



Office of the City Auditor

Audit of the Resort Management Office

Report Date: March 15, 2017

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"Promoting Accountability and Integrity in City Operations"



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Office of the City Auditor
Transmittal Letter

Date: March 15, 2017
To: Dave L. Hansen, City Manager
Subject: Audit of the Resort Management Office



I am pleased to present the report of our audit of the Resort Management Office. The objectives of our audit were to document and assess the significant financial provisions and controls of the City's contract with Integrated Management Group (IMG) to provide entertainment; to document, assess and test the controls over non-parking direct revenues collected by the Resort Management Office; and to document and test the methodology in place to ensure the proper implementation of City Council Resolution #03612 – A Resolution to Direct the City Manager to Recoup Certain Expenses Related to Special Events.

Findings considered to be of insignificant risk have been discussed with management. We completed fieldwork on January 15, 2017.

The Office of the City Auditor reports to City Council through the City's Audit Committee and is organizationally independent of all other City Departments. This report is intended solely for the information and use of the Audit Committee, City Council, Department of Planning and the Development Services Center, and appropriate management. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We would like to thank the Resort Management Office for their courteous and prompt assistance during our audit. The staff was receptive and excellent to work with.

If you have any questions about this report, or any audit-related issue, I can be reached at 385.5872 or via email at lremias@vbgov.com.

Respectfully submitted,

Lyndon S. Remias, CPA, CIA
City Auditor

c: City Council Members
Audit Committee Members
Ronald H. Williams, Jr., Deputy City Manager
Brad Van Dommelen, Director, Convention and Visitors Bureau



Office of the City Auditor Table of Contents

Transmittal Letter	i
Purpose	1
Scope & Objective	1
Methodology	1
Standards	2
Background	3
Results	7
Conclusion	16
Acknowledgements	16
Management's Response	Attachment A



Office of the City Auditor Audit of the Resort Management Office

Purpose

To verify that the City's appropriations contractually disbursed to Integrated Management Group (IMG) for citywide entertainment opportunities for visitors and City of Virginia Beach residents are safeguarded and properly spent. To verify that all non-parking direct revenues due the City from oceanfront activities are properly collected, recorded and deposited. To verify that City Council Resolution #03612 requiring the recoupment of some City departmental event costs is implemented correctly.

Scope & Objectives

The scope of the audit is, depending on what is being tested, the most recent fiscal year completed 2016; the last calendar year completed 2015 (IMG is a calendar year corporation); and the current fiscal year July 1, 2016 through January 2017. The objectives of our audit were to document, assess and test the significant financial provisions and controls of the City's contract with IMG to provide entertainment; to document, assess and test the controls over non-parking direct revenues collected by the Resort Management Office; and to document and test the methodology in place to ensure the proper implementation of City Council Resolution #03612 – A Resolution to Direct the City Manager to Recoup Certain Expenses Related to Special Events.

Methodology

To accomplish our objectives, we performed the following:

- Researched via the internet website, budget files, InSITE reports and other documents of the background of the Resort Management Office and documented such
- Obtained and reviewed the Beach Events contract "Entertainment & Events Program Agreement"; the related RFP #RMOL-14-0109 incorporated into the contract; and Addendum #1 & 2 with Integrated Management Group LLC
- Identified and listed the significant financial provisions of the contract and tested compliance with those provisions
- Obtained and reviewed City Council Resolution #06312 - "A Resolution to Direct the City Manager to Recoup Certain Expenses Related to Special Events"
- Documented the Resort Management Office's methodology implementing the resolution and verified that methodology with the requirements of the resolution
- Selected a sample of event cost recoupment and credit information and tested for compliance
- Documented the procedures and controls over all non-parking direct revenues collected by the Resort Management Office
- Assessed the design of the revenue controls to reduce risk to an acceptable level and tested the controls to ascertain whether they were operating as designed
- Made recommendations to management to improve compliance/efficiencies



Office of the City Auditor Audit of the Resort Management Office

Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require 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 during this audit provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Office of the City Auditor reports to City Council through the Audit Committee and is organizationally independent of all City Departments. This report will be distributed to the City's Audit Committee, City Council, the Resort Management Office, and appropriate management. This report will also be made available to the public.



Office of the City Auditor Audit of the Resort Management Office

Background

The Resort Management Office

The Resort Management Office participates in coordination of city resident quality of life issues in the resort area as well as the promotion and enhancement of the tourist industry. They schedule and coordinate special events and entertainment at the Virginia Beach Oceanfront area. The Resort Management Office is the primary liaison between the special events organizer and the various required city-operating departments. They also facilitate the development of resort business opportunities; support the Resort Advisory Commission's initiatives and coordinates capital improvement projects in the resort area. In addition, the Resort Management Office interacts with citizen advisory groups, administers contracts, collects various revenues, ensures city code compliance, and manages oceanfront franchise agreements including open-air cafes, Boardwalk vendors, beach equipment rentals, beach photography and film production. The Resort Management Office also works with many operating departments, Building Maintenance, Landscape Services, Beach Operations, Traffic Operations, Civil Inspections, Code Enforcement, Zoning Administration, and the Police Department, to facilitate service delivery related to special events and routine services performed in the resort area. The Resort Management Office is now once again part of the Convention Visitor's Bureau, moving back from the Strategic Growth Areas office where it was located in fiscal year 2016.



Beach Events Contract

On February 1, 2014, the City entered into its current contract with Integrated Management Group LLC (IMG) to “broaden the range of citywide entertainment opportunities available for the benefit of visitors to and residents of the City of Virginia Beach, thus increasing tourist visitation, enhancing the experience of both tourists and citizens, generating positive economic impact, environmental ambiance, and providing cultural and recreational opportunities.”



Office of the City Auditor Audit of the Resort Management Office

The contract calls for the entertainment to be implemented by IMG via the following three program components:

1. *General Entertainment* – The contractor is required to execute general family activities hosted during the resort season targeted towards all age groups. These activities consist of smaller scaled performances along the boardwalk, Atlantic Avenue, stages and connector street parks. Examples are oceanfront musicians, mimes, clowns, puppet shows, magicians, plays, bands, etc. General entertainment is scheduled at least six days a week at an average of 24 events a week. General entertainment at Town Center is scheduled Friday, Saturday, and Sunday during the resort season.
2. *Events* – The contractor is required to execute small to medium sized events, lasting one or two days, targeting both visitors and residents. Examples of these types of events are Funk Fest, Panorama Caribbean Music Festival, Latin Festival, Craft Beer Festival, and Holiday Parade at the Beach. Events are hosted throughout the City but the focus is the resort area.
3. *Major/Holiday Events* - The contractor is required to plan, schedule, stage, and/or coordinate at least six major events of a large scale lasting two or more days or are hosted over a major holiday (Memorial Day, July 4th, Labor Day), including the off season, that are designed to have a significant positive economic impact on the City. These major events are hosted in the resort area only. The primary purpose of these major events is to increase out of town visitation generating additional room nights. Past examples of these major events are Beach Music Cruise-in, Stars and Stripes Explosion, the American Music Festival, and Holiday Lights at the Beach.

Financial Summary of the Contract

The contract, including the RFP, exhibits, and addendums is over 175 pages long and due to its visibility and economic significance and the fact that the City disburses \$3 million in appropriations for funding of events to the contractor to implement and administer the events, the contract contains many financial requirements and safeguards in it.

The basics of the contract work as follows:

- A Resort Area Steering Committee, established by the City, includes representatives of IMG, citizens, and representatives from the Hotel and Motel Association, Resort Retailers Association, Virginia Beach Restaurant Association, and Resort Advisory Commission. The Steering committee for the Town Center Advisory Board for Town Center events, works with IMG to develop and recommend the schedules of events with their budgets along with any amendments.
- IMG submits the proposed schedules and budgets along with any recommendations from the Steering Committee to the City for its review and approval by December 15 of each year.



Office of the City Auditor Audit of the Resort Management Office

- The City reviews and includes its objections, if any, within 15 days of receipt of the information from IMG. The event schedule and budgets are reviewed quarterly by City, IMG, and the Steering Committee for approval. No funds are disbursed until final approval.
- Mutually decided schedules of disbursements are made by the City to IMG for “program costs” (direct costs). These program costs are made only upon the City receiving an itemized voucher, detailing the funds required for upcoming preapproved events and referenced to the approved budget items.
- The payment of “administrative costs”, IMG’s annual administrative fee of \$550,000, is made to IMG in four equal quarterly installments. The initial installment is 15 days after the approval of the budget and must be invoiced.
- The City’s annual appropriations for entertainment program include both administrative and program costs.
- No disbursement outside the approved budget appropriations can be made unless amendments are submitted with schedules and budget by IMG and approved by the City.
- IMG receives the administrative fee of \$550,000 as long as the City’s annual appropriations for both program and administrative costs are between \$2.7 and \$3.2 million. If the appropriations do not fall within that range the administrative fee shall be adjusted as mutually negotiated.
- The City agrees to pay IMG 20% of the revenues generated by admission charges from the Holiday Lights at the Beach event.
- IMG agrees to secure minimum sponsorship revenue of \$150,000 (\$120,000 for oceanfront, \$ 30,000 for Town Center).
- City will pay IMG commission incrementally on their sponsorship revenue raised as follows:
 1. 25% for first \$150,000
 2. 30% for >\$150,000 = \$250,000
 3. 40% for >\$250,000 = 350,000
 4. 50% everything over \$350,000
- IMG will pay the City a 10% penalty for the amount they fall short of the \$150,000 minimum X 10%.
- IMG agrees to pursue public/private affiliations to include matching funds, grants, and volunteer participation.



Office of the City Auditor Audit of the Resort Management Office



- City Departments supply City services for these events for safety, logistics, health and welfare (event organizers can contract vendors) and is included in departmental budgets for events produced under this contract. There is no recouping of departmental costs.
- IMG is not charged for events related City issued permits.

Beach Events Contract Risks and Controls

This is a unique contract in that the City annually disburses approximately \$3 million in appropriations to IMG to supply the mutually agreed upon events and entertainment. The “program” money along with associated revenue made from the events is maintained in an IMG checking account that solely houses those funds, which are contractually obligated to be used on

City events. Thus, actually, it is City money, but in an IMG checking account for ease of administering the contract, and the contract requires that any unexpended funds be rolled over to fund City events in succeeding years. At the end of the contract, the unexpended funds from this account are required to be returned in full to the City. IMG’s administrative fee, the profit portion of \$550,000 annually, cannot be held in this account to avoid comingling City and IMG funds. Therefore, in reality, at any given time the bank balance of the account is unexpended City money. Thus, with a considerable amount of City money in possession of an outside contractor, the need for strong controls to ensure the money is only spent on providing events we have approved is paramount. The most significant controls that help ensure this are as follows:

- We approve a budget with a specific listing of approved events and budget amounts and we only disburse the funds to IMG via an invoice specifically referencing those events and amounts. No additional amounts are disbursed without City approval.
- We receive monthly the IMG program bank statement and reconciliation of those solely City funds. This bank account contains only the financial activity of the City contract.
- IMG must maintain a separate company general ledger (in Peachtree) of all activity of the Beach Events contract. Beach Events is a separate division of IMG. The City maintains electronic access to this general ledger and receives monthly accounting reports and statements.
- We can look up any transaction on the bank statement in the general ledger or vice versa and request backup documentation for the transaction.



Office of the City Auditor Audit of the Resort Management Office

- IMG is required to annually provide the financial activity of the City's contract for an external audit of the Beach Events division by an independent CPA firm, complete with audited financial statements and a management letter.
- If Beach Events/IMG does not spend all of the money from appropriations we disbursed to them for events and revenues (sponsorships, concessions etc.) earned from associated activities, the money must be returned to the City or rolled into funding future events. This is evidenced by the bank account balance.
- Performance bond/LOC of \$400,000 along with other insurance minimums must be maintained.
- Minimum and verifiable thresholds for the number of events held and sponsorship revenue earned are contractually required.

2016 Summary of Beach Events Budget and Disbursements to IMG						
	1st Draw	2nd draw	3rd draw	4th Draw	Total Beach Events IMG 2015/16 Draws	
American Music Festival				\$250,000.00	\$250,000.00	
Major Events	\$1,084,109.70		\$6,250.00	(\$2,693.70)	\$1,087,666.00	
Beachstreet USA	\$347,625.00			\$262,375.00	\$610,000.00	
General Entertainment	\$416,414.22	\$6,250.00		(\$122,664.22)	\$300,000.00	
Holiday Lights				\$50,000.00	\$50,000.00	
Admin Fee to IMG	\$137,500.00	\$137,500.00	\$137,500.00	\$137,500.00	\$550,000.00	Agrees with Contract
Total	\$1,985,648.92	\$143,750.00	\$143,750.00	\$574,517.08	\$2,847,666.00	Agrees with 2015/16 Budget

Source: 2016 Budget and individual draw invoice documentation

Beach Event Results

Overall Contract

From an overall perspective, IMG is materially in compliance with the significant contract provisions. They have excellent accounting records, a strong accounting function and the Peachtree software they use for the Beach Events division of IMG (solely for the City contact activity) is user friendly. The electronic general ledger is fully accessible to the City's contract administrator and their accounting personnel are open in providing requested backup and answering questions. The required reconciliations involving sponsorships and Holiday Lights at the Beach are being performed accurately. The Resort Management Office does an excellent job in administering and overseeing the contract as well.

Program Expenditure Testing

To ensure that all of the program money (City appropriations/budgeted money disbursed to IMG solely for specific events) is being spent on only City of Virginia Beach program events we selected 1 month, October 2016, and traced every transaction on the program bank statement to the Beach Events general ledger and every cash transaction from the general ledger back to



Office of the City Auditor Audit of the Resort Management Office

the bank statement or bank reconciliation. We also traced each of the October 2016 transactions to supporting documentation verifying that the programs expenditures were for Virginia Beach pre-approved events only. We were able to do this without exception

Beach Events Contract Compliance

Obtained and reviewed the Beach Events contract “Entertainment & Events Program Agreement”; the related RFP #RMOL-14-0109 incorporated into the contract; and Addendum #1 & #2 with IMG. Identified and listed the significant financial requirements of the contract and tested compliance with those provisions. IMG was materially in compliance with the considerable number of requirements except for the below findings and recommendations:

Finding 1: Certificates of Deposit

Purchase of Certificates of Deposit in an effort to establish a contingency for these large events and earn interest, IMG has taken some of the City program money, a current balance of \$550,000, and purchased CDs. The City receives the interest but IMG pays the taxes on the CDs. Like the checking account, the funds are in IMG’s name but are contractually the City’s program money. IMG acknowledges this and there has been no effort to conceal it. There is a Beach Events general ledger account for the CDs and it is plainly noted in the externally audited financial statements, which the Resort Management Office receives a copy of. Nonetheless, it is technically a departure from the contract language. Section 9E “Program Accounts” of the contract states, “The Agency (IMG) shall maintain a separate bank account for program funds disbursed to the Agency by the City. Said account shall also contain all funds from sponsorships, sales, concessions and other events, but shall exclude administrative fees.” IMG is required to give to the city each month’s bank statement and reconciliation, which they do, along with their Beach Events general ledger so the City has assurance that our funds are being spent only on our events. The contract requires any unexpended funds to be rolled into the next year or given back to the City at the end of the contract as required by the same section.

Recommendation

1.1 It is recommended that should the CDs remain as a contingency function, that the City’s Beach Events Contract Administrator initiate proper controls to monitor the CDs.

Those controls should include the following:

- At least annually run the IMG Beach events general ledger account – #10800 “Certificated of Deposit” to determine if there has been any activity in the account.
- For any proceeds withdrawn from the CD account, trace the proceeds into the Beach Events Program checking account. This checking account is the only place the proceeds should go to maintain City control over the use of the proceeds.

Note: We traced the last proceeds withdrawal of \$200,000 in 2013 into the program account.



Office of the City Auditor Audit of the Resort Management Office

- Annually obtain the CD copies from the bank and tie the CDs into the general ledger balance.
Note: We did this as of November 30, 2016.
- It is also recommended that contract language be added to provide for this arrangement, the purchasing of CDs and implementation of controls.
- Management Services should be made aware of this funding and as noted should the contract end, this money is required to be returned to the City.

Finding 2: Timeframe of the Minimum Number of Events

Section 7A of the contract contains requirements for certain minimum numbers of events that must be held in the various program components and at certain times of the year. For the most part these requirements were met. However, the contract calls for at least 12 events of a small to medium sized scale, lasting one to two days in duration, with one event held during March, October and November, and at least three events per month in April and May. Though the event total of 12 was met, in 2016, according to the Resort Management Office schedule of events, there were no events in March (one required by contract) and two events were held in April (three required by contract).

Small/Medium Month Event Minimum Requirements for Calendar 2016			
Month	Contract Requirement	2016 Events Held	Variance
March	1	0	1
April	3	2	1
May	3	4	-
June	Non-shoulder - No minimum	2	-
July	Non-shoulder - No minimum	5	-
August	Non-shoulder - No minimum	3	-
September	Non-shoulder - No minimum	0	-
October	1	1	-
November	1	1	-
TOTAL	12	18	

Source: 2016 Beach Events Schedule

Recommendation

- 2.1 Though it may be difficult to meet all shoulder season event minimums, continued effort should be stressed, or perhaps amend contract language allowing for just the 12-event minimum should be considered.



Office of the City Auditor Audit of the Resort Management Office

Finding 3: Financial Reports

Section 10 of the contract “Financial Reporting” contains two and a half pages of detailed required monthly financial reports to be submitted to the City and the Steering Committee, along with the requirement that electronic access be given to the City in a reporting system acceptable to the City. The City does have electronic access and the accounting/reporting software is Peachtree, which has been deemed acceptable. Some, but not all of the listed required reports in Section 10 are produced and given to the City and Steering Committee. This is because over time, certain reports were used; others were not, so they were phased out. The Steering committee tends to utilize the broader budget reports and leaves the day-to-day accounting to IMG and Resort Management oversight.

Recommendation

- 3.1 We recommend the contract administrator remind the Steering Committee and any other involved City staff periodically of the fact that more reports/information can be produced if desired.

Note: We do not recommend generating reports, even though required by this section, if nobody – the City or Steering Committee – uses them for managing or decision-making. IMG indicated they are willing to generate the required reports again and others if requested.

Finding 4: Charging for City Permits

In the Management letter issued by Larossa & Co. for the December 31, 2014 and 2015 independent audits of Beach Events, the external auditor notes that under Section 4 of the contract, the City is not supposed to charge IMG for any City permits related to the events. Beach Events is still being charged for permits even though the contract states they are not to be. In some ways, this is irrelevant in that the City is just paying itself since City appropriations are given to IMG to put on the events and that is the program money used to pay for the issuance of the permits. IMG stated that it is easier logistically to just pay for the permits and have them issued promptly.

Recommendation

- 4.1 We recommend what the external auditors wrote in the management letter: “that the Contract be revised or that the City advise those issuing permits that Beach Events is not to be charged permit fees”.



Office of the City Auditor Audit of the Resort Management Office

Finding 5: Independent Audit and Management Letter

Section 9D11 of the contract “Audit” – this section requires that an audit of the Agency (IMG) at its sole expense be prepared by a CPA acceptable to the City and “this report and a copy of the management letter shall be submitted to the City no later than June 15th of each year following a year in which this Agreement is in force.” The audit report and management letter for the year ending December 31, 2015, due to accounting staff changes and other delays, was not issued until November 21, 2016.

Recommendation

- 5.1 We recommend that IMG keep the City informed of any delays and strive to meet the deadline as specified in the contract.

Finding 6: Staff Approval

Section 7G of the contract “Staffing” – this section reads: “The names of staff assigned to the Agreement and their experience in directing and producing family oriented entertainment shall be provided to the City for approval. The agency shall notify the City, in writing of any staff changes during the term of the Agreement within fourteen business days after such changes have occurred.” While this is not formally being done, the City’s contract administrator feels confident that the relationship with the contractor is positive and open and steps would be taken should there be any personnel problems.

Recommendation

- 6.1 We recommend rewording the contract to give the option to receive the information.

Resolution to Recoup City Departmental Costs for Events

In May of 2013, City Council passed a Resolution effective January 1, 2014 directing the City Manager or his designee to implement a procedure, detailed in the Resolution, to recoup City Departmental expenses related to special events. Examples of the costs departments might incur while supporting special events include such expenses as road closures, traffic control, security, providing for emergency medical services, utility connections and clean-up services. Prior to this resolution, Section 4-1 of the City Code stated that recoupment of these expenses was discretionary. As a response to increasing special event permits and a





Office of the City Auditor Audit of the Resort Management Office

corresponding increased financial burden on departments, along with the realization that other municipalities recoup such costs, City Council passed the resolution to recoup some of these costs from the permit applicant. The procedure to recoup special event costs after receiving an estimate of the City support costs and deciding to use the City rather than hire an outside contractor is summarized in the following two requirements of the resolution.

1. If the applicant elects to use the City to perform the safety standards and support service requirements for the special event permit a cash deposit of 50% of the estimated City costs or a bond for 50% of the estimated City costs will be required. In the event that actual City costs were less than the amount of a cash deposit, the applicant will be entitled to a refund.
2. Because of special events held on public property are amenities to the residents of the City and provide publicity of the City's resources and advantages, special events will be entitled to a credit of up to \$3,000 of the actual cost to the City to provide safety standards and support service requirements. Should the City's costs exceed \$3,000, the applicant may request an additional credit of up to 50% of the City's support costs based on City tax revenues generated by event participants attending from at least 50 miles away. The amount of the 50% portion of the credit shall be based on the average overnight spending calculated by the City's Convention and Visitors Bureau and any doubt with regard to such determination shall be resolved in favor of the City.

July 1, 2015-June 30, 2016 Event cost recovery

<u>Event</u>	<u>Cost Recovered</u>	<u>% of Grand Total</u>
Shamrock Marathon 2016	\$59,349.51	29.52%
Wicked 10K 2015	\$12,183.81	6.06%
Rock 'n' Roll Half Marathon 2015	\$69,314.18	34.47%
Subtotal of Three Events	\$140,847.50	70.05%
All other events with Cost Recovery (11 events)	\$60,233.49	29.95%
Grand Total Event Cost Recovery for 2016	\$201,080.99	100.00%

Source: Special Events and Film Office revenue tracking spreadsheet – agreed to InSITE total and specific event records.



Office of the City Auditor Audit of the Resort Management Office

Results

We documented the methodology utilized by the Resorts Management Office to implement the recouping of event costs. Briefly, the process works as follows once all of the relevant information is submitted by the event organizer on the permit to the Special Events Office, then a determination as to whether the event will be invoiced for city services is made.

- Special Events whose city support costs are expected to be below \$3,000 are not given an estimate and are not invoiced.
- If city costs are expected to exceed \$3,000, an estimate is provided. The Special Events Office coordinates with the appropriate Departments in preparing a City Services Request (CSR), which itemizes by department each city service requested. Final city support costs are submitted by departments to the Special Events Office 15 - 20 business days after the event. The Special Event and Film Manager reviews these cost, compares them to the estimate, researches and clarifies significant differences, and make any changes to reflect the actual event,
- Once the final city support costs are determined, an invoice is generated. If the final invoice does not exceed \$6,000, that standard \$3,000 credit is applied. If the final invoice is over \$6,000, the tourism credit of up to 50% of the City support costs can be applied if supporting documentation is submitted that suggests that City tax revenues generated by the event from participants attending from at least 50 miles away based on the average overnight spending calculated by the CVB. The job requires significant cost documentation, logistics, and knowledge of both the event itself and the departments that supply the services. It also requires significant communication between the event organizers and City departments.

Note: Special Events hosted by City departments or on behalf of City departments by the department's contractor are not subject to cost recoupment as expressed in the resolution. In addition, none of the events put on by IMG through the Beach Events contract are invoiced for cost recovery. This is because IMG is given City appropriations to implement those agreed upon events; so to charge IMG to recoup city costs would only be paying yourself with your own money and adding a substantial amount of accounting and record keeping costs.

We obtained the cost recoupment files for the three events that had the largest amount of City departmental support costs. Those three events alone comprised 70% (\$140,847.50) of all \$201,080.99 of costs recouped from event organizers in fiscal year 2016. We traced all of the costs to the CSRs, the final invoices and to the backup cost documentation submitted to and reviewed by the Resort Management Office without exception. These three events utilized the 50% maximum credit and we reviewed their computation for the credit without exception. We also agreed the \$201,080.99 event detail to InSITE.



Office of the City Auditor Audit of the Resort Management Office

Finding 7: Deposits required by Event Organizers

Currently the Resort Management Office is not requiring the event organizer to supply a 50% cash deposit up front on the estimated City event costs, as the resolution procedure requires. While in fiscal year 2016 all \$201,080.99 that was billed to event organizers to recoup City costs was eventually collected, staff indicated there were a few that were late/slow in paying.

Recommendation

- 7.1 We recommend the Resort Management Office comply with the 50% deposit resolution requirement as written. However, we support the CVB in approaching City Council to ask if they could have the deposit requirement be changed to optional, recognizing that the 50% up-front costs can be a real burden on some nonprofits. In fiscal year 2016, the \$201, 080.00 of recoupment costs billed to event organizers was collected.

Finding 8: Credit Computation Documentation

Once the costs have been accumulated, the computation of the up to 50% credit is many times not included in the documentation binder with the cost documentation, which is quite thorough. Three of the larger events provided for over 70% of the costs recovered and staff were able to go through other correspondence and provide computations that easily supported the 50% credit.

Recommendation

- 8.1 We recommend including the 50% credit computation, methodology, and backup utilized for the credit computation - even if it seems obvious they qualify for the 50% computation and have in prior years.

Finding 9: Use of Accurate Rates

In accumulating the City event support costs, which are largely payroll, Resort Management Staff uses average payroll rates both in giving the event organizers estimates and in computing their final invoices. It is much easier to prepare an accurate estimate of costs that will approximate the final bill and which the event organizer can depend on in formulating his budget. The estimates given to event organizers are prepared well in advance, before knowing the salaries and seniority of the actual personnel that end up working the individual event. It would also be a significant accounting burden to require all departments to allocate and code personnel costs to Insite location event fields. However, in using average rates, they must approximate what actual costs are to materially accumulate amounts close to real costs. Both Police and Fire for fiscal year 2017 significantly (Police was raised 33%) raised their average rate from prior years as the rate was not approximating what the real costs were.



Office of the City Auditor Audit of the Resort Management Office

Recommendation

- 9.1 We recommend that when using payroll rates to accumulate and report departmental event related expenses, departments annually re-compute their payroll rates to assure that the rates are reasonably approximating actual costs and supply the documentation to the Resort Management Office.

Direct Revenue Collections

In addition to implementing City Council's resolution to recoup City department's support costs for events, and overseeing the Beach Events contract and other functions, the Resort Management Office oversees the collection of a number of other direct revenues as well. These revenues are centered around special event permits and associated late fees issued for the events and various franchises and contracts associated with Beach Equipment rentals, open-air cafes and mobile vendors, the Virginia Beach Fishing Pier, Beach Horseback riding, photography and Holiday Lights. The area of parking and their revenue collections has moved back to Planning/SGA, are no longer part of the CVB, and were not in the scope of this audit.

Results

We documented in detail the current fiscal year (2016/2107) revenue processes and significant associated controls assessed the design and tested the revenue controls for compliance. The design of the controls was adequately designed to reduce risk to an acceptable level except for the below finding. We tested all direct revenue posted from July 1, 2017 through January 13, 2017 without exceptions. All franchise/contract revenue was agreed to the contract agreement, all permit revenue was agreed to the detailed list of permits, and we randomly traced some to the actual permit itself with no exceptions.

Finding 10: Type of Permit/Revenue

The actual event permits/applications do not indicate which of the eight permit types (various costs) was granted. One can read the application and make a conclusion that it was one type of permit or the other, but without experience, it can be difficult, thus making verification difficult.

Permit Event Fees from the Outdoor Event and Entertainment Application

Type of Event	Application & Payment Due	Processing Fee
1. Event on Residential Property	30 days prior to the event	\$50
2. Commercial Carnival	30-60 days prior to the event	\$300
3. Outdoor Event/Entertainment-One (1) day event	30-60 days prior to the event	\$75
4. Outdoor Event/Entertainment-Two (2) day event	60-90 days prior to the event	\$250
5. Outdoor Event/Entertainment-More than three (3) days in a calendar year that charges a fee to participate	60-90 days prior to the event	\$300 per week
6. Sporting Event/Parade-residential streets	30-60 days prior to the event	\$75
7. Sporting Event/Parade-non-residential street(s)	60-90 days prior to the event	\$250
8. Sporting Event/Parade-non-residential street(s) using both resort & non-resort streets	60-90 days prior to the event	\$500



Office of the City Auditor Audit of the Resort Management Office

Recommendation

10.1 We recommend for ease of verification, to indicate on the permit, the type of permit that was awarded along with the dollar amount.

Finding 11: Transportation of Deposit

The current written revenue collection procedures state, “Any staff member may transport bank deposits in the locked money bag to the Treasurer’s Office.” The procedure does not require any signature/initialing in the logbook for whomever did the transporting. It is an important control to maintain accountability over the asset should there be a question later as to who transported a specific deposit, the information is readily available.

Recommendation

11.1 We recommend whomever transports the deposit should be required to initial the logbook indicating they were the transport person.

Conclusion

We determined that effective contract controls are in place to ensure that appropriations given to IMG to provide for citywide entertainment are spent according to the agreement and solely for agreed upon City of Virginia Beach Events. We also determined that the City Council resolution to recoup City department support costs for special events has been implemented and is materially being complied with. The Resort Management Office has strong controls in place over the direct revenues they collect and the controls are operating as designed. We did have some areas of non-compliance and have offered recommendations to Management for corrective action.

Acknowledgements

We would like to thank the Convention Visitors Bureau, in particular the Resort Management Office, for their assistance and cooperation during our review. They were timely and open to our questions and accommodating in every way to help the audit proceed smoothly.



City of Virginia Beach

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INTER-OFFICE MEMORANDUM

DATE: March 10, 2017

TO: Lyndon Remias, City Auditor 

FROM: Brad Van Dommelen, Director, Convention and Visitors Bureau

SUBJECT: Management Response to the Audit of the Resort Management Office

The City Auditor's staff is to be commended for their time and efforts in conducting the Audit of the Resort Management Office. This audit was an extensive examination of the following three significant areas of responsibility within the CVB/Resort Management Office.

- (1) Integrated Management Group (IMG) contract and compliance over the safeguarding and disbursement of City appropriations
- (2) Non-parking direct revenue collections for oceanfront activities - verification that revenue is properly collected, recorded and deposited
- (3) City Council Resolution #03612 – Recoup of Certain Expenses Related to Special Events – verification that the resolution is being correctly implemented

I am very pleased that the audit found that controls for these three important areas of responsibility within the CVB/Resort Management Office are functioning as intended and that overall the programs had no major findings of material issues or significant risk.

I agree with the results in the audit report and have addressed the findings below:

CVB Response City Auditor
Re: Resort Management Audit
March 10, 2017

Finding 1: Certificates of Deposit

Response: As stated in the report, the CDs should not technically be in a separate account. Rather than to monitor them in the second account as recommended, the Contract Administrator will have IMG move the CDs back into the program bank account as they retire as discussed at the exit conference. I will then have my Director of Administration or Accountant trace the transfer from the CD account to the program bank account to ensure that the transfer has occurred in order for all City program funding to be in one account. Should interest rates return to investment worthy levels, we will pursue additional CDs with proper controls.

Finding 2: Timeframe of the Minimum Number of Events

Response: March and April of 2016 were each found to be short by one required event for each of these two months as defined in the Beach Events contract. This is an important season for the resort area and the City of Virginia Beach. Because of this, we will continue to emphasize the need for shoulder season events, but will revise the future agreement to include "recommended" dates for events.

Finding 3: Financial Reports

Response: Over time some of the required financial reports have been phased out since they were not being used. Since it has been some time since all of the required reports have been issued, the Contract Administrator will present a list of available reports to the steering committee and any other City Staff involved with this contract as a reminder that these reports can be produced if desired.

Finding 4: Charging for City Permits

Response: Beach Events is being charged for permits even though the contract states they are not to be charged. As recommended, the City will stop charging Beach Events for permits. In order to properly account for City permits during the process, the permit will be completed and marked "Fee waived per IMG contract".

Finding 5: Independent Audit and Management Letter

Response: The Independent Audit report was received eleven months after the contractual deadline. Because of this, IMG must strive to meet the contractual deadline in the future and must also keep the Contract Administrator informed of any delays in the submission of the Independent Audit report.

Finding 6: Staff Approval

Response: Beachevents has not experienced a merger, acquisition or change in any key management positions during the existing contract period. City staff will continue to monitor Beachevents operation to ensure notifications are made should this occur.

CVB Response City Auditor
Re: Resort Management Audit
March 10, 2017

Finding 7: Deposits required by Event Organizers

Response: The resolution to adopt the Cost Recovery Program was implemented by City Council on January 1, 2014. When the program was implemented, the larger events requiring significant City support would now be invoiced for up to half the cost which event organizers did not have budgeted. In addition, the program required 50% up front deposit which was difficult for some non-profit organizations to pay. This resulted in backlash to City Council and senior staff. Based on this feedback, we implemented a practice to not collect the 50% up-front deposit for repeat events in good standing with the City. This practice was effective and all funds due under the Cost Recovery Program have been collected.

We will revise Section 1(c) of the Cost Recovery resolution as noted below and request approval by City Council.

- 1(c). If the applicant elects to use the City to perform the safety standards and support service requirements for the special event permit, a cash deposit of 50% of the estimated City costs or a bond for 50% of the estimated City costs may be required. In the event that actual City costs are less than the amount of a cash deposit, the applicant will be entitled to a refund.

This change will allow staff the flexibility to implement the 50% deposit as needed.

Finding 8: Credit Computation Documentation

Response: As recommended, the computation of the 50% credit will now be included in the documentation binder along with the cost documentation in order to have a complete documentation of the event costs in one file.

Finding 9: Use of Accurate Rates

Response: Since the use of average departmental payroll rates have not been updated in some time, I agree with the recommendation that departments must re-compute their payroll rates in order to give a more accurate costing of the labor charged to the event organizers.

Finding 10: Type of Permit/Revenue

Response: The actual event permits/applications do not indicate which of the eight permit types have been granted. Therefore, as recommended, the type of permit will now be indicated on the permit application.

Finding 11: Transportation of Deposit

Response: In order to maintain accountability for transportation of the cash transmittal to the Treasurer's Office for deposit, the person who is carrying the deposit to the Treasurer's Office will sign and date the transmittal along with the person who is inspecting the transmittal. A copy of transmittal and attachments along with both signatures will remain on file for the duration of the retention period. Administrative Services Staff reviews each transmittal and checks each of them against InSITE to ensure they have posted to the correct revenue account.

CVB Response City Auditor
Re: Resort Management Audit
March 10, 2017

I want to thank you and your staff for their dedicated efforts in performing this audit, and in discussing the outcome and recommendations at the exit conference. We value the importance of the relationship between our organizations, and we look forward to working with you in the future.

C: Ron Williams, Deputy City Manager
Mike Eason, CVB Resort Management Administrator
Cliff Myers, CVB Director of Administration