2012
	<p><u>Action plan:</u></p> <p>It should be noted that at the onset of this audit CSEF staff requested the City Auditor's Office assistance in determining whether the concessions reporting was adequate, and whether there were any efficiency opportunities with regard to either the concessions reporting and/or reconciliation.</p> <p>Much of the basis of the RK Group's concessions reporting to the City was a result of formats that were provided to the RK Group by CSEF when the RK Group assumed concessions operations in 2005. These formats were based on the Aramark concessions contract at the Alamodome, and the Aramark concessions reporting is generally a standardized system among all their properties. Because of this standardization and for consistency, CSEF encouraged the use of much of the same formatting for the RK Group's concessions reporting. CSEF believes the primary issue lies not necessarily nor entirely in the templates themselves, but in the procedures and protocols that the RK Group utilizes to prepare the forms</p> <p>In the interest of addressing both the reporting templates and the RK Group's procedures and protocols, as an additional project related to this audit, CSEF engaged the City Auditor's Office to assist in the review of, and to propose revisions to the RK Group's concessions reporting templates, and also to assist in developing a concessions monitoring checklist for CSEF staff. As part of this process the City Auditor's Office plans to also observe event concessions activity and reporting, along with CSEF and RK staff, to provide further insight and to help identify any potential liabilities. Finally, as part of this process the RK Group is already planning to invest in additional POS systems in various areas to further enhance their concessions sales operations.</p>				

Audit of Convention Sports and Entertainment Facilities Department
Catering Contract

We are committed to addressing the recommendations in the audit report and the plan of actions presented above.

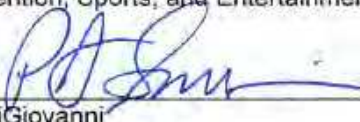
Sincerely,



Michael Sawaya Director
Convention, Sports, and Entertainment Facilities Department

5/31/2012

Date



Pat DiGiovanni
Deputy City Manager
City Manager's Office

6/11/12

Date