

# **CITY AUDITOR'S OFFICE**

# **WestWorld's Financial Operations**

January 24, 2013

**AUDIT REPORT NO. 1304** 

# **CITY COUNCIL**

Mayor W.J. "Jim" Lane Suzanne Klapp Virginia L. Korte Robert Littlefield Linda Milhaven Guy Phillips Vice Mayor Dennis Robbins



January 24, 2013

Honorable Mayor and Members of the City Council:

This audit of WestWorld's Financial Operations was included on the Council-approved FY 2012/13 Audit Plan. WestWorld, a City-operated equestrian and special event facility since 1997, is located on federal Bureau of Reclamation (BOR) land through the City's Cost-Sharing and Land Use agreement with the BOR.

To gain approval of the Tony Nelssen Equestrian Center expansion, WestWorld management projected that the resulting increased events will generate revenues sufficient to pay the associated debt service costs beginning in FY 2014/15. Historically, WestWorld has not recovered its direct operating costs, and over the last five years, the City's General Fund has subsidized from \$335,000 to \$878,000 per year. This audit analyzed WestWorld's financial controls, processes and recordkeeping seeking to identify ways to help improve its operating results.

The audit identified opportunities to increase revenues and reduce expenses, as well as potential efficiency gains through simplified rate structures and internal control improvements. We also noted that two signature event facility use agreements are currently outdated and, therefore, are being modified on an ad hoc basis.

We would like to thank WestWorld, Finance & Accounting, and Facilities Management staff for the cooperation we received throughout the course of this audit. If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

Sharron Walker, CPA, CFE

City Auditor

**Audit Team:** 

Kyla Anderson, CIA — Senior Auditor Lai Cluff — Senior Auditor Cathleen Davis, CIA — Senior Auditor

# **TABLE OF CONTENTS**

Executive Summary
Background3
Objectives, Scope, and Methodology7
Findings and Analysis9
Current opportunities exist for WestWorld to increase revenues and reduce expenses.
2. Operational efficiencies can be gained with simplified rate structures19
3. Signature event license agreements are outdated and modified on an ad hoc basis20
4. Inadequate internal controls increase the risk of not receiving all revenues23
Savings may be achieved in WestWorld's BOR administrative fees and trailhead costs
Management Action Plan27

# **EXECUTIVE SUMMARY**

This audit of WestWorld's Financial Operations was included on the Council-approved FY 2012/13 Audit Plan. The audit was proposed to review financial controls, processes and recordkeeping, including the effectiveness and efficiency of related processes.

In 1982, the City entered into a Cost-Sharing and Land Use Agreement with the federal Bureau of Reclamation (BOR) to develop and operate an equestrian-related recreation facility on BOR land. This facility, now known as WestWorld, has been City-operated since 1997. Historically, WestWorld has not recovered its direct operating costs. As a result, over the last five years, the City's General Fund subsidized WestWorld operations between \$335,000 and \$878,000 per year.

The current expansion of the Tony Nelssen Equestrian Center (TNEC) will enclose and climate control the facility to allow WestWorld to host events into the warmer summer months. Based on management projections that the resulting increased events will generate revenues sufficient to pay the associated annual debt service, the City Council approved using \$42.8 million in Municipal Property Corporation (MPC) bonds to fund the expansion. This audit analyzed WestWorld's financial controls, processes and recordkeeping seeking to identify ways to help improve its operating results.

We estimated revenues and expenses for FY 2014/15 based on existing business and events currently in negotiations together with historical expense trends and projected utility costs. Based on our estimates, WestWorld will need to increase revenues or decrease its direct costs by almost \$3 million to cover its current portion of operating costs and pay the annual debt service in FY 2014/15. Areas for improvement include the following examples:

- The current pricing for variable cost services, such as manure removal, do not recover their associated direct costs. Similarly, arena rental rates do not recover all direct fixed costs, and they are also below market average pricing.
- Financial controls over commissions and taxes due from concessioners conducting business at WestWorld can be strengthened by requiring that they issue a receipt to every customer.
- Currently, WestWorld reports operational statistics based on 'Use Days' but a more informative statistic for management purposes would be the percentage of available capacity in use.
- Even if not being required to set full-recovery rates, financial information presented to the City Council should incorporate all related costs, including direct costs, indirect Division expenses and City-wide overhead costs.
- With recent pay increases, labor costs have already increased more than the amount projected for FY 2014/15 when the expanded facility is fully operational.
- Operational efficiencies can be gained with a simplified rate structure. The current rate structure requires time-consuming detailed tracking and invoicing procedures.
- Signature event license agreements are outdated and are modified on an ad hoc basis without documentation.
- Segregation of duties over invoicing and payment processing tasks can be improved. In

-

<sup>&</sup>lt;sup>1</sup> WestWorld management expects the newly expanded facility to be fully operational during FY 2014/15.

- particular, use of the City's centralized services can both improve controls and minimize the need for additional staff.
- Contract administrators for the BOR agreement should request BOR to reduce the 5% annual increase in the City's administrative fee. This rate of increase is higher than recent years' changes in the Consumer Price Index. Also, trailhead costs may be recoverable from the Basin Management Fund that was established under the BOR agreement.

Page 2 Audit Report No. 1304

# **BACKGROUND**

In 1982, the City entered into a Cost-Sharing and Land Use Agreement with the federal Bureau of Reclamation (BOR) to develop and operate an equestrian-related recreation facility on 132 acres of BOR land that lie north of the Central Arizona Project canal and east of Pima Road. Although originally outsourced, these facilities, now known as WestWorld, have been City-operated since 1997. The City's fee for using the BOR land totaled \$121,551 in FY 2011/12, but automatically increases by 5% a year.

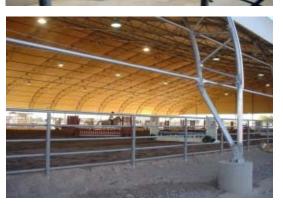
WestWorld facilities include seven uncovered and three covered horse arenas, four permanent show offices, 20 permanent horse barns with 936 horse stalls, a polo field, a 120,000 square foot multipurpose tent, and 460 recreational vehicle (RV) parking spaces with electric and water hook-ups. As well, Monterra, a 20,000 square foot venue, provides full service catering for social and corporate events.

WestWorld is home to several annual events, including the Scottsdale Saguaro Classic All Arabian Horse Show, the Barrett-Jackson Auto Auction, and the Parada del Sol Rodeo. In FY 2011/12, WestWorld hosted 70 equestrian events and 20 non-equestrian events of various sizes. According to WestWorld management, during the 5-year period of FY 2007/08 through FY 2011/12, WestWorld has hosted 84 to 94 events per year, with non-equestrian events declining from 38 to 20.

#### **Tony Nelssen Equestrian Center (TNEC) Expansion**

The only arena with covered spectator seating, previously called the Equidome but recently renamed the Tony Nelssen Equestrian Center (TNEC), is currently being expanded. In March 2012, City Council approved using \$42.8 million in





**SOURCE:** WestWorld webpage <a href="http://www.scottsdaleaz.gov/westworld/facilities/wendell">http://www.scottsdaleaz.gov/westworld/facilities/arenas</a> and <a href="http://www.scottsdaleaz.gov/westworld/facilities/arenas">http://www.scottsdaleaz.gov/westworld/facilities/arenas</a>

MPC bond funding to enclose, climate control and expand the TNEC facility by 182,000 square feet.<sup>2</sup> When complete, the new facility is expected to lengthen WestWorld's event season into warmer months as well as eliminate the need for the multi-purpose tent currently used for some events. The new multi-use space will be reconfigurable with arenas, horse stalls, seating or commercial flooring depending upon event needs. Further, having the permanent infrastructure will reduce event move-in/move-out time and set-up costs, such as additional tents and seating.

The staff reports prepared for this expansion project estimated that increased event business, together with \$1.2 million per year from the City's bed tax revenues and \$360,000 in annual private

WestWorld's Financial Operations

<sup>&</sup>lt;sup>2</sup> Municipal Property Corporation (MPC) is a non-profit corporation created by the City as a financing mechanism for constructing or acquiring capital improvement projects. MPC bonds do not require voter approval and are to be repaid through project revenues rather than the City's property tax levy.

commitments, will soon cover its debt service. In recognition that the project will lower their event costs, the City's largest "signature" event sponsors — the Arabian Horse Association of Arizona, the Barrett-Jackson Auction Company, and the Arizona Quarter Horse Association — pledged a total of \$360,000 annually for the TNEC debt service.

Figure 2. Rendering of Tony Nelssen Equestrian Center Looking Southwest



SOURCE: WestWorld webpage http://www.scottsdaleaz.gov/Construction/EquidomeExpansion

The map in Figure 3 shows the WestWorld property boundary outlined in black and key facilities labeled.

Figure 3. WestWorld Site Map



SOURCE: Auditor analysis using the City of Scottsdale Land Information System map of WestWorld property.

In addition to WestWorld event facilities, a public trailhead on the property's east side provides parking, restroom facilities, a water trough, a shade ramada, two riding arenas, a multi-use path and trail access to the City's McDowell Sonoran Preserve. These amenities are provided free of charge to users, but the estimated \$13,000 maintenance costs are included in WestWorld's operating budget.

#### Direct Financial Results, FY 2007/08 to FY 2011/12

The City Council has not adopted a policy for WestWorld to recover its full costs, and to date, the City's General Fund has subsidized its operations. WestWorld receives revenue from facility rental and use, RV parking, concession fees, and feed and bedding sales. Direct expenses consist primarily of personnel costs, utilities, and commodities, such as the feed and bedding purchased for resale.

During the last 5 years, the City's General Fund has subsidized WestWorld's direct operating costs from \$335,000 to almost \$878,000 per year, and staff projections anticipate this subsidy continuing. As shown in Figure 4, WestWorld revenues have recovered between 72% and 89% of the direct expenditures during this period.

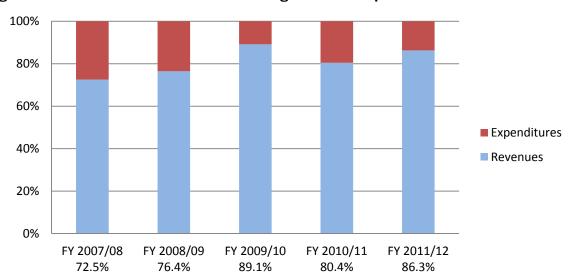


Figure 4. WestWorld Revenues as a Percentage of Direct Expenditures\*

**SOURCE:** Auditor analysis of SmartStream Detail Trial Balance for WestWorld cost center.

The analysis in Figure 4 does not include the City's indirect and overhead costs related to WestWorld's operations. These include such expenses as division management and support as well as the City's legal, finance, facilities maintenance and other Citywide support services.

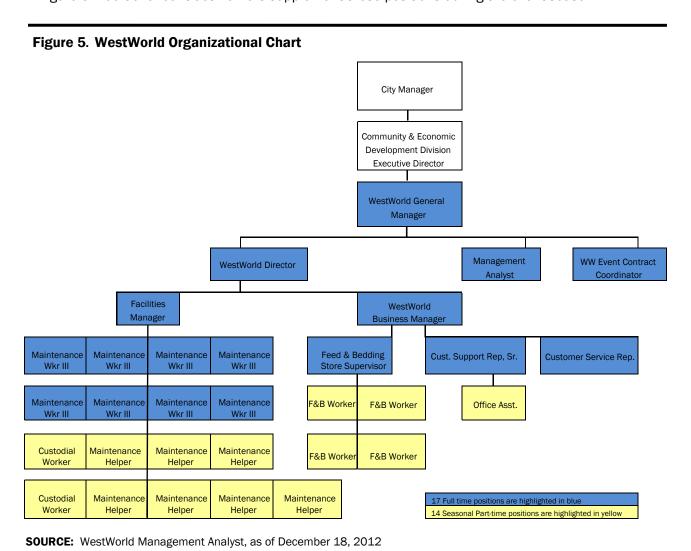
In addition to direct revenue, economic estimates have indicated that WestWorld's three signature events produce a fiscal impact of about \$2 million in annual City tax revenues.<sup>3</sup> These estimates did not specifically value the events' media coverage and broadcasts, which indirectly benefit the City.

<sup>\* -</sup> This comparison excludes indirect and overhead expenses related to WestWorld operations.

<sup>&</sup>lt;sup>3</sup> These include the Economic Impact study by C.H. Johnson Consulting, Inc., August 2004 and economic estimates by Crossroads Consulting Services, March 2011, and the Scottsdale Convention and Visitors Bureau, January 2012, for expected additional regional/national events.

Besides its operating revenues, WestWorld also generates fees for the Basin Management Fund, which was established in 1998 by the City's agreement with the BOR. This restricted account is used, with BOR approval, to develop, maintain and/or improve the WestWorld facility and lands for public recreation. The Fund receives ticket surcharge revenues of \$1.00 per event ticket sold with a value equal to or greater than \$20, and \$0.50 per event ticket sold with a value less than \$20.

WestWorld has 17 full-time positions and 14 seasonal positions as shown in the organization chart in Figure 5. Additional contract workers supplement these positions during the event season.



Page 6 Audit Report No. 1304

# **OBJECTIVES, SCOPE, AND METHODOLOGY**

An audit of WestWorld's Financial Operations was included on the fiscal year 2012/13 City Council-approved Audit Plan. The audit was proposed to review financial controls, processes and recordkeeping, including the effectiveness and efficiency of related processes. We primarily used fiscal year 2011/12 actual financial and facility use data, with prior years' and current FY 2012/13 data for comparisons.

To develop an understanding the nature of equestrian and non-equestrian event businesses, we reviewed prior audit reports completed by the City Auditor's Office relating to WestWorld as well as other auditors' reports for event facilities around the country.

To further understand current WestWorld operations, we:

- Interviewed the WestWorld General Manager, Director, Management Analyst, and Event Contract Coordinator.
- Reviewed WestWorld's Equine Market Analysis produced by Crossroads Consulting Services in March 2011 and Economic Impact Study completed by C.H. Johnson Consulting, Inc. in August 2004.
- Toured the WestWorld facility and observed set-up and event days.
- Interviewed an equestrian and a non-equestrian event producer.
- Reviewed past City Council meetings and related staff reports for WestWorld rates and fees and the Tony Nelssen Equestrian Center expansion. Additionally, we reviewed related minutes of the Council's WestWorld Subcommittee.
- Analyzed City of Scottsdale financial and budget information for WestWorld for 5 prior fiscal years.

To audit the financial operations of WestWorld, we:

- Analyzed WestWorld's FY 2011/12 total costs using the recorded actual direct costs as well
  as the associated indirect and overhead costs.
- Evaluated WestWorld's fixed versus variable operating costs.
- Reviewed FY 2011/12 concession activity and analyzed alternative revenue strategies.
- Reviewed industry rates provided by WestWorld management and researched additional facilities for comparison to current WestWorld rates.
- Compared event invoices to the WestWorld Event calendar to evaluate completeness of invoice records and select five FY 2011/12 events for detailed review of supporting documentation and contracts.
- Compiled event statistics from invoices, such as number of arena rentals, stall rentals, and labor hours billed to evaluate cost recovery and rates.
- Analyzed WestWorld's FY 2011/12 facilities use to determine available event capacity.
- Analyzed current rates and fees based on FY 2011/12 activity to estimate venue pricing necessary for cost recovery.
- Compared the financial information presented to City Council regarding the Tony Nelssen Equestrian Center expansion to results of our analyses.

Our audit found opportunities to increase revenues and decrease expenses, as well as potential operational efficiencies. Additionally, two signature event agreements are outdated and modified on an ad hoc basis, internal controls over invoicing and payment remittance functions can be improved, and savings may be achieved in WestWorld's BOR administrative fees and trailhead costs.

We conducted this audit in accordance with generally accepted government auditing standards as required by Article III, Scottsdale Revised Code, §2-117 et seq. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Audit work took place from September through December 2012.

Page 8 Audit Report No. 1304

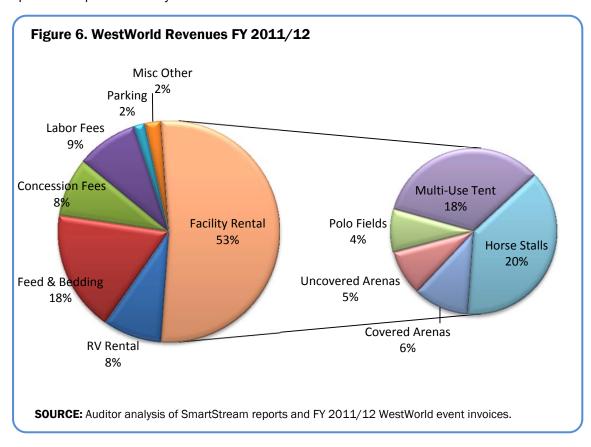
# **FINDINGS AND ANALYSIS**

# 1. Current opportunities exist for WestWorld to increase revenues and reduce expenses.

While WestWorld revenues increased almost 18% from FY 2007/08 to FY 2011/12, they have covered only 73% to 89% of direct operating costs, resulting in an operating loss of between \$335,000 and \$878,000 per year. Besides the longer-term goal of significantly increasing its event business, WestWorld can improve financial results with current operational changes.

#### A. Revenues

WestWorld revenues ranged from \$2.3 million to \$2.8 million between FY 2007/08 and FY 2011/12, with facility rentals (52%) and feed & bedding sales (18%) as the largest revenue sources in the last year. While revenues peaked in FY 2008/09, adjustments to current operational practices may enhance revenue results.



- 1. Rates for hourly labor, stall cleaning, arena pricing, and manure haul-off are inadequate for covering the related costs.
  - a) Current rates for horse stall cleaning and unskilled labor barely cover the labor cost and do not recover any related supplies or overhead, such as staff supervisors. A supervisor and eight maintenance workers comprise the year-round full-time staff that maintain the WestWorld property and provide service during events. These fixed employee costs, including benefits, averaged about \$30 per hour in FY2011/12. During the event season, contract and seasonal labor supplement the full-time staff; these variable costs averaged about \$15 per hour.

As the temporary staff costs depend on event needs, these costs should be recovered through event charges based on the approved WestWorld Rates and Fees schedule. In FY 2011/12, WestWorld invoiced approximately 8,800 hours of unskilled labor, including horse stall cleaning, totaling about \$145,000.4 However, the related labor costs for seasonal and contract workers totaled nearly \$247,000. Several factors contribute to not fully recovering costs:

- At \$5.50 per stall, WestWorld can only recover stall cleaning costs if this work is performed by contract workers, at \$11.48 per hour, rather than higher paid fulltime or seasonal employees. Additionally, if the contract workers average fewer than 3 stalls per hour, the cleaning fees would no longer cover the labor cost.
- Seasonal employee costs averaged \$16.58 per hour in FY 2011/12, while events are charged \$16.50 per hour for clean-up labor. This fee is, however, adequate to cover the contract worker costs.
- Due to the detailed billing approach used, it is more likely that some work performed by the seasonal and contract workers will not get documented and billed to the events.
- Unskilled labor tasks, such as restroom, arena and grounds cleaning, are occasionally performed by the full-time staff, thereby costing more than the rate billed to events.
- b) While manure haul-off fees generated approximately \$66,000 in FY 2011/12, the organic waste removal contract totaled more than \$150,000. To cover the additional \$85,000 direct cost, the manure haul-off fee would have needed to be \$19 per stall rather than the \$8.25 rate. Also, the manure haul-off cost is variable, increasing with the number of horses and their duration of stay. Currently, manure haul-off is a one-time fee charged per horse stall, rather than varying with the number of days each horse was on the property or the number of horses occupying a stall during the period.
- c) Besides services that can be directly billed to individual events, such as the hourly cleaning labor and manure haul-offs, other costs of operating WestWorld, such as fixed labor costs and arena lighting, should be recovered by the facility rental fees. The FY 2012/13 rate and fee increases proposed by WestWorld management and approved by City Council brings the event charges closer to covering the direct costs of operation and the industry average, or market price. However, actually charging market rates can help cover the shortfall between revenues and direct costs. Also, the Multi-Use Tent rate, which did not have an industry price comparison, was not increased for FY 2012/13. This facility comprises a third of WestWorld's arena rental revenue and the current rate is notably below a direct cost recovery level.

\_

<sup>&</sup>lt;sup>4</sup> This includes all billed hourly labor charges excluding the separately billed activities that seasonal and contract workers are not allowed to perform, such as bleacher set-up.

Table 2. WestWorld Arena Show-Day Pricing

Arena	FY 11/12 Pricing <sup>1</sup>	FY 12/13 Pricing <sup>1</sup>	Industry Pricing <sup>2</sup>	Direct Cost Recovery	Direct + Indirect Costs Recovery
Covered - 3, 5A	\$300	\$350	\$500	\$384	\$903
Covered – Equidome <sup>3</sup>	\$1,103	\$1,250	\$1,270	\$1,412	\$3,699
Uncovered - 4, 5, 6, 7, 8	\$200	\$250	\$300	\$256	\$602
Uncovered – 9	\$150	\$175	\$300	\$192	\$452
Uncovered - Wendell	\$551	\$600	\$750	\$705	\$1,659
Polo Fields (East & West)	\$1,213	\$1,275	N/A	\$1,553	\$3,652
Multi-Use Tent	\$8,400	\$8,400	N/A	\$10,751	\$25,293
Horse Stall/Barn	\$12.50 per stall or \$585 per Barn average	\$15 per stall or \$702 per barn average	\$19 per stall or \$889 per barn average	\$16 per stall or \$749 per barn average	\$38.50 per stall or \$1,761 per barn average

<sup>&</sup>lt;sup>1</sup> Only Show day pricing is included in this analysis. WestWorld's Arena Pricing is three-tiered based on the type of use. Move-in/move-out days are the lowest prices, Warm-up days are slightly higher, and Show days are typically twice the price of Warm-up days.

SOURCE: Auditor analysis of facility rates, related costs and usage, and management's analysis of industry pricing.

WestWorld's rate analysis does not ensure rates recover direct costs nor evaluate the rates necessary to also recover indirect or overhead costs. Further, the \$8,500 per day rate currently planned for the expanded TNEC facility is approximately the same as the Multi-Use Tent rate although the TNEC is 2.5 times larger and will be climate controlled, resulting in much higher operating costs. As a result, WestWorld is less likely to cover its operating costs and more likely to put increased pressure on the General Fund budget.

2. The Feed & Bedding operation, which was brought in-house in July 2008, is now netting about \$39,000 while the prior third-party contract provided \$71,000 to \$86,000 in revenues. While the operation was contracted out, most event participants were required to purchase feed and bedding from this vendor; one signature event had the right to bring its own feed and bedding vendor to WestWorld.

As noted in the prior audit, Audit Report No. 0526G, WestWorld did not have sufficient controls to provide assurance that the City received all applicable user fees from the contract. After the audit, the Feed & Bedding operation was brought in-house in July 2008 with an initial expense budget of \$208,000. Although feed is not required to be exclusive, WestWorld now forbids any other bedding to be brought onto the property. Under this arrangement, the Feed & Bedding store has generated \$424,000 to \$474,000 in revenues per year. Besides a full-time supervisor and 4 seasonal workers, the WestWorld Business Manager and Director provide day-to-day oversight of the Feed & Bedding store. The store's

<sup>&</sup>lt;sup>2</sup> Auditor analysis of industry prices presented to City Council on March 20, 2012, by WestWorld management.

<sup>&</sup>lt;sup>3</sup> This analysis reflects the existing Equidome prior to the expansion project.

direct operating costs, including labor and inventory, total about \$434,600 so it netted around \$39,000 in FY 2011/12.

3. WestWorld may not be collecting all the concession fees due from event concessioners. WestWorld periodically requests the Finance & Accounting Division to provide staff to attend larger events and help monitor event concessioners. As "secret shoppers," the staff makes small purchases and observes vendor operations to see if they are using cash registers and providing customers with receipts for their transactions. If a concessioner's transactions are being processed through a cash register, it provides better assurance that the concessioner will report all sales to the City. The "secret shopper" observation results for a special event in March 2012 noted several discrepancies. Among the eleven concessioners that Accounting staff specifically observed, one was not using a register. Only one of the eleven concessioners offered a receipt immediately upon purchase; eight concessioners provided a receipt upon request and the other two were observed not providing a receipt. Further, some issued receipts did not include tax and at least one receipt did not have the correct date.

WestWorld's concession fee and the City's transaction privilege tax are both based on a percentage of sales. Specifically, the WestWorld Food Vendor agreement requires the concessioner to pay a fee of twenty percent (20%) of gross revenues (net of taxes) as determined by the concessioner's cash register daily total tape ("z-tape"). A recap form and the daily z-tapes are due to the City within two days after the event.

Based on these observations, some sales transactions may not be entered into the concessioner's cash register or point of sale system. Therefore, there is an increased risk that the City does not receive all monies due for the concession fees and transaction privilege tax. For businesses involving a large amount of cash transactions, one typical method of ensuring sales are properly recorded is to display a sign notifying the customer that the vendor is required to provide a receipt. This provides additional assurance that the sale has been recorded and that the amount entered into the register matches the amount paid by the customer. Another alternative would be to ensure that concessioners know that there will be "secret shopper" observations and that concessioners will be penalized for failing to ring up transactions and provide a receipt.

4. WestWorld operational statistics do not accurately monitor actual facility use compared to available capacity. WestWorld management reports operational statistics in 'Use Days' where all events, no matter the size, are assigned the same value. Therefore, an event that occupies one arena for two days is counted as two 'Use Days' but an event that occupies all 10 arenas for two days is also counted as two 'Use Days.' Further, if multiple events occur at the same time, more than one Use Day is counted.

WestWorld management considers the facilities available for event production about 75% of the time due to the time involved in event transitions (move-in and move-out) and maintenance activities. For FY 2011/12, WestWorld reported 260 Equestrian Use Days, which equate to a 71% occupancy rate, or almost full capacity based on management's benchmark. However, as shown in Table 3, when monitoring usage as a percentage of available capacity, equestrian facilities achieved a 49% occupancy rate during the fiscal year.

# Table 3. Analysis of Facility Capacity and Usage FY 2011/12

At 75% Capacity	Equestrian Facility Use	Non-equestrian Facility Use
Capacity in Days	274.5	274.5
Booked Days	133.5	94.6
Available Days	141.0	179.9
% Booked	49%	34%
% Available	51%	66%

**SOURCE:** Auditor analysis of facility capacity and uses.

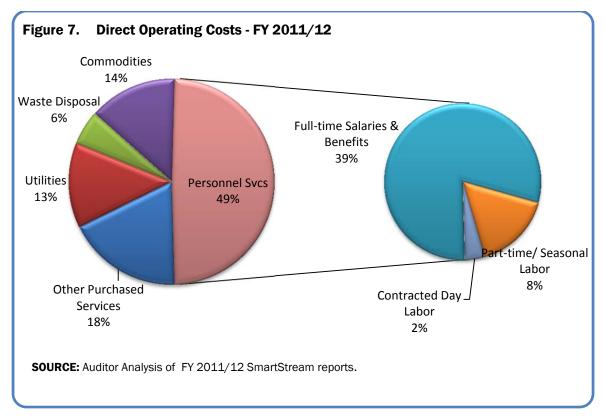
In developing the capacity usage statistics, we evaluated the Equestrian (east) and Non-equestrian (west) facilities separately, assigning a percentage of the total facility to each arena, barn or building that is available for rental. Then we reviewed the event calendar and invoices to identify which areas were leased for each event during FY 2011/12. As summarized in Table 3, this analysis showed that Equestrian facilities had 51% of capacity remaining available for use and Non-equestrian facilities were still available 66% of the time.

Calculating the capacity used percentage is more complex than simply tracking "Use Days." But such a statistic would be a more meaningful performance indicator. While Use Days indicate the facility is operating at near the expected maximum, the capacity use statistic indicates additional room for event growth.

5. The ticket surcharge fees due to the Basin Management Fund are based on ticket sales that are self-reported by the event representatives. In FY 2011/12, ticket surcharge fees collected by the City totaled \$76,700. However, WestWorld staff does not require event documentation, such as a sales report, to substantiate the total number of tickets sold. Therefore, WestWorld cannot be certain that all required ticket surcharges were remitted for the Basin Management Fund.

#### B. Expenses

WestWorld's direct expenses decreased by 1.3% from FY 2007/08 to FY 2011/12. In contrast, the City's General Fund budget decreased by 23% during this period. While projections presented for the TNEC expansion may have been optimistic, opportunities exist to reduce certain expenses.



- 1. In WestWorld's proformas for the TNEC expansion project, labor expenses were projected to increase only 4.4% through FY 2014/15. However, this projection may already be exceeded in FY 2012/13.
  - a) In June and July 2012, subsequent to the TNEC expansion approval, three WestWorld positions were reclassified with higher level titles and 10% additional pay, made retroactive to August 2011. The retroactive pay totaled about \$14,700.
  - b) After a Council-approved performance pay increase for which most City employees were eligible, WestWorld's total payroll increased by approximately 2% in July 2012.

Without offsetting reductions, these two actions will increase WestWorld's payroll by 5%, already more than the projected labor expense incorporated into the proformas.

- c) WestWorld has maintained a staff of about 17 full-time positions year-round although no events were scheduled in June and July and only 3 to 4 small events in May and August. (These counts include complimentary events, such as Scottsdale Police Department events.) During the busier event season, another 14 seasonal positions are staffed, along with a number of contract workers.
- d) While WestWorld has 8 full-time and 7 seasonal maintenance worker/helper positions, Facilities Management also provides substantial maintenance support. For example, Facilities provided 6 maintenance staff for 4 weeks during the summer to perform painting, roof repair and similar tasks.

If additional events are not scheduled as anticipated, WestWorld will need to re-evaluate its current staffing and pay ranges to reduce its labor expense. If a significant number of additional events are scheduled, particularly in the currently unscheduled summer months,

there may be sufficient existing positions to absorb the workload.

- 2. Financial information provided to City Council did not include all associated costs. Four times between November 16, 2010, and March 20, 2012, staff requested Council votes on various stages of the Tony Nelssen Equestrian Center, but provided incomplete financial information.
  - The July 5, 2011, staff report stated WestWorld was covering approximately 85 to 87% of its operating expenses and the TNEC expansion would allow additional events to balance WestWorld's operating budget and cover all operating costs. However, the pro forma attached to the July staff report was based only on direct costs and did not include WestWorld's additional division and Citywide overhead costs. A 5% capital cost that was included but not explained appears to be an estimate of building and/or equipment costs.
  - The March 20, 2012, staff report included direct operating costs plus an estimated facilities maintenance cost. Normally a part of the Citywide overhead calculation, the facilities maintenance estimate was substantially higher than it would have been if based on the usual calculation methodology. This staff report noted that it did not include other overhead costs.

The omitted amounts represent a substantial increase in WestWorld-related costs. For FY 2011/12, WestWorld's actual direct costs totaled \$3.1 million, but with indirect and Citywide overhead costs increase to \$5.9 million, as shown in Table 4. Related indirect costs include the annual payment to the U. S. Bureau of Reclamation for land use, the annual debt payment for the 2006 MPC bond used to purchase land for the WestWorld property, and Division administrative costs.

Table 4. WestWorld Total Expenses FY 2011/12

	Audit Analysis	March 20, 2012 staff report
Direct Costs	\$3,149,573	\$3.2 million
Indirect Costs:		
Annual BOR Payment	\$60,775	-0-
2006B MPC Debt Service†	\$1,402,341	-0-
Division Administration	\$57,168	-0-
Building Usage	\$741,159	-0-
Equipment Depreciation	\$54,600	-0-
City-wide Overhead	\$458,880	.3 million
Total	\$5,924,496	\$3.5 million

<sup>†</sup> This MPC bond was used to purchase 69 acres of land at WestWorld. WestWorld was not required to cover this debt service payment; however it is a General Fund cost of the program. For purposes of this analysis, only the interest and fees of the debt service was assigned. Because the financed asset (land) is non-depreciable, the associated principal was not included as an expense.

**SOURCE:** Auditor Analysis of SmartStream reports and FY 2011/12 indirect cost allocation.

Therefore, with revenues totaling \$2.7 million, WestWorld's cost recovery rates for FY 2011/12 were as follows:

Direct expenses: 85%
Direct & Indirect expenses: 49%
Total Expenses: 45%

3. WestWorld's utility costs are not being accounted for consistently. Currently, WestWorld directly pays some of its utility costs, but others are paid by the City's Facilities Management department. While WestWorld pays the water and sewer utility costs for the Trailhead, it does not pay the electricity costs. Also, while WestWorld pays for solid waste costs related to events, its routine solid waste costs were not charged back. These costs totaled approximately \$6,800 in FY 2011/12.

Besides these specific inconsistencies, it is also not typical for General Fund cost centers to pay their own utility costs. The Facilities Management department pays most of the City's utility costs, excluding those for Enterprise Fund operations such as Water Resources and Solid Waste. Enterprise operations are required to be self-supporting by recovering all program costs, including utilities, through their user rates and fees. In contrast, General Fund cost centers are not required to fully recover their operating costs and, with the exception of WestWorld, are not directly charged for utility costs.

As long as WestWorld remains a General Fund cost center, this results in inconsistent treatment of General Fund-supported operations. It also represents inconsistent

accounting, as a portion of WestWorld utility costs are excluded from its cost recovery efforts.

4. Future costs associated with TNEC, including debt service payments, will not be recovered by estimated revenues of events secured as of December 2012. With the addition of a \$2.6 million to \$3.2 million debt service payment each year, WestWorld will have to more than double its revenues to cover the debt service payment. However, expenditures associated with operating a climate-controlled facility and providing services to significantly more events will increase operating costs. Additionally, new shows contracted and currently in negotiations do not yet show significant revenue increases.

Based on auditor estimates of potential revenues using historical revenue increases plus new shows currently under contract or in contract negotiations, WestWorld may still have a revenue shortfall of more than \$2 million in the first full year of operating the expanded facility. This estimate excludes indirect and City-wide overhead costs. Also, as shown in Table 5, this estimate assumes continuing General Fund support at the FY 2011/12 subsidy level, pledged sponsor contributions (the terms of which are still being finalized), and \$1.2 million annually in Bed Tax support. It also assumes proportionate increases in variable operating costs, such as seasonal and contract labor, supplies, and waste disposal services. One variable cost, electricity, is anticipated to increase significantly due to heating and cooling such a large facility. FY 2011/12 utilities totaled about \$420,000 for a largely open-air facility. Based on auditor review of the initial engineering and Facilities Management estimates, utilities for the climate-controlled facility are estimated to be about \$800,000 although it could potentially be much higher depending on the type and number of events held.

Indirect costs and City-wide overhead costs are estimated to total an additional \$2.8 million, but the expansion will also increase City-Wide overhead. In particular, Facilities Management, which already provides repair and maintenance support such as roofing maintenance, building repairs, plumbing and electrical repairs, estimates that there will be significant cost increases for HVAC maintenance and repairs.

# Table 5. FY 2014/15 Projected Results with Expanded Facility – Currently Proposed and Contracted Events

#### **Estimated Revenues:**

Revenues - FY 12/13 Budget	\$2.7 million
Increases: Average annual increases + Probable new shows <sup>1</sup>	\$518,500
Existing General Fund Support <sup>2</sup>	\$462,000
Bed Tax Support I & II	\$1.2 million
Sponsor Contributions	\$360,000
Total Revenue	\$5.3 million
Estimated Costs:	
Direct Costs - FY12/13 Budget	\$3.4 million
Increases for TNEC operations	
Personnel Costs <sup>3</sup>	\$64,000
Utilities	\$800,000
Inventory for Resale	\$50,000
Waste Disposal	\$35,000
Operating Supplies	\$26,000
Maintenance and Repairs	General Fund Impact
Other Operating costs	\$19,000
Total Direct Costs with TNEC Operations:	\$4.4 million
Estimated Debt Service Payment:	\$3.2 million
Total Direct Costs + Debt Service:	
Revenue Shortage:	\$2.3 million
Indirect Costs:	·
City-wide Overhead:	
Indirect Costs:	\$7.6 million \$2.3 million \$2.3 million \$.5 million

<sup>&</sup>lt;sup>1</sup> Average annual increase was based on a 5-year trend of WestWorld's facility rental revenue.

**Source:** Auditor analysis of WestWorld's FY 12/13 Adopted Budget, its 5-year trend in operational costs, Finance and Accounting estimates of debt service payments and overhead costs, Facilities Management and engineering estimates of utility costs, and other funding support presented in the March 20, 2012 City Council meeting.

Based on current estimates, WestWorld would need to increase revenues by nearly \$3 million (\$2.3 million plus associated variable cost increases) to cover the debt service payment. WestWorld management is continuing to work on adding new events to increase activity during off-peak and peak seasons.

<sup>&</sup>lt;sup>2</sup> Existing General Fund support was based on the FY 11/12 level of support.

 $<sup>^{\</sup>scriptsize 3}$  Personnel cost increase estimates proportionate increases in variable labor (seasonal and contract) only.

#### **Recommendations:**

WestWorld management should:

- A. 1. Revise the applicable rates to ensure that, at a minimum, direct costs that can be associated with an event or facility are recovered.
  - 2. Periodically evaluate the feasibility of contracting the Feed & Bedding operation. In the event that it is contracted, review recommendations of the previous audit report to provide better oversight.
  - 3. In the Food Vendor Agreement, require concessioners to issue receipts to all customers. Also consider requiring concessioners to place a highly visible sign stating that they are required to provide a receipt.
  - 4. Consider calculating facility use as a percentage of available capacity to allow more accurate capacity use monitoring.
  - 5. Require event producers to provide substantiating documentation, such as a sales report, with their ticket sales totals.
- B. 1. Take actions necessary to control labor expenses.
  - 2. Ensure that all relevant financial information, including recovery rates and general fund support, is presented in future City Council Reports.
  - 3. Determine whether WestWorld is expected to pay for and recover all of its utility costs like an Enterprise operation or to have these costs subsidized like other General Fund cost centers.
  - 4. Continue to work to develop additional events and, as necessary, take action to reduce operating costs.

### 2. Operational efficiencies can be gained with simplified rate structures.

Continuing practices that have been in place for a number of years, WestWorld uses detailed rates for billing facilities and labor. This results in time consuming detailed tracking and invoicing procedures. As well, event producers have expressed dissatisfaction with not knowing their event cost in advance so that they are better able to set their prices.

- A. WestWorld charges one daily rental fee per horse stall used for horses and a lower rate if used for tack. This rate structure requires WestWorld staff to daily inspect the use of available stalls.
  - 1. During events, WestWorld staff daily inspect and note whether each available stall is being used to stable a horse or to store tack.<sup>5</sup> These daily tally sheets are totaled, and then an event representative signs to indicate agreement with the results. Staff estimated these tasks take a minimum of one hour per event day, but varies based on the number of horses being stabled. After the event, the Event Contract Coordinator compiles the detailed tally sheets for billing.

Based on our review of event web pages, the event organizers charge their participants the same price for stalls regardless of their use.

<sup>&</sup>lt;sup>5</sup> When used for horses, stall fees include the daily rental, cleaning and manure haul-off. When used for tack, the manure haul-off fee is not charged.

- 2. WestWorld barns have padlocked bars to secure the stalls on each side of the barn when they are not in use. These bars can be unlocked to open one-half of a barn or the full barn for use. Because the rate structure is on a per-stall basis, the daily inspection is necessary to ensure that fees are paid for all stalls that are used. Establishing fees on a half-barn or full-barn basis would simplify the customer cost estimates and invoicing as well as eliminate unnecessary labor costs for detailed tracking.
- B. WestWorld charges separate rates and fees for various labor and services, such as restroom, arena and stall cleaning and manure bin cleaning and haul-off. This requires maintenance staff to keep detailed logs of work performed for each event. Prior to each event season, the WestWorld Director trains staff on logging their billable activities. After the event, the Event Contract Coordinator compiles the detailed service logs and summarizes them in draft invoices. The WestWorld Director reviews the draft invoices but the detailed charges make it difficult to notice if billable activities were missed. Besides the detailed complexity, some customers get charged more or less for a service depending on how efficient the particular staff is or the timing of their event and certain costs being incurred.

Combining similar costs into flat fees could both simplify the customer cost estimate and billing process as well as more equitably spread costs among users. For example, the average costs of stall cleaning, manure bin cleaning and haul-off might be combined into a per-horse fee or into a half-barn fee and average restroom cleaning costs could be incorporated into the arena and building fees.

#### **Recommendation:**

WestWorld management should review and simplify its facilities and service charges. Specifically, WestWorld should consider instituting a more standard rental practice of charging the same price regardless of the stall use. As well, WestWorld should consider renting barns by the whole or half rather than by individual stall.

### 3. Signature event license agreements are outdated and modified on an ad hoc basis.

Two of WestWorld's three signature events have license agreements that were not originally approved by the City Council and do not currently have up-to-date terms. Existing agreement terms allow the event producers to submit extension letters annually without any action by the City.

A. As reported in the previous audit, WestWorld Financial Operations—Facility Use Licenses, Audit Report No. 0526B, two signature events have license agreements that have resulted in perpetual contracts with the City yet these agreements were not approved by the City Council.<sup>6</sup> Extending the license agreements remains solely at the event producer's prerogative.

Both the Barrett-Jackson and Sun Country license agreements have identical language regarding agreement extensions, yet the event producers are extending for different time periods. For example, in 2012, Sun Country identified its extension as being effective through 2013 while Barrett-Jackson stated its extension was effective through 2017.

Page 20 Audit Report No. 1304

\_

<sup>&</sup>lt;sup>6</sup> While the City has three signature events, the Arabian Horse Association of Arizona license agreement extension was submitted for City Council approval in February 2007.

Additionally, Barrett-Jackson did not timely submit the City with its 2012 notice to extend its license rights. The license agreement requires notice be given to the City within 120 days from the last day of each year's auto auction to extend rights to use the facility for another year. With the extension letter not being received until July 2012, the current license agreement would terminate at the end of the 2016 event.

- B. Ad hoc modifications are periodically made to the signature event license agreements but not formally documented.
  - 1. The Facility Use License Agreement between the City and Barrett-Jackson Auction Company was entered into in July 2000. As shown in Figure 8, WestWorld's non-equestrian facilities used by the event have changed notably since that time, including the multi-purpose tent addition and increased paved parking.

Figure 8. WestWorld Non-equestrian Facilities in 2000

# WestWorld Non-equestrian Facilities in 2010





**SOURCE:** City of Scottsdale Land Information System.

Rather than updating the long-term license agreement, the WestWorld General Manager and Barrett-Jackson representatives met after the multi-purpose tent was added to negotiate a new daily base fee for the licensed facilities and other modifications to the original terms. For example, the license agreement states that the use of one-half of the total facilities is \$10,400 per day, with an annual CPI adjustment. WestWorld billed \$19,421 per day for the 2012 event, which is more than that adjustment alone. Based on invoice billings, the new base fee specifically recognizes the added multi-purpose tent, but not the additional paved parking. Further, it is not clear that other appropriate participants, such as the Asset Management group that is primarily responsible for other City asset leases and the City Attorney's office, or those responsible for WestWorld oversight, including the Community & Economic Development Division Executive Director and the City Manager, are involved in the license negotiations although this is a high dollar license agreement. Moreover, the negotiated rates are not formalized in writing and submitted for City Council approval.

2. The Sun Country license agreement similarly has not been updated and presented for City Council approval although modifications are occasionally negotiated. Specifically for the FY 2011/12 event, an additional credit of \$16,600 was provided as an "event overlap" credit. However, Sun Country's license provides for non-exclusive use of facilities, which suggests event overlap may occur.

As the established requirements for handling contract changes, Administrative Regulation (AR) 216 can also provide guidance for handling license agreements. AR 216 states that contracts may be modified if the Purchasing Director or designee determines *in writing* (emphasis added) that a modification is advantageous to the City. It also states that each Executive Director is responsible for reviewing and approving change orders/modifications proposed by their subordinates. Further, each Executive Director must communicate recommended changes or modifications involving high dollar amounts or projects with a high degree of public interest to the City Manager. While the authority to review and approve change orders/contract modifications can be delegated, it is the responsibility of the Executive Director to ensure that they are valid, properly documented and correctly incurred. Further, a copy of any completed change order/ contract modification is to be included in the contract file.

The WestWorld General Manager indicated there have been few invoicing disputes. But the current undocumented modifications to the existing license agreement could negatively affect the City's ability to collect disputed charges.

- C. WestWorld has established an event deposit policy to reserve facilities for equestrian and non-equestrian events, with the remaining charges billed after the event occurs. However, the deposit requirements are not sufficient when compared to the final event costs. Further, exceptions are made to the deposit requirements without documented explanations. In one instance, the exception resulted in the City losing \$25,000 more than would otherwise have been written off.
  - 1. For equestrian events, the standard deposit required is 50% of facility use fees, due at the time the event contract is signed. For non-equestrian events, a 33% deposit is due at the time of the contract with the remaining 67% due 14 days prior to the event. Other charges may include labor, lights, RV lot rental, feed & bedding purchases, horse stall rentals and manure haul-off. For 25 of the 30 invoices reviewed the estimated facility use fee was less than half of the actual total bill.
  - 2. For a special event held in March 2011, WestWorld reduced the deposit requirement to 10% upon execution of contract and the balance due after the event. Thus the event producer was only required to pay a \$2,757 deposit. Based on the standard deposit policy for non-equestrian events, the event producer should have paid 100% of the anticipated facility rental fees, or \$27,573, prior to the event. The event producer subsequently defaulted on the \$56,487 total balance owed for the event. Had the standard deposit requirement been enforced, the City would have lost \$24,816 less.

WestWorld management should minimize risk for delinquent debt by establishing and enforcing an effective deposit policy. Many event locations require full payment prior to an event.

#### **Recommendations:**

WestWorld management should:

A. Prior to their use of the expanded Tony Nelssen Equestrian Center facilities and with assistance from the City Attorney's office and other appropriate City representatives, negotiate new license agreements for the remaining signature events based on current facilities and rates. Additionally, these new agreements should be submitted for City Council review and approval. Further, consult with the City Attorney's Office regarding the length and timing of the written notices of intent to exercise extension options.

- B. Prepare appropriate documentation of future license agreement modifications, based on significance of the change being made, and obtain appropriate authorizations.
- C. 1. Ensure the standard deposit amounts for both equestrian and non-equestrian events are sufficient when compared to the expected total event invoice amount.
  - 2. Not grant exceptions to the standard deposit amounts. If full deposits are not received in advance of the event, the event should be cancelled or a letter of credit should be required.

## 4. Inadequate internal controls increase the risk of not receiving all revenues.

Making use of the City's Accounting and Remittance Processing functions can improve controls and ease the potential workload challenges that WestWorld will face as it expands the number of events hosted.

A. The incompatible duties for preparing customer invoices, maintaining receivable records, and receiving customer payments are currently assigned to one employee. Further, these receivables are not formally recorded in the City's accounting system until paid or at year end when the City's annual financial report is being prepared. Proper segregation of duties requires that incompatible duties not be performed by the same employee. Typical incompatible duties include having custody of assets, authorizing or approving transactions affecting those assets, and recording or reporting the related transactions. Failing to properly separate incompatible functions increases the risk of errors or undetected fraud as one person has control of the transaction from beginning to end.

Auditors were not able to ensure the completeness and integrity of the WestWorld invoices and payments because of the lack of internal control procedures. Some of the risks not being addressed include:

- 1. Completeness of invoices not ensured The invoices are not sequentially numbered, which would allow management to detect if an invoice is not recorded or paid.
- 2. Invoices may be changed after review Invoices are created in a spreadsheet, rather than through the City's accounting system. Although a supervisor-level employee reviews draft invoices, the preparer sends the final invoice to the customer after making any revisions.
- 3. Receivables are not recorded until paid or at the City's fiscal year-end By not recording receivables promptly, management may not detect when payments are not deposited or recorded. To ensure that the payment is properly recorded, the payment should be associated with a receivable. Auditors also found several payments recorded to incorrect invoice numbers.
- 4. Receivables recordkeeping is not separated from receipt of payments The same employee who creates and sends out the invoices is responsible for monitoring their payment status. She is also one of two employees in the administrative office who receive mail-in payments then forward them to the RV office to be recorded. Not segregating these two functions increases the risk of potential loss or theft going undetected. While reviewing five event files, auditors noted one customer payment where the check also listed this employee's name on the memo line.

A separate employee maintains a spreadsheet of paid invoices to ensure revenues in the accounting system are complete. However, this does not provide any assurance that all

customer invoices and payments have been recorded as some small events were not paid on an invoice and other inaccuracies were found in this spreadsheet. Instead, this spreadsheet attempts to duplicate details that are available from the accounting system. Use of the City's accounting staff to generate the final invoices, which records the receivables, would improve controls over WestWorld's event revenues.

Moreover, at its March 20, 2012, meeting, the City Council directed WestWorld to implement the recommendations previously made by the City Auditor's Office to direct its mail-in payments to the City's Remittance Processing area. This recommendation was intended both to achieve processing efficiency and to separate the customer billing and receipting functions. As of December 2012, this recommendation has not been implemented.

- B. Some invoices were not supported by billing documentation or contract terms. We tested a sample of five event files, including the associated contracts, billing documentation, invoices, and payments, to ensure accurate, complete billings and collections.
  - Four of the five files reviewed were missing one or more pieces of supporting documentation. For example, one was missing the staff activity logs showing that bleachers were moved for the event. Because billing is based on charges for multiple services, the large volume of documentation needed increases the chances that some will be missed or misplaced.
  - 2. One of the five events reviewed included an annual inflationary factor of 3% in their contract, which was not applied. Additionally, WestWorld paid for half of the shuttle service contracted by the client although it was not stipulated in the Council-approved contract. In total, the client was under-billed, per contract terms, by almost \$6,000. Further, another Council-approved contract expired but management continued to use it because a new one had not been approved yet.

All invoiced amounts should be supported by contract terms or other evidence that the services were requested and provided. Per Administrative Regulation 216, when changing contract terms, a Contract Modification should be written and approved by all parties that signed the original contract. All contracts originally awarded by Council can only be modified by Council action.

- C. WestWorld staff retains photocopies of customer payments with the related billing documents. This practice unnecessarily exposes sensitive customer data to loss. Once the payment has been deposited and the City's account properly credited, sensitive information, such as bank and credit card numbers, should be redacted. To further reduce risk, mail-in payments should be directed to Remittance Processing which uses secure document imaging for recordkeeping.
- D. Currently, each WestWorld facility use license requires that an event that sells tickets will provide WestWorld with a number of free tickets (usually 25) per event day. WestWorld management distributes the free tickets to City officials and staff, generally on a first come, first served basis. However, there is no formal City policy regarding the distribution of free tickets. The free tickets could be used for many purposes, such as familiarizing City staff with special events or rewarding employees, but currently go to those who are aware of their availability. Further, although the City's ethics policy allows acceptance of tickets to City-sponsored events, a previous City Attorney opinion concluded that an employee provided with more than two free tickets may need to file a gift disclosure form. Without a formal

written policy in place, employees may not be aware of the potential need to disclose receiving tickets.

#### **Recommendations:**

WestWorld management should:

- A. Establish control processes to account for all its event revenues, such as sequential invoice numbering, supervisory review of the final invoices, and independent receipt of invoice payments. To achieve proper separation of incompatible duties, WestWorld should request the City's Accounting staff to generate the final customer invoices and record these receivables as they are billed. And, as previously recommended, WestWorld should direct mail-in customer payments to the City's Remittance Processing area.
- B. Ensure that contracts and supporting documentation are reviewed in conjunction with the invoicing process to check for compliance. Additionally, management should obtain Council approval for all contract modifications to Council-approved contracts.
- C. Work with Finance & Accounting to arrange for customer payments to be directed to Remittance Processing. For payments that are made in person at WestWorld, any photocopies should be shredded as soon as possible or sensitive information redacted on the copies.
- D. Request the City Manager to provide written guidance on free ticket distribution.

# 5. Savings may be achieved in WestWorld's BOR administrative fees and trailhead costs.

Because WestWorld is located on federal Bureau of Reclamation land, the City's agreement with the BOR affects some costs and revenues. In particular, the agreement dictates an administrative fee paid to the BOR and may allow reimbursement of certain trailhead costs.

A. The Cost-Sharing and Land Use Agreement (Amendment 11) between the City of Scottsdale and the Bureau of Reclamation establishes that the City's administrative fees paid to the BOR increase by 5% per year. The fee increases have totaled more than \$50,000 since FY 2008/09.

However, according to the Bureau of Labor Statistics, the Consumer Price Index (CPI) for All Urban Consumers has not been above 5% since 1990. Further, for the most recent 10-year annual period (2002 to 2011), the CPI was only 2.4%. As shown in Table 6, the City would have saved almost \$37,000 in administrative fees over the last four years had the annual increases been limited to the CPI.

Table 6. Potential Savings in BOR Administrative Fees from Using CPI

Payment Date	5% annual increase per agreement	Amount due with 5%	CPI % annual increase	Amount due	Difference
12/31/2007	n/a	\$100,000	n/a	\$100,000	-
12/31/2008	5%	\$105,000	1.1%	\$101,100	\$3,900
12/31/2009	5%	\$110,250	1.8%	\$102,920	\$7,330
12/31/2010	5%	\$115,763	1.1%	\$104,052	\$11,711
12/31/2011	5%	\$121,551	3.4%	\$107,590	\$13,961
			4-Year Po	tential Savings	\$36,902

**SOURCE:** Auditor analysis of Cost-Sharing and Land Use Agreement and Bureau of Labor Statistics website (CPI) using FY 2008/09 as the base year.

Although the economic downturn began affecting the City in FY 2008/2009, the City's Contract Administrators have not requested an amendment to the Cost-Sharing and Land Use Agreement to reduce or eliminate the automatic 5% annual increases.

B. WestWorld maintains a trailhead site on its BOR land, but does not recover the associated costs from the Basin Management Fund. The Fund is restricted to use for BOR land and requires BOR approval.

The WestWorld trailhead includes a parking lot, restroom, 2 arenas, and trail access into the McDowell Sonoran Preserve. Also, a multi-use path leads to a bridge over the CAP canal to the City's Horizon Park. WestWorld staff estimated that they spend at least 30 minutes each day to drag the trailhead arenas. In addition, the trailhead bathrooms are cleaned multiple times per day. As well, WestWorld staff maintains the multi-use path up to the bridge over the CAP canal and the trail access path into the Preserve. These costs vary depending on the necessary maintenance activities, but were approximately \$13,000 in FY 2011/12.

#### **Recommendations:**

The City's Contract Administrators for the Cost-Sharing and Land Use Agreement should seek BOR approval for:

- A. Amending the agreement to base the annual administrative fee increase on CPI rather than a fixed rate.
- B. Reimbursing WestWorld trailhead maintenance costs from the Basin Management Fund.

# **MANAGEMENT ACTION PLAN**

# 1. Current opportunities exist for WestWorld to increase revenues and reduce expenses.

#### **Recommendations:**

WestWorld management should:

- A. 1. Revise the applicable rates to ensure that, at a minimum, direct costs that can be associated with an event or facility are recovered.
  - 2. Periodically evaluate the feasibility of contracting the Feed & Bedding operation. In the event that it is contracted, review recommendations of the previous audit report to provide better oversight.
  - 3. In the Food Vendor Agreement, require concessioners to issue receipts to all customers. Also consider requiring concessioners to place a highly visible sign stating that they are required to provide a receipt.
  - 4. Consider calculating facility use as a percentage of available capacity to allow more accurate capacity use monitoring.
  - 5. Require event producers to provide substantiating documentation, such as a sales report, with their ticket sales totals.
- B. 1. Take actions necessary to control labor expenses.
  - 2. Ensure that all relevant financial information, including recovery rates and general fund support, is presented in future City Council Reports.
  - 3. Determine whether WestWorld is expected to pay for and recover all of its utility costs like an Enterprise operation or to have these costs subsidized like other General Fund cost centers.
  - 4. Continue to work to develop additional events and, as necessary, take action to reduce operating costs.

#### MANAGEMENT RESPONSE: Agree

#### PROPOSED RESOLUTION:

- A.1. Agree. Rates and fees are analyzed annually and submitted through the city budget process via the Community and Economic Development Division. Rates and fees are not set according to the cost of operation per the March 1997 WestWorld Business Plan. Rates and fees are increased by line item and have been raised by 5% to 25% over the past 3 years.
- A.2. Agree. WestWorld management analyzes the feasibility of the feed and bedding program on a regular basis. July 1, 2012 was the last analysis of WestWorld feed & bedding store and the efficiency in staff productivity, customer service quality, and economic net positive return supported the continuation of in-house programming.
- A.3. Agree. We will require register receipts for all concessionaires.
- A.4. WestWorld currently calculates internally daily capacity as demanded by booking inquiries using our master booking calendar. We use the master calendar to review what is rented and from that we determine availability (capacity). Using a percentage of available capacity would not be a helpful

management tool as other factors must be considered. For instance, just because a portion of the facility is open it does not mean it is rentable as there may be compatibility issues with another event or other space use that would prohibit more capacity use. Formal reporting will continue following "use days" for equestrian and non-equestrian events.

- A.5. Agree. We will require applicable event producers submit and sign a report of ticket sales.
- B.1. Agree. WestWorld management has reduced WestWorld full time staff by six (6) full time positions in the past three (3) years. WestWorld keeps the full time staff to a minimum and supplements event needs with part time seasonal staff as means of controlling labor expenses and overhead expenses.
- B.2. Agree.
- B.3. Agree. WestWorld is a general fund department. WestWorld should have accounting consistent with all other City General Fund Departments.
- B.4. Agree. As directed by City Council, we are in process through the Purchasing Department with procurement for an independent marketing firm to market and develop additional events.

RESPONSIBLE PARTY: WestWorld General Manager

COMPLETED BY: 7/1/2013

### 2. Operational efficiencies can be gained with simplified rate structures.

#### **Recommendation:**

WestWorld management should review and simplify its facilities and service charges. Specifically, WestWorld should consider instituting a more standard rental practice of charging the same price regardless of the stall use. As well, WestWorld should consider renting barns by the whole or half rather than by individual stall.

MANAGEMENT RESPONSE: Agree

#### PROPOSED RESOLUTION:

Agree. WestWorld management reviews fees annually and attempts to simplify the same. For example, stall use and fees are reviewed on an annual basis. However, each event producer is unique and in an attempt to capture all revenue possible, an extensive line item rental rate sheet is necessary. WestWorld systematically moves to recover more costs. WestWorld must have fees that enable show producers to have financially successful shows.

RESPONSIBLE PARTY: WestWorld General Manager

COMPLETED BY: 1/16/2013

#### 3. Signature event license agreements are outdated and modified on an ad hoc basis.

#### **Recommendations:**

WestWorld management should:

A. Prior to their use of the expanded Tony Nelssen Equestrian Center facilities and with

assistance from the City Attorney's office and other appropriate City representatives, negotiate new license agreements for the remaining signature events based on current facilities and rates. Additionally, these new agreements should be submitted for City Council review and approval. Further, consult with the City Attorney's Office regarding the length and timing of the written notices of intent to exercise extension options.

- B. Prepare appropriate documentation of future license agreement modifications, based on significance of the change being made, and obtain appropriate authorizations.
- C. 1. Ensure the standard deposit amounts for both equestrian and non-equestrian events are sufficient when compared to the expected total event invoice amount.
  - 2. Not grant exceptions to the standard deposit amounts. If full deposits are not received in advance of the event, the event should be cancelled or a letter of credit should be required.

MANAGEMENT RESPONSE: Agree

#### PROPOSED RESOLUTION:

A. Agree. Negotiations with Arabian Horse Association of Arizona, Barrett-Jackson and Arizona Quarter Horse Association have been ongoing for the past two years. This has yielded an unprecedented commitment to a fixed annual debt payment allocation for twenty (20) years of bond financing. The City Attorney's office is currently finishing the latest round of reviews which is estimated to be completed March 2013. The contracts will then be sent to the United States Bureau of Reclamation and event producers for review and final draft.

B. Agree. If a modification arises, WestWorld management will get a contract modification to the City Council for final approval.

C.1. Agree. We are now requiring deposit amounts of the estimated base use fees of 50% for equestrian events upon execution of contract, and for special events 33% upon execution of contract.

RESPONSIBLE PARTY: WestWorld General Manager, Executive Director Community and Economic Development, City Attorney's Office

COMPLETED BY: 12/31/2013

#### 4. Inadequate internal controls increase the risk of not receiving all revenues.

#### Recommendations:

WestWorld management should:

A. Establish control processes to account for all its event revenues, such as sequential invoice numbering, supervisory review of the final invoices, and independent receipt of invoice payments. To achieve proper separation of incompatible duties, WestWorld should request the City's Accounting staff to generate the final customer invoices and record these receivables as they are billed. And, as previously recommended, WestWorld should direct mail-in customer payments to the City's Remittance Processing area.

- B. Ensure that contracts and supporting documentation are reviewed in conjunction with the invoicing process to check for compliance. Additionally, management should obtain Council approval for all contract modifications to Council-approved contracts.
- C. Work with Finance & Accounting to arrange for customer payments to be directed to Remittance Processing. For payments that are made in person at WestWorld, any photocopies should be shredded as soon as possible or sensitive information redacted on the copies.
- D. Request the City Manager to provide written guidance on free ticket distribution.

# MANAGEMENT RESPONSE: Agree

#### PROPOSED RESOLUTION:

- A. Agree. Controls need to be in place for all revenue to be realized. WestWorld Management will meet with Accounting and Remittance Processing to discuss internal controls and processes.
- B. Agree. We will do that.
- C. Agree. Controls need to be in place for all revenue to be realized. WestWorld Management will meet with Accounting and Remittance Processing to discuss internal controls and processes.
- D. Agree. WestWorld will pursue written direction from the Executive Director Community and Economic Development and City Manager's office for "ticket" distribution.

RESPONSIBLE PARTY: Executive Directory Community and Economic Development and Management Analyst

COMPLETED BY: 12/31/2013

# 5. Savings may be achieved in WestWorld's BOR administrative fees and trailhead costs.

### **Recommendations:**

The City's Contract Administrators for the Cost-Sharing and Land Use Agreement should seek BOR approval for:

- A. Amending the agreement to base the annual administrative fee increase on CPI rather than a fixed rate.
- B. Reimbursing WestWorld trailhead maintenance costs from the Basin Management Fund.

MANAGEMENT RESPONSE: Agree

#### PROPOSED RESOLUTION:

A. and B. Agree. We will discuss with the United States Bureau of Reclamation.

RESPONSIBLE PARTY: WestWorld General Manager and Executive Director Community and Economic Development

COMPLETED BY: 7/1/2013

City Auditor's Office 4021 N. 75<sup>th</sup> St., Suite 105 Scottsdale, Arizona 85251 (480) 312-7756 www.ScottsdaleAZ.gov/departments/City\_Auditor

#### **Audit Committee**

Councilwoman Suzanne Klapp, Chair Councilman Robert Littlefield Councilwoman Linda Milhaven

# **City Auditor's Office**

Kyla Anderson, Senior Auditor Lai Cluff, Senior Auditor Cathleen Davis, Senior Auditor Lisa Gurtler, Assistant City Auditor Brad Hubert, Internal Auditor Joanna Munar, Senior Auditor Sharron Walker, City Auditor



The City Auditor's Office provides independent research, analysis, consultation, and educational services to promote operational efficiency, effectiveness, accountability, and integrity in response to City needs.