



**A Report to the Citizens
of Salt Lake County and the
Board of County Commissioners**

January 1999

A Performance Audit of the

**Salt Palace
Convention Center**

**Craig B. Sorensen
County Auditor**

A PERFORMANCE AUDIT

of the

SALT PALACE
CONVENTION CENTER

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A Performance Audit of the Salt Palace Convention Center

I. Executive Summary

Background

The Auditor's Office completed an audit of the Salt Palace Convention Center that encompassed various operational areas, including cash collection and depositing, calculation and collection of commissions from food service, audio-visual and exhibit decoration contractors, disbursement of Salt Palace funds, and employee credit card usage. We also evaluated the adequacy of internal controls over fixed and controlled assets, including compliance with current County policy.

To evaluate Salt Palace performance, we conducted a satisfaction survey of groups that have rented Salt Palace meeting space, and we collected benchmarking data by surveying convention centers nationwide. We also reviewed the most recent incentive bonus paid to the contracted Salt Palace manager, SMG, to determine if it was calculated in accordance with the current management services agreement.

During 1997, a total of 458 events were held at the Salt Palace which included conventions, trade and consumer shows, and meetings. Total operating revenues for the year were \$5,665,893 and operating expenses were \$7,035,928.

Findings and Recommendations

The following are primary findings within our report.

- *Salt Palace staff provide quality service to clients.*
- *A survey of other convention centers shows the Salt Palace operating deficit is relatively low.*
- *More than one parking lot employee at a time has access to the cash drawer; tickets issued to cars upon entering the parking lot can easily be manipulated to hide a diversion of cash.*

Clients highly rated Salt Palace service.

- ***SMG is not conducting annual inventories of fixed and controlled assets as prescribed by County policy.***

Salt Palace staff provide quality service to clients. As part of the audit, we conducted a satisfaction survey of companies, trade associations, and other organizations who have used the Salt Palace recently. We found that the majority of clients are very satisfied with the quality of both “pre-event” service and service provided during their event at the Salt Palace. Clients are also pleased with the quality of catered and concession food and food service provided by Utah Food Services and Western Food Services.

A survey of other convention centers shows the Salt Palace operating deficit is relatively low. During 1997, the Salt Palace’s operating expenses, excluding depreciation, exceeded operating revenues by \$833,499. However, operating losses are not unusual for convention centers. We surveyed 19 other convention centers and found that, on average, operating revenues cover 84.92 percent of operating expenses. Salt Palace performance was somewhat better with operating revenues covering 87.18 percent of expenses.

Tickets issued to patrons entering the parking lot can easily be manipulated to hide a diversion of cash. Non-paying parking customers are issued the same type of pre-numbered parking ticket as paying customers. The attendant could easily list as “non-paid” any tickets issued to paying customers and pocket the cash. As a solution, the Salt Palace should issue a “temporary pass” to non-paying patrons and have them sign a log.

SMG is not conducting comprehensive annual inventories of fixed and controlled assets as prescribed by County policy. An inventory was not performed during 1997, and only a partial inventory was conducted in 1998. Countywide Policy 1125 requires an annual fixed and controlled asset inventory. In addition, recent asset purchases are not being adequately controlled or accounted for.

Please refer to Section IV of this report for more details about these and other findings.

II. Introduction

The Salt Palace Convention Center markets its exhibit halls, meeting rooms and ballroom to community and national groups for conventions, trade and consumer shows, meetings and other events. There were a total of 458 events in 1997.

Built in 1969, the original Salt Palace included an arena for athletic and entertainment events. In 1984, the north lobby and 129,600 square feet of exhibit hall space were added at a cost of \$21,000,000.

Recently, the Salt Palace underwent a major \$85,000,000 reconstruction that eliminated the arena and replaced most of the original 1969 structure with a new building that includes 52,988 square feet of meeting rooms, a 36,000 square foot ballroom, and additional exhibit hall space of 121,500 square feet.

After this expansion, Salt Palace exhibit hall space measures 262,629 square feet, and meeting rooms total 88,988 square feet. The new building, opened in early 1996, also houses the Salt Lake Convention and Visitor's Bureau Offices, a tourist information office, and other auxiliary areas to service Salt Palace functions and administration.

Building rents, food service, and other charges to users do not fully sustain the Salt Palace; rather, Salt Lake County subsidizes operations and debt through a special tax levied on hotel rooms, prepared food or restaurant meals, and car rentals. Total operating revenues during 1997 were \$5,665,893, and operating expenses were \$7,035,928.

Since 1990, SMG, a Philadelphia-based company, is the contracted Salt Palace manager, coordinating all user events, maintaining the building and marketing the Salt Palace to prospective users within a time frame of up to 18 months from the present. Beyond 18 months, the Salt Lake Convention and Visitor's Bureau has charge of marketing responsibilities. The County pays SMG an annual fee for its services, a fee that for 1997 totaled \$410,779.

The Salt Palace exhibit hall ranks 38th in size nationwide among convention centers, as shown on page 4 in Figure 1. Three metropolitan areas (as defined by the U.S. Census Bureau) which were smaller than Salt Lake City/Ogden—Las Vegas, Honolulu and Reno— have larger convention centers, while six larger metropolitan areas— Boston, Pittsburgh, Tampa, Cincinnati, Milwaukee and Norfolk— have convention centers with smaller exhibit halls than the Salt Palace. See Appendix A for convention center names corresponding to Figure 1.

The Salt Palace has 262,629 square feet of exhibit halls and 88,988 square feet of meeting rooms and ballroom space.

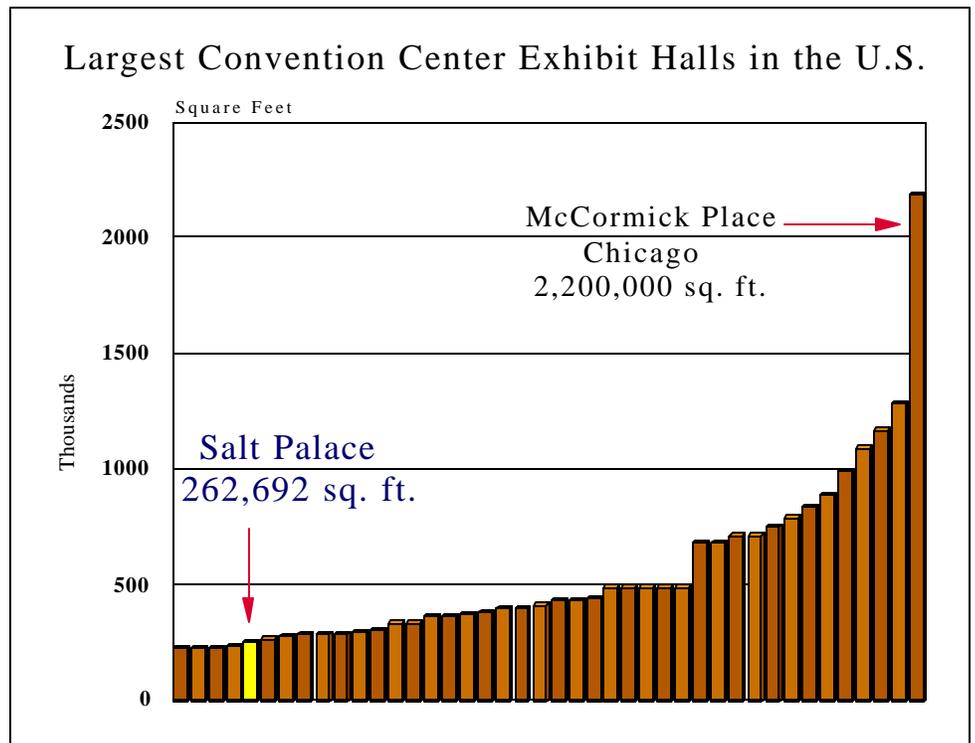


Figure 1. The Salt Palace ranks 38th in size. See Appendix A for convention center names corresponding to this graph.

III. Scope and Objectives

The scope of this audit covered selected areas of Salt Palace operations, including cash collection and depositing, disbursements, calculation and collection of commissions on services provided by outside vendors, and management of fixed assets. The scope also included Salt Palace operational performance. Our objectives, based on sampled data, were as follows:

- C To determine, on a test basis, whether Salt Palace user fees and rents, and commissions from outside vendors, were calculated correctly, collected and deposited.
- C To verify the existence of fixed and controlled assets, and whether these are properly documented, tagged and disposed of in accordance with County policy.
- C To determine how clients rate their service and experience in using the Salt Palace, and to determine how Salt Palace performance indicators compare to other convention centers nationwide.

- C To determine whether incentive payments paid to SMG are in accordance with the current contract.
- C To determine whether disbursements were appropriately authorized and sufficiently documented to establish their legitimacy and reasonableness.

The County's recent decision to further expand the Salt Palace is outside the scope of this audit.

IV. Findings and Recommendations

Our findings and recommendations are divided into five sections: performance indicators, cash handling and revenue, disbursements, fixed assets, and management issues.

1.0 Performance Indicators

We evaluated Salt Palace performance based on two indicators: A *satisfaction survey* of clients who had used the Salt Palace for meetings or events, and a *national survey* of selected convention centers in major metropolitan areas outside of Utah.

At the request of the Director of the Community and Support Services Department, we conducted a satisfaction survey of companies, trade associations, and other organizations which have used the Salt Palace recently. The purpose of the survey was to:

- < evaluate the quality of service provided by the SMG staff to Salt Palace clients.
- < evaluate the quality of catered and concession food and food service.
- < evaluate user satisfaction with the Salt Palace facility.

A copy of the survey questions and detailed results is included in this report as Appendix B. Our major findings from the survey are:

- C **Salt Palace staff provide quality service to clients**
- C **Salt Palace clients are pleased with food quality and service.**
- C **User groups are generally satisfied with the Salt Palace.**
- C **Event management staff coordination could be improved.**

While the satisfaction survey obtained performance information from Salt Palace users relative to the execution of events, the national survey provided performance data relative to revenues, expenses and rates. We obtained sufficient data to include the following findings:

- C **The national survey shows the Salt Palace operating deficit is relatively low.**
- C **The national survey shows the Salt Palace is efficient in its operations.**

1.1 Salt Palace staff provide quality service to clients.

As part of our survey, we asked participants to rate the quality of support they received from Salt Palace staff from the time they booked their event to the day of the event. Participants were asked to respond on a scale of 1 to 5 with 1 indicating poor and 5 excellent. The average rating for pre-event service was 4.37 for Utah based (state and local) organizations and 4.22 for national organizations.

Salt Palace staff is prompt in addressing problems or providing additional services during events.

Salt Palace operations, security, and sound staff also received high marks for the quality of service provided during events. Survey participants indicated that the staff was prompt in addressing problems or requests for additional services during events, and provided good support during event “setup” and “take down.” Survey results pertaining to quality of service are presented in Figure 2, below, and Figures 3 and 4 on page 7.

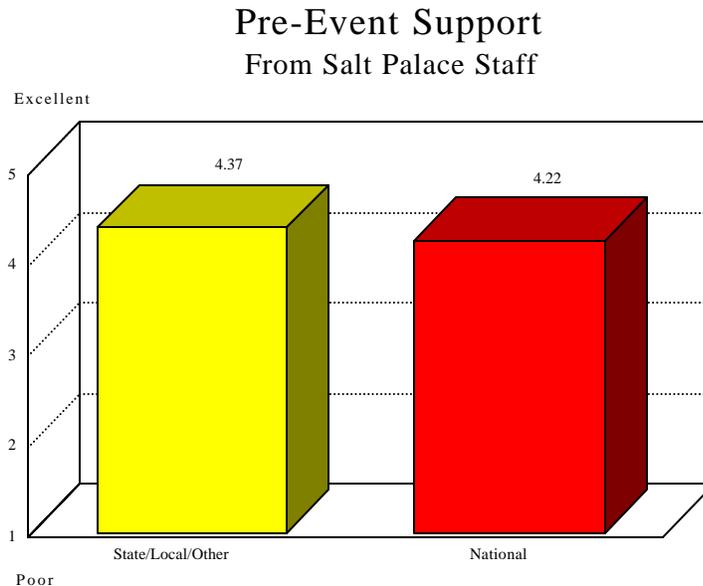


Figure 2 . Salt Palace pre-event service is very good.

Event Support From Operations Staff

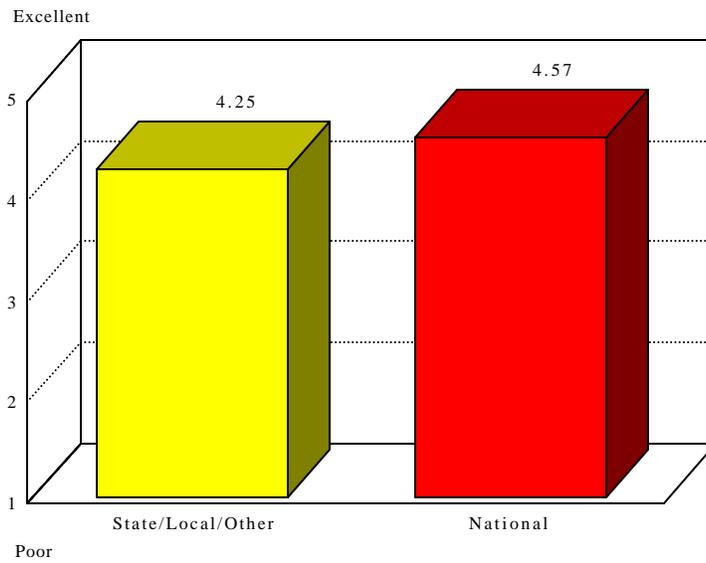


Figure 3. Salt Palace operations staff receives high marks.

Staff Responsiveness To problems and requests for service.

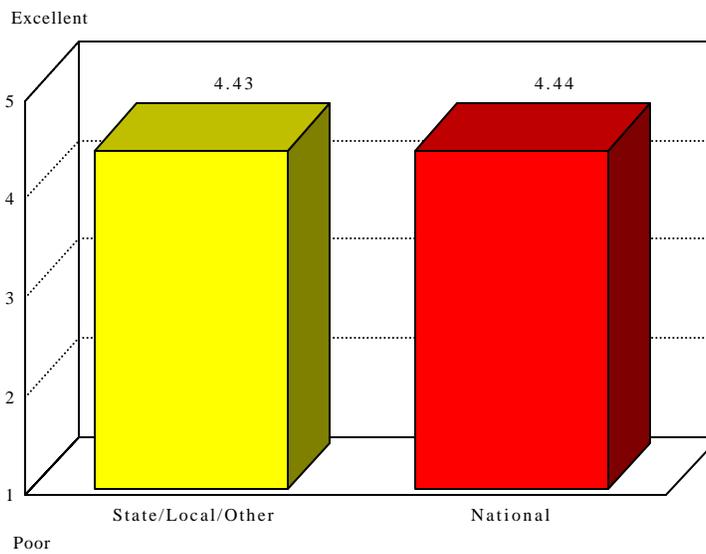


Figure 4. Salt Palace staff are prompt in addressing problems.

1.2 Salt Palace clients are pleased with food quality and service.

Food quality and service exceeded a 4, on a scale of 1 to 5.

As part of our satisfaction survey, we asked participants to rate the quality of both catered and concession food quality and service. Again, we asked each participant to respond on a scale of 1 to 5 with 1 indicating poor and 5 excellent. Catered food services have been outsourced by the County to Utah Food Services and concession foods are provided by Western Foods. Survey participants were particularly impressed with catered food quality and service. Catered food quality received a rating of 4.12 from national organizations and 4.47 from state and local organizations, while catered food service received ratings of 4.35 (national) and 4.60 (state & local).

Concession food quality and service received somewhat lower ratings. Survey results for Salt Palace food service are summarized in Figure 5 below.

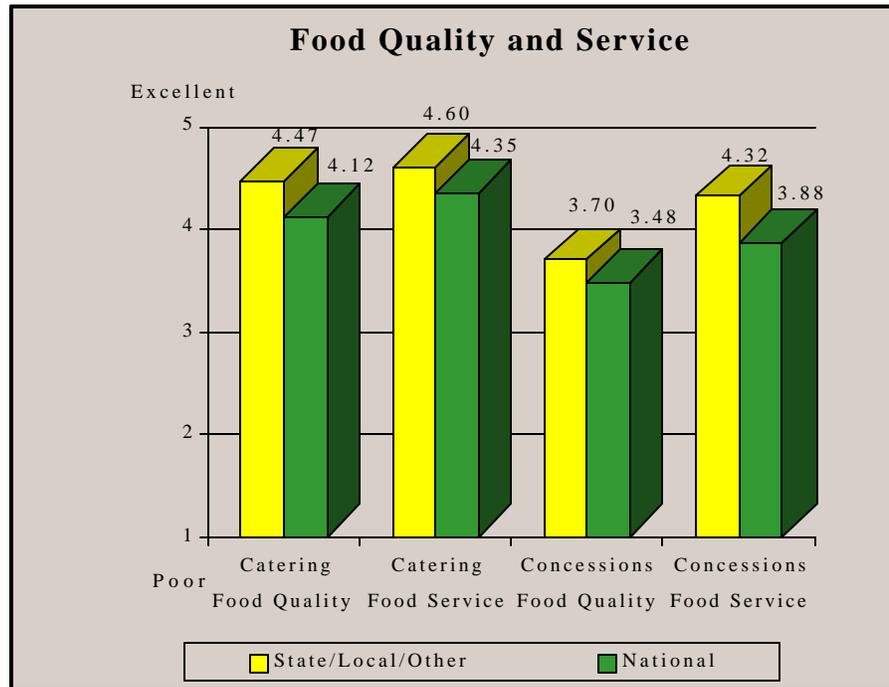


Figure 5. Salt Palace food quality and service rates highly.

1.3 User groups are generally satisfied with the Salt Palace.

We asked survey participants to rate their satisfaction with the exhibit halls, meeting rooms, and the ballroom using the same 1 to 5 scale. The average rating for each area of the Salt Palace consistently exceeded 4.00 (see Figure 6 on page 9).

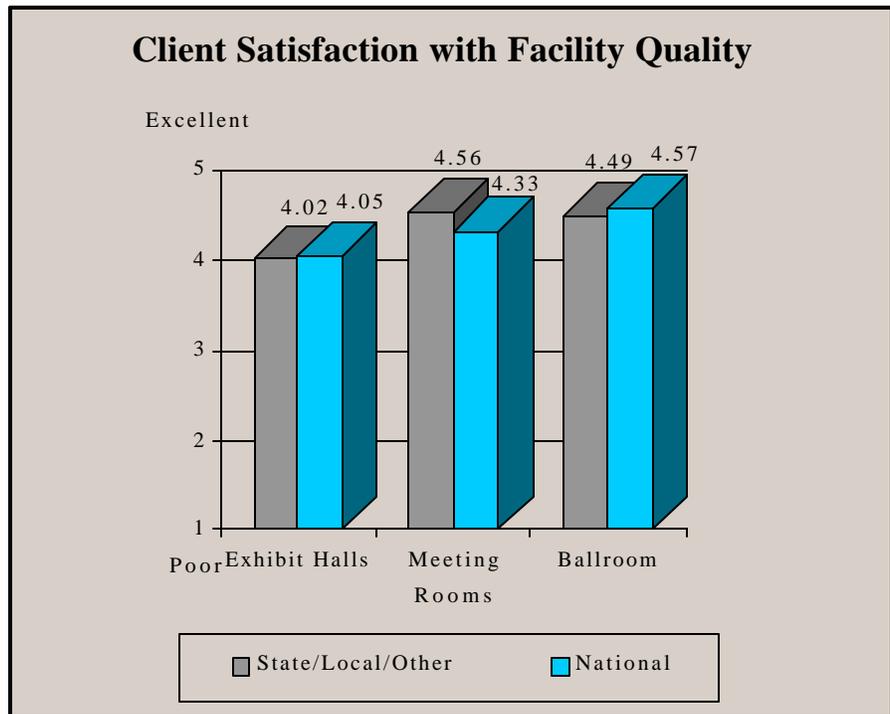


Figure 6. Users are generally satisfied with the Salt Palace.

Most groups stated they would hold their event again at the Salt Palace.

As part of our satisfaction survey, we also asked participants if they would use the Salt Palace again and most indicated they would consider returning. More specifically, 16 of 18 national organizations we contacted indicated they would consider holding their event at the Salt Palace again. (See Figure 7 on page 10.) Of the remaining two, one indicated they would probably not return (at least in the near future) because they select a different city each year. A representative from the second organization stated that they were not likely to return because Salt Lake City was not a popular site with their members.

Most state, local, and other clients we contacted indicated they would consider returning to the Salt Palace. The responses to this survey question are summarized in Figure 7 on page 10.

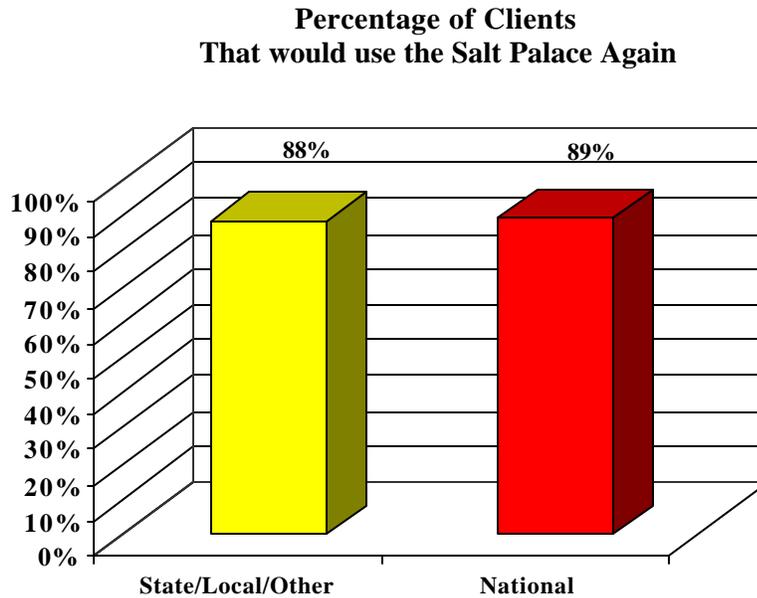


Figure 7. Most users would return to the Salt Palace.

1.4 Event management staff coordination could be improved.

Salt Palace event managers play a critical role during both the planning phase and actual event and are relied upon heavily by meeting planners and event promoters. Although our survey results suggest clients are generally pleased with the pre-event service provided by the staff, we noted a few instances where the event manager assigned to an event changed “mid-stream” which created difficulties for the client because the new manager was not familiar with all of the planning details which had been discussed prior to the change.

While not a pervasive problem, circumstances may occasionally arise in the future which will necessitate a change in the event manager assigned to a particular client. To mitigate this problem, management should review what contingency options might be available to avoid disrupting the quality service Salt Palace staff provides to clients.

1.5 Recommendation:

We recommend that:

1.5.1 Salt Palace management review event manager continuity options.

1.6 The national survey shows the Salt Palace operating deficit is relatively low.

Convention centers typically operate at a deficit. Deficits are the rule, not the exception. Government-owned convention centers exist to support large gatherings, and to spur the local economy through convention spending.

More discretely, convention centers directly benefit the local hotel industry. One convention center finance director outside of Utah admitted to us, “We could shut down this [convention center] if hotel rooms were full.”

To cover operating deficits, governments usually charge special taxes. Salt Palace operating costs not covered by rents and fees are subsidized from the County’s Tourism, Recreation, Cultural and Convention (TRCC) Fund. The TRCC Fund gets its revenues from special taxes levied on restaurant meals, car rentals, and a much smaller amount from a one-half of one percent tax assessed on hotel room charges.

Last year’s Salt Palace deficit of \$833,499 increases to \$1,370,035 when depreciation is included.

Figure 8 below shows convention center deficits based on data that survey respondents gave to us. Deficits shown here exclude debt service, a non-operating item; and, insofar as was determined, depreciation, a non-cash item. The Salt Palace deficit increases to \$1,370,035, the amount reported in its financial statements, when we include depreciation.

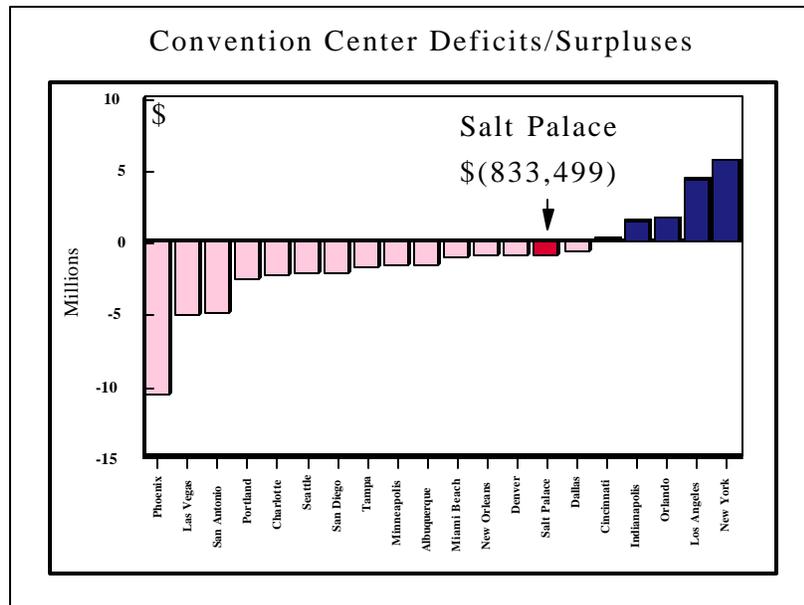


Figure 8. Convention center operating deficits are not unusual.

Figure 9 below shows the percent of operating expenses covered by operating revenues, an indication of the significance of deficits or surpluses.

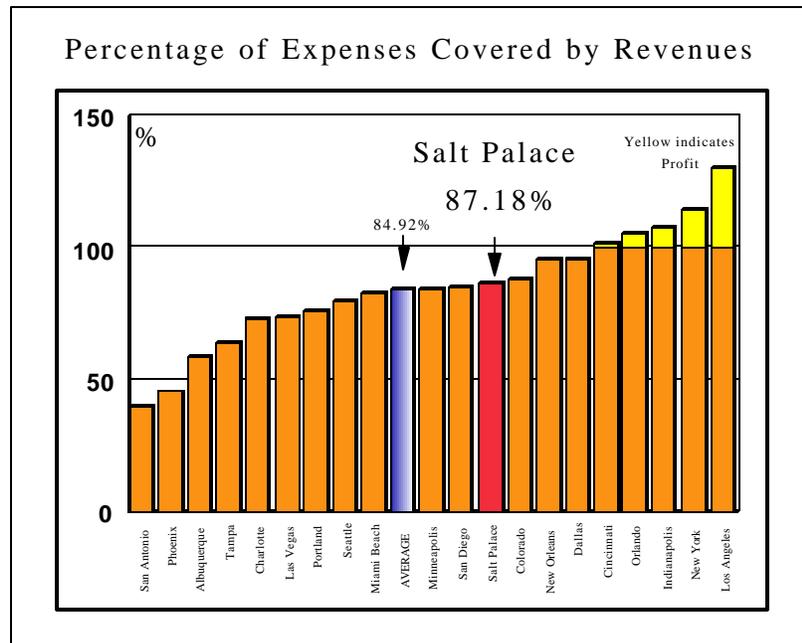


Figure 9. The Salt Palace is above average in operating revenues covering operating expenses.

The Salt Palace deficit, or operating loss (\$1,370,035 in 1997), is covered by the TRCC fund.

1.7 The national survey shows the Salt Palace is efficient in its operations.

The Salt Palace’s operational efficiency allows it to offer competitive rates to clients. At 8 cents a square foot, or as much as 15 cents per *net* square foot, Salt Palace exhibit hall rental rates are comparable to other convention centers nationwide, though the Salt Palace is on the lower end of the spectrum. Salt Palace operating expenses and revenues per square foot are lower than those in most centers surveyed, as shown in Figures 10 and 11 on page 13, suggesting value for clients that rent the Salt Palace.

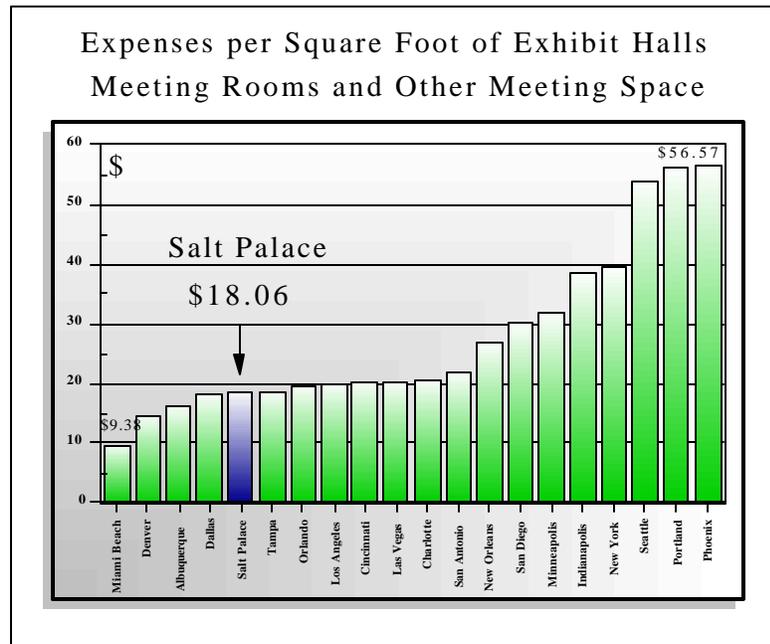


Figure 10. Salt Palace operating costs are lower than most others.

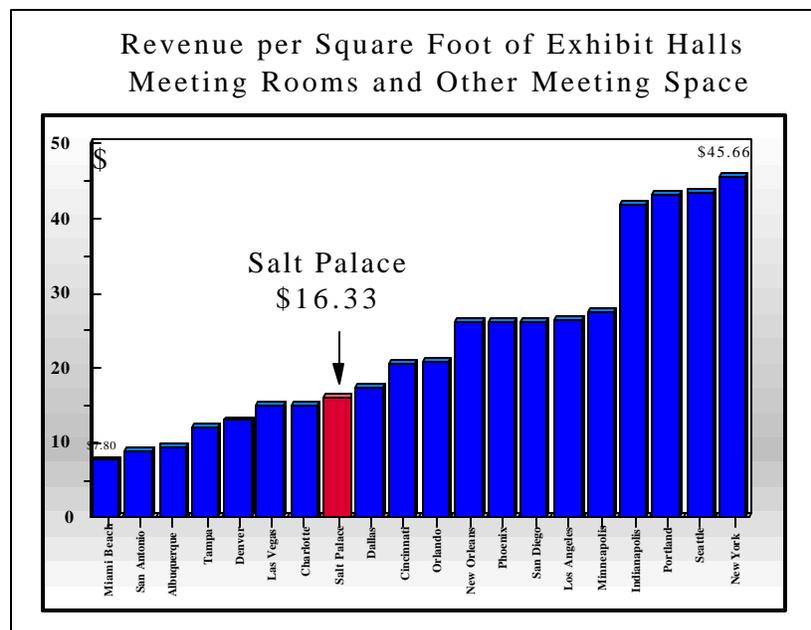


Figure 11. Lower Salt Palace charges mean value to the client

All convention centers may not have the same types of revenue streams. However, two common revenue streams among all convention centers we surveyed were rent and food service.

Figure 12 below compares rent and food revenues per square foot. Note that convention center placement between Figures 11 and 12 is largely the same, suggesting that revenue stream types are generally consistent among the convention centers and that specialized revenue streams that may exist in any particular center do not significantly skew total revenue per square foot.

See Appendix C for a complete list of data relating to Figures 8 through 12.

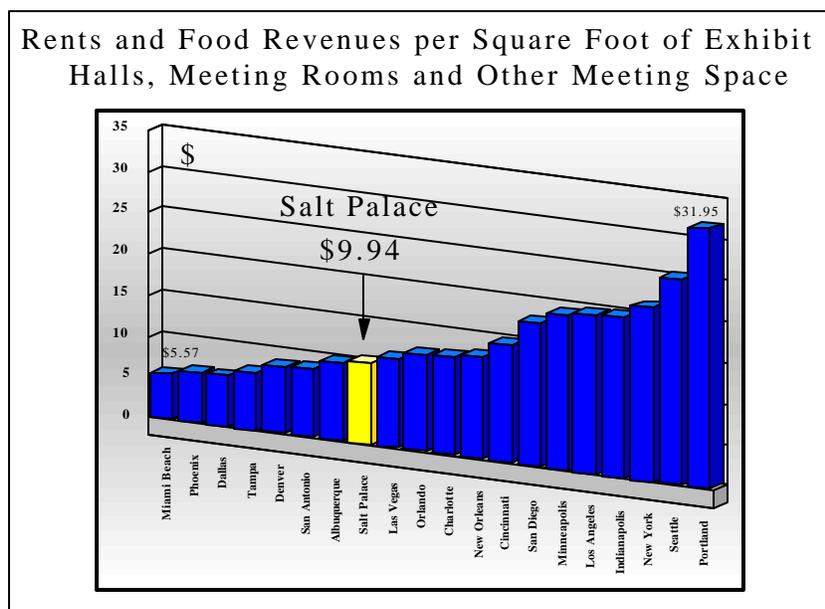


Figure 12. Rent and Food revenues are common in all centers.

Building rents, food revenues and commissions from outside contractors (such as exhibit decorators) provide the greatest sources of non-tax income to convention centers, although three conventions centers located in highly populated areas also mentioned parking as a major revenue source.

Higher building rents equate to higher revenues per square foot. Some convention centers charge a somewhat higher rental rate than the Salt Palace. One of the convention centers showing a profit reported a rental rate per square foot of 30 cents. Moreover, this facility reported no public tax subsidy of its operations, the same as one of the other centers reporting a profit.

SMG should evaluate the feasibility of increasing rents. It is possible that Salt Palace could reduce its operating deficit or show a profit by increasing rents.

The percent of food sales that other centers receive from their contracted food providers is not a significant factor in differentiating revenues. The Salt Palace's 25 percent commission from catered food sales is commensurate with other convention centers, and is in fact higher than some others. However, we did not examine the pricing level for catered meals and other food sales, a factor that also could affect revenues.

1.8 Recommendation:

We recommend that:

1.8.1 SMG evaluate the feasibility of increasing rents.

2.0 Cash Handling and Revenues

Findings in this section relate to the box office and parking lot, and to commissions the Salt Palace receives from services that outside vendors provide to user groups. Our findings are:

- C The Salt Palace could enhance security of funds by using two individuals to count cash delivered by the armored car service.**
- C Internal controls for collecting parking revenue can be improved**

2.1 The Salt Palace could enhance security of funds by using two individuals to count cash delivered by the armored car service.

Consumer and trade show promoters have the option of using the box office operated by Salt Palace personnel for selling tickets to their show. Funds collected by SMG staff are deposited and subsequently remitted to the event promoter, less event expenses owed to the Salt Palace.

The Salt Palace withdraws funds from its operating checking account to use as change while selling tickets for the show. The change fund is delivered to the Salt Palace by the armored car service. The change fund is redeposited into the operating checking account once the event is over.

Salt Palace controls would benefit from having two people verify box office cash funds delivered from the bank.

The Salt Palace Convention Center's Operating Policies and Procedures Manual, Box Office Procedure section, states, "When cash is delivered by an armored car service it must be verified by a Finance and Box Office Representative. The amount of cash funds received should be recorded on a vault log and initialed by both persons."

Currently, cash delivered by the armored car service for use as change for box office events is counted only by the box office manager when the cash arrives at the Salt Palace. The amount of cash funds received is recorded in a vault log and the log is initialed by the box office manager.

The box office manager was unaware of the above requirements in the Box Office Procedures Manual. However, in the past, the box office manager has discussed with upper management a concern for only one person counting the cash when it is delivered. SMG staff indicated to us that management concluded that it was not necessary for two individuals to count the cash.

For some events up to \$30,000 is obtained for change. This is a large amount of cash and coin for one individual to be responsible for counting. Also, if the amount of cash received happens to be different from the amount of cash ordered, a conflict could result between the bank and the Salt Palace. The bank could claim that the cash was all sent, but the individual receiving the cash could claim that it was not. With two people present, there is a double verification on the amount of cash received.

If both sets of initials are not recorded in the vault log, SMG does not have proof that two individuals verified the amount of cash delivered. If there was ever a question on the amounts recorded in the vault log, the double initials would document that the amount was correct.

2.2 Action Taken:

The Finance Director has assigned two individuals to count the cash when it is delivered by the armored car service. Once the individuals count the cash it will be recorded in the vault log. Both individuals will initial the vault log to show the amount of cash was verified and placed in the vault.

2.3 Internal controls for collecting parking revenue can be improved.

When an individual arrives to park their car in a Salt Palace lot, the parking attendant collects the fee and then gives the individual a numerical ticket stub. The individual leaves the ticket stub on the car's dash where it can be seen by parking security.

In some situations, an individual is not required to pay for parking. An example of an individual who would not have to pay for parking is a Salt Lake

Non-paying and paying parking lot patrons are both issued the same parking pass, allowing for a diversion of cash to personal use.

Convention and Visitors Bureau (SLCVB) board member. The Salt Palace has an agreement with the SLCVB that allows SLCVB board members to park for free when going to the Salt Palace for a meeting. The individual who does not have to pay is given a parking ticket stub (called a “void ticket”) from the same numerical sequence as an individual who pays the regular price for parking. No indication is made on the parking ticket stub as to whether it is a regular-priced ticket or a “void ticket.”

A parking attendant could easily manipulate the current system. A parking attendant keeps track of “void tickets” used during a shift. However, the attendant could report fewer sales of regular-priced tickets than actually sold. The attendant could substitute the regular-priced ticket sales as “void ticket” sales. If this were the case, the attendant could divert the difference in funds to personal use.

If a cashier does use parking funds for personal use and covers it up by claiming a void ticket was given to the individual parking, then the amount of funds transferred from the Salt Palace to Salt Lake County for parking revenue would be reduced.

SMG parking management was aware that additional internal controls were needed to prevent a cashier from obtaining funds for personal use. Parking management and the finance department agreed on the following procedures to improve internal controls. Sequential tickets will be purchased for each separate ticket price sold through the parking department. (\$1, \$3, \$5, etc.) The ticket price will be printed on the ticket. In the situation in which a patron does not have to pay for a parking ticket, a numerical temporary pass will be issued. The temporary pass will be checked out by the patron signing a parking log. The log will include the date, ticket number, client signature, client organization, and any other information deemed pertinent by the parking manager.

2.4 Recommendation:

We recommend that:

2.4.1 Internal controls be implemented to safeguard parking funds.

3.0 Disbursements

The Salt Palace writes checks from its own account to cover expenses. Two signatures are required on each check and Salt Palace policies require various levels of supervisory review for all disbursements.

We found that:

- C **The management at SMG is not signing off on all purchase requisitions.**
- C **A manager had the ability to issue a check without anyone being immediately aware of this activity.**
- C **An employee had received overpayments by SMG for travel related expense items.**

3.1 The management at SMG is not signing off on all purchase requisitions.

We examined a sample of disbursements from the period of June 1, 1997 to May 31, 1998 for propriety and documentation. The sample consisted of 90 checks selected randomly and 46 “high dollar amount” checks chosen judgmentally. Each check and accompanying requisition form was examined for the proper approvals, documentation and appropriateness of disbursement.

According to the Salt Palace Convention Center Operating Policies & Procedures, “All purchases are made after the requesting department has properly submitted a purchase requisition, with justification as required, to the Finance Department. Those purchases which amount to more [than] \$1,500 will also require the approval of the General Manager.”

In other words, all purchases should be approved by the Finance Department and anything over \$1,500 should be approved by the General Manager. We found that the Finance Department did not sign off on 15.4 percent of all requisition forms. Similarly, the General Manager did not approve 32.8 percent of the purchases that required his signature. This means that SMG is disbursing cash without the necessary approvals.

Because of the breakdown in the approval process, the potential exists for unauthorized purchases to be made without detection by SMG. Since the County pays for expenses incurred by SMG, the taxpayer ends up paying for what may be an unnecessary expenditure.

The problem was caused by checks issued in a rush and signed without the paper work being properly approved. This often happens with respect to exigency situations. SMG’s support staff was not making sure the requisitions were approved. Instead, they considered the approval process to have taken place when the checks were signed rather than being given prior approval.

Also, the General Manager did not approve some purchases made under

The Finance Department did not sign off on 15.4 % of purchases and the General Manager did not sign off on 33%, as required.

contracts with vendors. The Finance Director indicated that a signed contract constituted management approval of subsequent purchases; approval of purchase requisitions is considered redundant in these cases. However, management review and approval of all purchases (including those under contract) is an important internal control to prevent unauthorized purchases.

3.2 A manager had the ability to issue a check without anyone being immediately aware of this activity.

Two authorized signatures are needed to write checks out of the operating account. However, we found that an SMG manager had the ability to write a check without anyone being aware of this activity. He was able to do this because SMG used signature stamps. In this instance, the manager was not only authorized to sign a check, but he also had a signature stamp for another employee who was authorized to sign checks. Consequently, the employee could easily circumvent the dual signature control and issue checks.

This situation existed because the signature stamps were not carefully distributed, a practice that is not consistent with sound internal control principles. SMG's system of internal controls should be designed to prevent an employee from exclusively handling a transaction. No instances came to our attention where one employee alone issued checks.

3.3 An employee had received overpayments by SMG for travel related expense items.

While analyzing the randomly selected group of cash disbursements, we came across a couple of employee expense reports that were prepared incorrectly. Thus, we began an examination of all employee expense reports submitted by SMG employees during the period of June 1, 1997 to May 31, 1998.

We found that one employee had three expense reports where the employee understated the amount of the cash advance and incorrectly added a fourth expense report. Because these expense reports were not adequately reviewed, overpayments were made to this employee. After we brought this overpayment to management's attention, the employee reimbursed SMG.

3.4 Action Taken:

3.4.1 The employee has reimbursed SMG for the amount of the overpayments.

3.4.2. All expense reports will be examined more thoroughly by the

An employee was overpaid for expense reimbursements because of inaccurate reporting.

Finance Department.

3.4.3 SMG is implementing a new accounting procedure. Instead of reporting an advance as a travel expense, it will be entered into a “prepaid expense account.” This way when the expense report is filed, the entry in the prepaid expense account will be reversed to balance the books.

3.4.4 Management has discontinued the use of signature stamps.

3.5 Recommendations:

We recommend that:

3.5.1 *The Finance Department follow their internal Purchasing Policy and Procedures by requiring proper approvals on requisition forms prior to issuing checks.*

3.5.2 *A separate handling process be set up for exigency items. SMG should designate a specific employee to get the necessary approvals on rushed requisition forms.*

4.0 Fixed and Controlled Assets

Our objective for this portion of the audit was to evaluate the adequacy of internal controls over County fixed and controlled assets, including compliance with Countywide Policy #1125, *Safeguarding Property/Assets*, and the current Management Services Agreement.

A fixed asset is an item of personal or real property owned by the County, meeting the criteria for capitalization, having an estimated useful life of more than one year and cost equal to or greater than \$3,000. Controlled assets are personal property items, which are sensitive to conversion to personal use, having a cost per item of \$100 or greater, but less than the current capitalization rate.

Our findings are:

- c SMG is not conducting comprehensive annual inventories of fixed and controlled assets as prescribed by County policy.**
- c PM-2 forms are not current, not completed properly or not prepared when an asset is transferred or otherwise disposed of.**

- c County inventory tags are not on 24 percent of Salt Palace fixed assets.**
- c SMG is not consistently controlling asset location, or updating the inventory lists of assets assigned to each department.**
- c Recent assets purchases are not being adequately controlled or accounted for.**

4.1 SMG is not conducting comprehensive annual inventories of fixed and controlled assets as prescribed by County policy.

SMG indicates that they try to conduct an annual inventory, but that there is such a continual demand for the assets for events, that it is difficult to take inventories. An inventory was not performed during 1997, and only a partial inventory was conducted in 1998. The assets are divided among eight departments and much of the responsibility is assigned to department heads to conduct the inventories.

Countywide Policy #1125 *Safeguarding Property/Assets*, section 2.2.11 states... “At least annually, conduct physical inventory of fixed assets and controlled assets.” This is to ensure complete accountability for all property owned by or assigned to an organization. SMG agreed to abide by that policy in their Management Services Agreement.

The fixed assets section, in the Accounting and Operations Division of the Auditors Office, indicated that SMG has failed to respond to yearly requests to verify assets, or request assets tag numbers on a timely basis, and as a result the fixed asset list has not been updated since 1994. Based on a comparison of the LGFS0801 report, (the county maintained list of fixed assets), and the list of fixed assets maintained by SMG, the following problems have been identified:

- < County tag numbers have been assigned by the County, but have not been attached to the assets.
- < Some items have been surplused, but remain on the LGFS0801 report and SMG lists.
- < The SMG controlled asset list still has County fixed asset tag numbers assigned, which should be canceled.

Salt Palace inventory procedures need better execution and documentation.

4.2 PM-2 forms are not current, not completed properly, or not prepared when an asset is transferred or otherwise disposed of.

SMG is not consistently providing PM-2 forms when assets are transferred, or otherwise disposed of. One asset had been transferred many months prior to a PM-2 completion. Other assets have been disposed of with no PM-2 completed. Another PM-2 had been prepared showing one copier traded-in when in fact two copiers had been traded-in.

4.3 County inventory tags are not on 24 percent of Salt Palace fixed assets.

Some of the fixed assets did not have County inventory tags on them. During our examination, we selected a statistical sample from the combined items on the LGFS0801 report and the SMG lists, and found that 24 percent of the items inspected had no tag. Recently acquired assets are shown on the SMG fixed asset list, but they do not reflect the interim tagging that is recommended by County policy.

4.4 SMG is not consistently controlling asset location, or updating the inventory lists of assets assigned to each department.

Some department heads were unaware that certain assets were assigned to them, that others had been transferred away, or disposed of. Equipment is scattered throughout the complex where it was left after its last use, and no system of location control, or check- in and check- out is in place.

There are items located throughout the complex that are on separate SMG lists, but are not shown on either the fixed or controlled asset lists, such as plants and chairs that meet the criteria for fixed or controlled assets.

4.5 Recent asset purchases are not being adequately controlled or accounted for.

Some recently purchased fixed assets appear on the SMG lists, but not on the LGFS0801 report. We also located other items such as four plants as noted above, each valued in excess of \$3,600, which are on a purchase order dated December 17, 1997 but not on the SMG fixed or controlled asset lists.

Asset purchases need to be included in the County's fixed asset report.

4.6 Recommendations:

We recommend that:

4.6.1 *SMG conduct thorough annual inventories of both fixed and controlled assets.*

4.6.2 *A PM-2 form be completed before an asset is transferred or disposed of.*

4.6.3 *County inventory tags be attached to all fixed assets.*

4.6.4 *SMG control fixed asset location, and update their inventory records of assets assigned to each department.*

5.0 Management Issues.

Salt Palace management allocates utility costs (electricity, gas and water) to Symphony Hall, the Fine Arts Center and the Salt Lake Convention and Visitors Bureau. Utility charges to the Salt Palace include usage by these other facilities, but do not differentiate between any one building or area.

As another function, management establishes rent rates for the Salt Palace, waiving or reducing these rates depending on market factors and other considerations.

SMG is eligible to receive an annual incentive bonus for its management of the Salt Palace. The County authorizes and pays this bonus based on various criteria found in the management agreement. We found the following in these areas:

- C Cost allocation methodology needs to be improved.**
- C Deviations in rent rate schedules are insufficiently documented.**
- C The County's 1997 bonus to SMG was determined in accordance with the contract.**

5.1 Cost allocation methodology needs to be improved.

The Salt Palace allocates electricity costs to Symphony Hall and the Fine Arts Center by taking an average of what was billed to these centers over the past three years. Instead of being based on usage, the allocation is an average of averages.

Management states that numbers used in the average of averages originated from a usage factor in the old building, a factor or method that has since been forgotten, cannot be documented, and is obsolete since the Salt Palace is in a new building.

The Salt Palace, Fine Arts Center and Symphony Hall— three separate buildings—share the same electricity line. The power company reads a single meter for all three buildings, and bills the Salt Palace, but does not segregate costs by building. SMG must perform this task.

Personnel do not understand or have confidence in a digitally-read meter and computer program at the Salt Palace that monitors electricity flow to the other two facilities.

The Salt Palace also allocates 33 percent of its gas bill to Symphony Hall and Fine Arts for steam it generates, a portion of which is sent to these two facilities, and it allocates a flat \$875 a month for storm water drainage that the Salt Palace gets billed for. Again, management explains the 33 percent as being based on some now-forgotten usage factor in the old building, before the advent of SMG.

In addition, the Salt Palace allocates utility costs to the Salt Lake Convention and Visitors' Bureau (SLCVB) for its 17,900 square feet of office and gift shop space in the Salt Palace. The charge is based on a factor of the average utility costs in SLCVB's old building divided by the square feet in the old building, multiplied by the current month's power and gas bills. The Salt Palace finance director feels this factor is conservative given that SLCVB gets a lot more sunlight now than it did in its old building, creating greater electricity costs from air conditioning. The formula bears no relationship to the space currently being used.

Utility cost allocations need to be based on current usage and building size.

5.2 Deviations in rent schedules are insufficiently documented.

The Salt Palace does not always document the reason for deviations from rent schedules. Most of the time these are due to catered meals, in which case the client gets the room, in which the meal is served, free, or at a reduced rate. Some of the time, management reduces or waives rents as a marketing inducement.

For example, we reviewed one convention where rents would have totaled \$125,485, but the Salt Palace waived \$88,985, a waiver that was not documented but that personnel explained to us as due to inconvenience over Salt Palace reconstruction. As another, smaller example, rents to a group using meeting rooms for rehearsals would have totaled \$2,400; the Salt Palace waived

The Salt Palace waived over \$88,000 rent for a particular function, but did not document the reason.

\$1,525 of that amount but did not document why.

Management cannot adequately review and assess its rent practices when deviations from the rent schedules are not documented. As a solution, each event file could include a rent calculation sheet that shows the amount by which rent was reduced and the reason for the reduction, thereby allowing better monitoring of rents.

5.3 The method by which SMG's incentive bonus is determined can be improved.

SMG's contract with the County stipulates that an annual incentive bonus will be paid to SMG based on their performance. This bonus consists of two components, a quantitative amount based on revenue, and a qualitative amount based on other performance criteria. The contract states, "The combined qualitative and quantitative incentives shall not exceed \$150,000."

No bonus was given for 1996. A bonus was awarded to SMG in 1998 for the 1997 year. This bonus totaled \$135,779. This amount is made up of a quantitative portion totaling \$100,779, and a qualitative amount totaling \$35,000. We reviewed the methodology used to calculate the bonus in both the quantitative and the qualitative areas.

The contract states, "Increases in revenues shall be calculated based on the increase of revenue volume over the projected revenue budget." In short, any revenue earned in excess of the budgeted revenue amount will be the basis for the quantitative bonus. The bonus is calculated at 20 percent of the excess of revenue earned over budgeted revenue. We confirmed the accuracy of the calculation for the quantitative bonus.

According to the contract with SMG, the qualitative portion of the bonus is based on four categories. They are 1) Client Satisfaction, 2) Community Involvement, 3) Maintenance & Operations, and 4) Contract Compliance. In reviewing the qualitative bonus, we met with the Director of Community and Support Services who oversees the County's contract with SMG. The Director evaluates SMG's performance in each of these areas and makes a recommendation to the Board of County Commissioners as to the amount of the qualitative bonus that should be paid.

We have identified two problems with this section of the contract. First, the method for determining the amount of the qualitative bonus is unclear because mutually agreed upon guidelines or criteria for three of the four evaluation categories (client satisfaction, community involvement, and contract compliance) are not included in the contract. Consequently, an evaluation of SMG's performance in these categories is a subjective process. Second, we question the appropriateness of including "contract compliance" as an evaluation

category. At the very least, paying SMG a bonus for simply complying with the contract is a questionable use of public funds.

The method by which the qualitative bonus is determined could be improved if the contract were amended to include mutually agreed upon guidelines or criteria for the client satisfaction and community involvement categories. Also, management should consider deleting the “contract compliance” category from the contract.

5.4 Recommendations:

We recommend that:

5.4.1 The Salt Palace allocate electricity costs to Symphony Hall and the Fine Arts Center based on actual usage monitored by equipment currently in place or the acquisition of additional monitoring equipment as needed.

5.4.2 The County engage an independent consultant to determine the most effective methodology for allocating all utilities costs to the Salt Lake Convention and Visitors’ Bureau, and gas and water costs to Symphony Hall and the Fine Arts Center.

5.4.3 The Salt Palace document total rent for each event, the amount by which rent was reduced, and the reason for the rent reduction.

5.4.4 The County amend the contract with SMG to provide mutually agreed-upon guidelines or criteria for the client satisfaction and community involvement categories in determining the amount of the qualitative bonus to be paid. Also, the contract compliance evaluation category should be deleted.

Largest U.S. Convention Center Exhibit Halls

City	Name of Center	Exhibit Hall Square Feet
1 Chicago	McCormick Place	2,200,000
2 Las Vegas	Las Vegas Convention Center	1,300,000
3 Atlanta	Georgia World Congress Center	1,180,000
4 Orlando	Orange County Convention Center	1,103,538
5 Las Vegas	Sands Expo & Convention Center	1,006,398
6 Cleveland	International Exposition (I-X) Center	902,000
7 Dallas	Dallas Convention Center	850,000
8 Detroit	Cobo Conference/Exhibition Center	800,000
9 New York	Jacob K. Javits Convention Center of New York	760,000
10 Anaheim	Anaheim Convention Center	720,000
11 Los Angeles	Los Angeles Convention & Exhibition Center	720,000
12 New Orleans	Ernest N. Morial Convention Center	700,000
13 Rosemont (Chicago)	Rosemont Convention Center	700,000
14 Miami Beach	Miami Beach Convention Center	502,717
15 St. Louis	America's Center/Cervantes Convention Center	502,000
16 Philadelphia	Philadelphia Convention Center	502,000
17 Atlantic City, NJ	Atlantic City Convention Center	500,000
18 Kansas City	Kansas City Convention Center	498,600
19 Houston	George R. Brown Convention Center	451,500
20 San Francisco	Moscone Convention Center	442,000
21 Phoenix	Phoenix Civic Plaza	438,000
22 Indianapolis	Indiana Convention Center & RCA Dome	418,463
23 Charlotte, NC	Charlotte Convention Center	412,500
24 Cleveland	Cleveland Convention Center	409,000
25 Long Beach, CA	Long Beach Convention & Entertainment Center	390,382
26 Washington, D.C.	Washington Convention Center	381,000
27 Kansas City	American Royal Center	372,000
28 Reno	Reno-Sparks Convention Center	370,000
29 Honolulu	Hawaii Convention Center	350,000
30 San Diego	San Diego Convention Center	349,338
31 Minneapolis	Minneapolis Convention Center	319,000
32 Columbus	Greater Columbus Convention Center	306,000
33 Baltimore	Baltimore Convention Center	300,000
34 Denver	Colorado Convention Center	300,000
35 San Francisco	Cow Palace	300,000
36 San Antonio	Henry B. Gonzalez Convention Center	291,600
37 Seattle	The Kingdome	281,147
38 Salt Lake City	The Salt Palace Convention Center	262,692
39 Boston	Bayside Convention & Exposition Center	250,000
40 New Orleans	Louisiana Superdome	240,030
41 Cincinnati	Dr. Albert B. Sabin Convention Center	240,000
42 Tampa	Tampa Convention Center	236,000
* Pittsburgh	David L. Lawrence Convention Center	131,000
* Norfolk	Norfolk Department of Civic Facilities	70,000
* Milwaukee	Milwaukee Exposition and Convention Center	66,000

Source: *Tradeshaw Week*

* - These cities not included in the Tradeshaw Week data. Data for these cities was obtained from the International Association of Assembly Managers directory.

Edited by Auditor's Office.

On a scale of 1-5, how would you rate the quality of the concessions food?

1 2 3 4 5
Poor **Excellent**

	Responses	Average
State,Local & Other client results	17	3.70
National client results	9	3.48
Consolidated	26	3.54

On a scale of 1-5, how would you rate the overall quality of the concessions food service

1 2 3 4 5
Poor **Excellent**

	Responses	Average
State,Local & Other client results	18	4.32
National client results	9	3.88
Consolidated	27	3.99

7. Have you used other convention centers in the past? _____Yes _____No

	Yes	No	N/A
State,Local & Other client results	42	16	0
National client results	18	0	0
Consolidated	60	16	0

Ushers 1 2 3 4 5

Responses Average

State,Local & Other client results	10	4.00
National client results	7	3.43
Consolidated	17	3.86

Parking 1 2 3 4 5

Responses Average

State,Local & Other client results	34	3.32
National client results	7	3.57
Consolidated	41	3.38

Operations 1 2 3 4 5

Responses Average

State,Local & Other client results	55	4.25
National client results	18	4.57
Consolidated	73	4.33

Sound 1 2 3 4 5

Responses Average

State,Local & Other client results	34	4.34
National client results	9	4.11
Consolidated	43	4.29

14. Was the lighting in the rooms to your satisfaction? _____Yes _____No

Yes No N/A

	Yes	No	N/A
State,Local & Other client results	57	1	0
National client results	16	2	0
Consolidated	73	3	0

15. On a scale of 1-5, how would you rate the cleanliness of the facilities?

1 2 3 4 5
Poor Excellent

Responses Average

	Responses	Average
State,Local & Other client results	58	4.75
National client results	18	4.61
Consolidated	76	4.71

16. On a scale of 1-5, how would you rate the directional signs for your event?

1 2 3 4 5
Poor Excellent

Responses Average

	Responses	Average
State,Local & Other client results	32	3.02
National client results	13	3.84
Consolidated	45	3.23

20. Did you use Internet connections during your event? _____Yes _____No

Yes No N/A

State,Local & Other client results	10	46	2
National client results	9	9	0
Consolidated	19	55	2

Were there adequate hookups lines available? _____Yes _____No

Yes No N/A

State,Local & Other client results	7	2	49
National client results	8	1	9
Consolidated	15	3	58

Did you experience any problems with your connections? _____Yes _____No

Yes No N/A

State,Local & Other client results	4	5	49
National client results	4	5	9
Consolidated	8	10	58

21. On a scale of 1-5, did the attendees of your event enjoy their experience at the Salt Palace?

1 2 3 4 5

Dissatisfied

Very Pleased

Responses Average

State,Local & Other client results	52	4.38
National client results	18	4.44
Consolidated	70	4.39

22. Does Salt Lake City as a convention site draw more, fewer, or about the same number of convention/show participants as other sites you've been to?

- G More
G About the Same
G Fewer

Fewer Abt More
 Same

	Fewer	Abt Same	More
State,Local & Other client results	6	25	6
National client results	4	9	5
Consolidated	10	34	11

23. Would you hold your event at the Salt Palace again? _____Yes _____No

Yes No N/A

	Yes	No	N/A
State,Local & Other client results	50	7	0
National client results	16	1	1
Consolidated	66	8	1

If not, why?

Responses: Typically never go back to last year site. Already booked elsewhere. Salt Lake was not a popular site, poorest rated in last five years. Several local groups stated that the Salt Palace staff reflected an attitude that they knew our group had no where else to go and they did not get the attention they thought they deserved. One respondent said may have to cancel because of parking problem. Only facility that is large enough. Much congestion and booking problems.

24. Do you have any other comments about your experience with the Salt Palace?

Responses: One group said the experience was extremely positive. Another said it would be nice if the Salt Palace treated the regional promoters as nicely and as fairly as the national promoters, because consumers shows were not accommodated like conventions. Nobody went over the contract with us, but marketing staff very attentive. Comments about food service were, awkward dealing with two food sources. Western Foods is the best concessions vendor. Food service staff are extremely easy to work with. Utah Foods high, high marks. Ballroom hard to use because ceiling rigging points are not installed. One group said the staff was reactive not proactive, another said the staff was very accommodating. "Parking is terrible," was a common comment, could have lost participation because of lack of parking. Loading and unloading is horrible. Loading docks are too high, too narrow, and are a bottle neck when busy. Event Manager was terrible, but lower managers were very helpful. Change of event manager

(on vacation) hurt coordination, need Event Manager there on day of event. Site staff needs to be empowered to make decisions. Some were very pleased with the quality of facility. One person suggested a need for a reader board sheet for every meeting going on, and-or information booths, to better direct traffic, One respondent liked the 18 month booking option, another did not. Several respondents suggested a need for another place in town for smaller events. Some cited that older sections (of the Salt Palace) need renovation.

Selected Convention Center National Survey Data

City where Convention Center is Located	Square Feet All Meeting/ Exhibit Space	Operating Expenses	Operating Revenues	Rent & Food Revenues	Expense per sq.ft. of Meeting Space	Revenue per sq. ft. of Meeting Space	Rent & Food Revenue per Meeting Space Sq. F.	% of Revenues that cover Expenses
Miami Beach	630,348	\$5,910,500	\$4,916,000	\$3,508,000	\$9.38	\$7.80	\$5.57	83.17%
Denver	510,253	\$7,512,999	\$6,671,643	\$4,192,000	\$14.72	\$13.08	\$8.22	88.80%
Albuquerque	238,200	\$3,824,357	\$2,257,000	\$2,257,000	\$16.06	\$9.48	\$9.48	59.02%
Dallas	964,380	\$17,330,448	\$16,671,214	\$6,100,000	\$17.97	\$17.29	\$6.33	96.20%
Salt Palace	351,680	\$6,499,392	\$5,665,893	\$3,497,392	\$18.48	\$16.11	\$9.94	87.18%
Tampa	263,000	\$4,963,740	\$3,171,329	\$1,895,670	\$18.87	\$12.06	\$7.21	63.89%
Orlando	1,436,678	\$28,250,301	\$29,929,091	\$16,881,472	\$19.66	\$20.83	\$11.75	105.94%
Los Angeles	904,940	\$18,275,436	\$23,946,890	\$17,630,895	\$20.20	\$26.46	\$19.48	131.03%
Cincinnati	242,000	\$4,900,000	\$5,000,000	\$3,500,000	\$20.25	\$20.66	\$14.46	102.04%
Las Vegas	945,263	\$19,210,126	\$14,206,146	\$10,279,847	\$20.32	\$15.03	\$10.88	73.95%
Charlotte, N.C.	403,000	\$8,311,188	\$6,090,333	\$4,882,944	\$20.62	\$15.11	\$12.12	73.28%
San Antonio	374,149	\$8,212,889	\$3,323,944	\$3,107,199	\$21.95	\$8.88	\$8.30	40.47%
New Orleans	830,000	\$22,600,000	\$21,700,000	\$10,400,000	\$27.23	\$26.14	\$12.53	96.02%
San Diego	494,000	\$15,026,200	\$12,929,300	\$8,695,100	\$30.42	\$26.17	\$17.60	86.05%
Minneapolis	357,650	\$11,443,000	\$9,762,000	\$6,792,139	\$31.99	\$27.29	\$18.99	85.31%
Indianapolis	436,084	\$16,850,240	\$18,252,310	\$8,540,356	\$38.64	\$41.86	\$19.58	108.32%
New York	950,000	\$37,716,138	\$43,378,105	\$20,247,000	\$39.70	\$45.66	\$21.31	115.01%
Seattle	202,000	\$10,929,894	\$8,747,636	\$5,105,122	\$54.11	\$43.31	\$25.27	80.03%
Portland	199,500	\$11,239,715	\$8,584,753	\$6,373,608	\$56.34	\$43.03	\$31.95	76.38%
Phoenix	351,000	\$19,855,000	\$9,180,000	\$2,200,000	\$56.57	\$26.15	\$6.27	46.24%
AVERAGE	554,206	13,943,078	12,719,179	7,304,287	\$27.67	\$23.12	\$13.86	84.92%

Note:

1. The purpose of this page is to support bar graphs in the body of the report that compare convention center revenues and expenses.
2. Square feet of meeting space noted above includes all exhibit halls, meeting rooms, ballrooms, theaters, arenas and any other convention center meeting space reported to the Auditor's Office.
3. Revenues and expenses are shown for the most recent reporting year available, either 1997 or 1998.
4. The Auditor's Office estimated the size of some portions of three convention centers above because this data was not available.
5. The Auditor's Office estimated Las Vegas revenues and expenses because financial reports contained other operations in addition to the convention center itself.
6. The Auditor's Office excludes \$43 million in New York revenues and expenses each because this represents labor that is contracted for and recognized as revenue, and then expensed. It is a wash.
7. Depreciation is not included for the Salt Palace, and centers in New York, Orlando, Las Vegas and Indianapolis. Other centers may or may not include depreciation depending on their interpretation of reportable operating expenses.



March 1, 1999

Mr. Craig B. Sorensen, County Auditor
Salt Lake County Auditor's Office
2001 S. State St., Ste. N2200
Salt Lake City, UT 84190-1100

Dear Mr. Sorensen:

The Salt Palace/SMG appreciates the work of the Salt Lake County Auditors, particularly Larry Decker and Lance Brown. We found this audit which began in May 1998 and concluded in January of 1999, to be very thorough. We especially appreciate the survey that was conducted of the Salt Palace clients. It is great to have an independent customer satisfaction survey and we are pleased with the results. SMG is dedicated to client satisfaction, accountability and operational excellence.

As the new General Manager of the Salt Palace, I feel this audit and survey will be useful in identifying the things we do well, in addition to the opportunities it presents for improvement. This will assist us in our mission to become a world class convention facility and help prepare the Salt Palace to meet the high demands of local, national and international events.

As requested, we are pleased to provide detailed comments on the findings and recommendations of the Auditor's report.

Section 1.0 Performance Indicators

- 1.1 The satisfaction survey was a sampling of events that occurred at the Salt Palace during the 13-month period of June 1, 1997 to June 30, 1998. During that time 500 events took place and 76 were surveyed. This sampling included national conventions as well as state, local and other events. The County survey represents a good cross section of our events. While we are very pleased with the findings we also want to caution that a single comment of concern by a client should not be taken as an overall fact of how business is conducted and interpreted as a major finding.
- 1.2 Salt Lake County has a contract for food service at the Salt Palace with Utah Food Services, the Salt Palace acts in the capacity as the contract administrator. We are pleased with the quality of Utah Foods and happy that it reflects positively on the Salt Palace.
- 1.3 We strive for excellence in our work and we are pleased with the survey findings. In almost every response the average was above 4 out of a possible 5.
- 1.4 It is the policy of the Salt Palace to have an assigned Event Manager as the single point of contact for every event. Occasionally, there are extenuating circumstances that would necessitate a substitution. During the period surveyed one Event Manager was called away during an event for their child's emergency heart surgery and another Event Manager was required to step in to assist.
- 1.5 We feel the performance of the event management team is reflected in the overall rating of 4.43, an extremely good rating. To achieve continuity in the rare case a

substitution is required, our Director of Events is responsible to step in and manage the event.

- 1.6 & We appreciate the acknowledgement of the low deficit. As a professional
- 1.7 management company, we pride ourselves on our operating efficiencies.
- 1.8 One goal of the Salt Palace Convention Center team is to maintain the facility in a world class manner. The pricing of a center in terms of rent and other services is highly competitive. We are very cognizant of the market and of our competitors, and we work closely with the Salt Lake Convention and Visitors Bureau to remain price sensitive in the market. We have a schedule of projected rates and we review increases on a continuing basis. Any fee and rate increases we propose are reviewed and approved by the County before they go into effect.

Section 2.0 Cash Handling and Revenues

- 2.1 & While we agree that there is the potential for a shortage or a difference in cash that is
- 2.2 alleged to be delivered by the armored car service and the actual amount, we have never experienced such an incident. We have however, implemented the auditor's suggestion and made assignments accordingly so two individuals are assigned to count the cash when it is delivered by the armored car service.
- 2.3 & We have implemented additional controls over the collection of parking
- 2.4 revenue as outlined in the audit report. The Salt Palace expansion project will incorporate additional controls such as an automated system with parking passes, coupons and garage access cards. The new system will provide data on vehicle occupancy levels, record the number of cash transactions per lane per shift, and provide information on which cardholders are using the garage. With the automated system, each opening of the entry gate must be accounted for by the cashier in each lane by having the correct amount of cash, the correct number of remaining tickets, discounted parking coupons, and complimentary passes, as well as a sign-in log of discounted and complimentary parking patrons during a shift. This system will be operational for each parking lot or garage at the Salt Palace.

Section 3.0 Disbursements

- 3.1 & In examining the purchase requisitions that did not include a manager signature,
- 3.5.1 i.e. the Director of Finance or General Manager, we found that most of the disbursements were not for the purchase of materials or supplies, but were for event settlements, and payments under contract. These disbursements were approved by evidence of settlement statements, and by management signature on the check. In most instances, the signature that was missing represented a redundancy in the approval process. This signature would not have represented an approval of the purchase but instead represented an approval for disbursement of funds. In our process, the disbursement of funds for these transactions is two fold; first a requisition document is prepared followed by a check. The signatures required for both documents are the same.

The process to ensure that unauthorized purchases are not being made begins with a notice that we have sent to all Salt Palace vendors. This notice requires vendors to obtain an authorized Salt Palace purchase order number before they provide any service, materials or product. Next, each manager is required to submit a request for a purchase before they obligate the Salt Palace. Upon approval of a purchase requisition, the department is authorized to proceed with the purchase. In addition to the above, each manager is given authority to purchase goods under an authorized blanket order, which has a predetermined limit. This facilitates the timely purchase

of small items. At the conclusion of each month we prepare a complete list of all purchase orders issued and all disbursements made for management review.

We believe this process minimizes the risk of unauthorized purchases. We are willing to consider all suggestions for improvement and will instruct the staff to obtain all necessary signatures.

- 3.2 All signature stamps have been destroyed. Disbursements that require an immediate
- 3.5.2 payment will be accommodated with only a minimal delay.
- 3.3 SMG has a policy of management approval on all travel expense reports.
- 3.4 During the audit process the amount of expenses reported were found to be appropriate and in accordance with policies. The exception found by the auditor was with the amount of the cash advance reported resulting in an overpayment to an employee. This error involved reporting travel advances was isolated to only one employee. This employee has reimbursed the Salt Palace and is no longer employed by the Salt Palace.

Additional review procedures have been implemented to ensure this type of error will not occur again. All trip advance requests will be filed in a pending file. There will be a follow-up each month to ensure that an expense report has been turned in that reconciles the cash advanced with the cost of the trip. The advance will also be accounted for in a prepaid expense account and matched with the corresponding expense report upon its completion.

Section 4.0 Fixed and Controlled Assets

- 4.1 & The Salt Palace started an inventory during 1997, but was not completed until 1998.
- 4.6.1 During the inventory process it was discovered the list provided by the County, was incomplete. Assets purchased during the 1996 expansion were included in a separate list, which was not provided to the Salt Palace until 1998. We also did not receive inventory tags from the County for more than a year. These factors made an inventory process in 1997 difficult. These difficulties between the Salt Palace and the County have been addressed and we will work with the County to insure future inventories will be timely.
- 4.2 & We have used the County Contracts & Procurement/Surplus department for
- 4.6.2 disposals, which took place during the demolition of the old Salt Palace. PM-2s were completed with the assistance of that department. Since that time there have been 13 PM-2s completed. Employees responsible for completion of PM-2s will receive additional training to ensure they are completed accurately and timely.
- 4.3 & There have been problems in receiving tags and inventorying assets in the past. The
- 4.6.3 assets that did not have tags on them were part of a group, mentioned above in 4.2, where tags were received about a year after the purchase of the asset. In an effort to gain control of the accountability of assets, we developed a database of fixed assets separate from the County system. With this system, we have been able to increase the level of accountability and record an asset when it is purchased. All assets have since been tagged. We are not aware of an interim tagging system that was suggested in the audit report.

Recent purchases will always initially be reflected in our reports in order to facilitate control over the purchase. We feel that if we record the initial purchase and then receive the tags later from the County we will not have as great a risk of losing accountability as has happened in the past.

Since 1996 we have placed 266 tags on County equipment and 246 tags on controlled assets.

- 4.4 & We have in place a system whereby assets are assigned to a specific department.
- 4.6.4 The respective assets are also assigned to a "home" location. The assets, however, may not always be in the same location since it may be used for servicing an event. Department heads are given a list of the assets for which they are responsible. We have had issues of timeliness, however now that all inventory lists are current, we should experience no further problems.
- 4.5 The recent asset purchase mentioned in the audit report was in regard to the purchase of live plants for the facility. It was a misunderstanding of the nature of the purchase and that it would be considered a capital asset by the auditor's office. It was accounted for as an operating expense at the time of purchase and was therefore not added to the equipment list. Since the audit we have reclassified the plants as an asset.

Section 5.0 Management Issues

- 5.1 & We agree that the current Utility Allocation system may not represent the actual
- 5.4.1 costs of utilities to Abravanel Hall or the Art Center. The costs that are being allocated are relative to the charges that have been made over the last 10 years. We are open to recommendations on a better system. We would not recommend a paid consultant because of the expense to the County. Any improvement in the system will not save any money overall to the County. The utility costs will be the same, only the allocation between facilities will change and this change may not be significant.
- 5.2 & The Salt Palace Convention Center works closely with the Salt Lake Convention and
- 5.4.2 Visitors Bureau and the hospitality industry in the bidding process for conventions. The rates of the Salt Palace are calculated according to a schedule of periodic price increases. When we have the opportunity to host a national convention we work with the Bureau to ensure the facility is priced competitively and sometimes negotiations and price deviations between the client and the Salt Palace occur. The current policy is to write a detailed memo to the event file which explains the negotiations.
- 5.3 & The qualitative criteria included in the management agreement was approved
- 5.4.5 through the negotiation process by Salt Lake County and SMG. We are certainly open to discuss possible changes.

Again, SMG would like to express our appreciation for the thoroughness of your audit and survey. Your findings help us to enhance the satisfaction level and accountability to you, our client.

Sincerely,



Ron C. King
General Manager

cc: Commissioner Brent Overson
Julie Peck

February 26, 1999

Craig Sorenson
Salt Lake County Auditor
2001 South State, N2200
Salt Lake City, Utah 84190

Dear Craig:

Thank you for the opportunity to respond to the performance audit of the Salt Palace Convention Center. First, I would like to thank you and your staff for providing me with vital information regarding the management of the agencies within the Community & Support Services Department. It is an integral part of ensuring professional management within the county, and your perspective and analysis is always welcome. I especially appreciate the thoroughness of this report, and your staff's willingness to survey clients of the Salt Palace Convention Center.

The following comments relate to the findings and recommendations section in the report.

Section 1.0 Performance Indicators

On page 14 the report states that the auditors found one convention facility that charges 30 cents a foot and therefore shows a profit. If the Salt Palace were to charge such rates, it is most likely that the facility would have such low occupancy that the deficit would increase substantially. The report further states that, "it is possible that Salt Palace could reduce its operating deficit or show a profit by increasing rents." The Salt Palace management works in concert with the Salt Lake Convention & Visitors Bureau to book conventions into the facility. Rates are negotiated when we are engaged in competitively bidding for a convention against other facilities. Looking at one perspective of a bidding process, such as rental rates, does not take into account the various issues that are considered when an organization decides where to hold its national convention. In addition, the Community & Support Services Department works actively with the Salt Palace staff to reduce the deficit. The budget is reviewed and goals are set every year. The Department also set up an "incentive fee" program which encourages the Salt Palace staff to make aggressive attempts to reduce the deficit. I believe we are doing everything possible to run the building as deficit free as possible.

Section 5.0 Management Issues

5.4.1. I would support this recommendation by the auditor as long as the acquisition of additional monitoring equipment is not cost prohibitive. Since the electricity costs for the Convention Center, Symphony Hall and the Salt Lake Arts Center all come out of the TRCC fund it would not be wise to spend a considerable amount of taxpayer dollars to clarify allocations.



Salt Lake County Community & Support Services Department

Brent Overson
*Salt Lake County
Commissioner*

Julianne Peck
Department Director

David Marshall
Associate Director

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Facilities Management

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Parks & Recreation

Personnel

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*Salt Palace
Convention Center*

5.4.2. Again, I would support this recommendation by the auditor as long as it did not cost the county substantial money to hire such a consultant.

5.4.3. As stated earlier, the Salt Palace works with the Salt Lake Convention & Visitors Bureau to determine rent for each convention booked. At times there may be stiff competition from other cities. There are many criteria that are considered by an organization when it decides where to hold a convention, including hotel rates, transportation costs, housing bureau usage, and convention center rates. Historically, the reason rent reduction is given to such groups is that the economic impact greatly outweighs any loss in revenue.

5.4.4. The contract between SMG and Salt Lake County took 6 months to negotiate. It was a long and arduous process. There were many individuals involved including myself, Randy Allen, Department Fiscal Manager, the County Attorney's office, former Salt Palace manager Rip Rippetoe, and the SMG corporate office representatives. Contrary to the findings in the audit, there is mutual agreement on the terminology used. SMG Corporate office would not have agreed to terms that were not clear. For further clarification, see the attached letter to Salt Lake County Commissioners regarding the determination of the 1997 bonus. As for the criticism of the term "contract compliance," let me point out that under section 1.B. of the SMG contract, the list of management services includes but is not limited to "marketing, fiscal analysis and budget management, personnel supervision, purchasing and acquisitions....". These items, as pointed out succinctly by the auditors office in this very report, have a spectrum of acceptability and efficiency. SMG is evaluated on "contract compliance" to the degree that they exceed the average and ordinary in these areas. Since the qualitative criteria was reviewed in detail by this department, the county attorney's office, and SMG, I do not support the recommendation by the auditors office to make changes in the contract.

I appreciate the opportunity to comment on the performance audit and hope that my comments will be seen as they are given - in the spirit of cooperation.

Sincerely,



Julie Peck

Director, Community & Support Services

cc: Commissioner Brent Overson
Ron King

July 20, 1998



The Honorable Board of County Commissioners
Salt Lake County
2001 South State
Salt Lake City, Utah 84190

**Salt Lake County
Community & Support
Services Department**

Brent Overson
*Salt Lake County
Commissioner*

Dear Commissioner Overson:

Julianne Peck
Department Director

Salt Lake County's contract with SMG, the company that manages the Salt Palace, stipulates an annual incentive fee based on certain criteria. The fee is to be paid thirty days after the year end audits have been completed. Salt Lake County's audits were completed recently, therefore, it is timely that the incentive fee amount is addressed.

David Marshall
Associate Director

I have discussed the contract with Randy Allen, Fiscal Manager, and we reviewed the criteria which includes a quantitative and qualitative analysis.

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Quantitative

According to the contract, SMG receives a percentage of the actual revenues received over the budgeted revenues. Based on budgeted revenues of \$5,172,000 and actual revenues of \$5,665,894, SMG exceeded budgeted projections by \$493,894. Therefore, SMG should receive a quantitative bonus of \$80,000.

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Qualitative

According to the contract, SMG may receive up to \$110,000 as a qualitative bonus. Since the not-to-exceed maximum bonus is \$150,000, the total amount that could be received from the qualitative analysis is \$70,000.

The criteria to evaluate the qualitative bonus includes:

A. Client satisfaction; client is defined as "the County", as well as the organizations and individuals using the Salt Palace.

B. Community involvement; this is defined as SMG's willingness to work as a good neighbor with other community-based businesses and organizations, as well as volunteer efforts of staff to be involved locally to make Salt Lake County a better place.

C. Maintenance & operations; this is defined as being a good steward of the county's asset - the Salt Palace, as well as wise expenditures of taxpayer dollars on the physical structure and operations of the facility within the parameters of the approved budget.

D. Contract compliance; this is defined as all areas within the written agreement between Salt Lake County and SMG.

After discussion with Randy, and a full review with SMG staff, I am recommending that the qualitative bonus be \$35,000. **The total recommended bonus for 1997 is \$115,000.** Funds are available in account # 580-300-3550-9110.

Sincerely,

Julianne Peck, Director
Community & Support Services Department

cc: Rip Rippetoe