

**TRAVIS COUNTY AUDITOR'S OFFICE REVIEW OF
TRAVIS COUNTY EXPOSITION CENTER
CONCESSIONS CONTRACT**

SEPTEMBER 10, 2018



TRAVIS COUNTY
AUDITOR'S OFFICE

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To: Roger El-khoury, Director
Travis County Facilities Management Department

From: Nicki Riley, CPA
Travis County Auditor

Date: September 10, 2018

Subject: Travis County Exposition Center Concessions Review

The Risk Evaluation and Consulting (REC) Division of the Travis County Auditor's Office has completed a review of the Travis County Exposition Center concessions in accordance with the terms of the applicable agreement between GMC Catering, Inc. (GMC) and Travis County. We conducted our review in accordance with the applicable statutes governing the County Auditor's Office.

OBJECTIVE AND SCOPE OF REVIEW

The primary objective of this review was to assess the adequacy and effectiveness of the overall system of internal controls in place for GMC's cash and inventory functions and to verify GMC properly remitted commissions to the County. The period under review was January 1, 2014 through July 31, 2017.

REVIEW METHODOLOGY

Our review methodology included obtaining and reviewing copies of tax returns, financial statements, inventory reports, catering calendars, and bank statements, as well as other review procedures deemed necessary. In regard to written and/or verbal representations obtained during this review, unless otherwise noted in this report, management maintains that the assertions we relied upon were correct to the best of their knowledge.

SUMMARY OF SIGNIFICANT FINDINGS

GMC did not maintain detailed supporting documentation for concession inventory and purchases. Because of this, we were unable to fully audit cash control and revenue review areas or determine the reasonableness of the commission payments made by GMC to the County during the review period. Specifically, GMC was unable to provide complete supporting documentation for 38

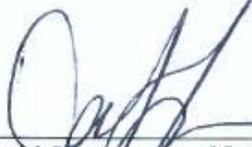
(59%) of the 64 events occurring in the 11 months of 2016 under detailed review. Without these important documents, the cash control and revenue/commission review areas were un-auditable.

ENGAGEMENT TEAM

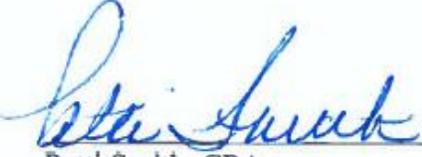
James Marlett, CPA, Lead Auditor
Travis Lee, Staff Auditor

CLOSING

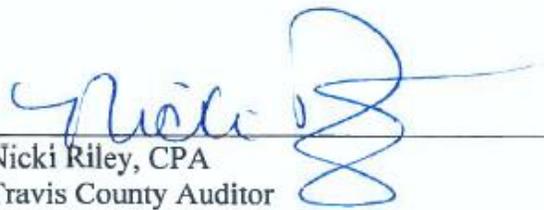
This report is intended solely for the information and use of the Facilities Management Department (FMD) and the Commissioners' Court. We greatly appreciate the cooperation and assistance received from the management and staff of FMD during this examination. Please contact our office if you have any questions or concerns regarding this report.



David Jungerman, CIA
Chief Assistant County Auditor
Risk Evaluation & Consulting Division



Patti Smith, CPA
First Assistant County Auditor



Nicki Riley, CPA
Travis County Auditor

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Travis County Executive Managers

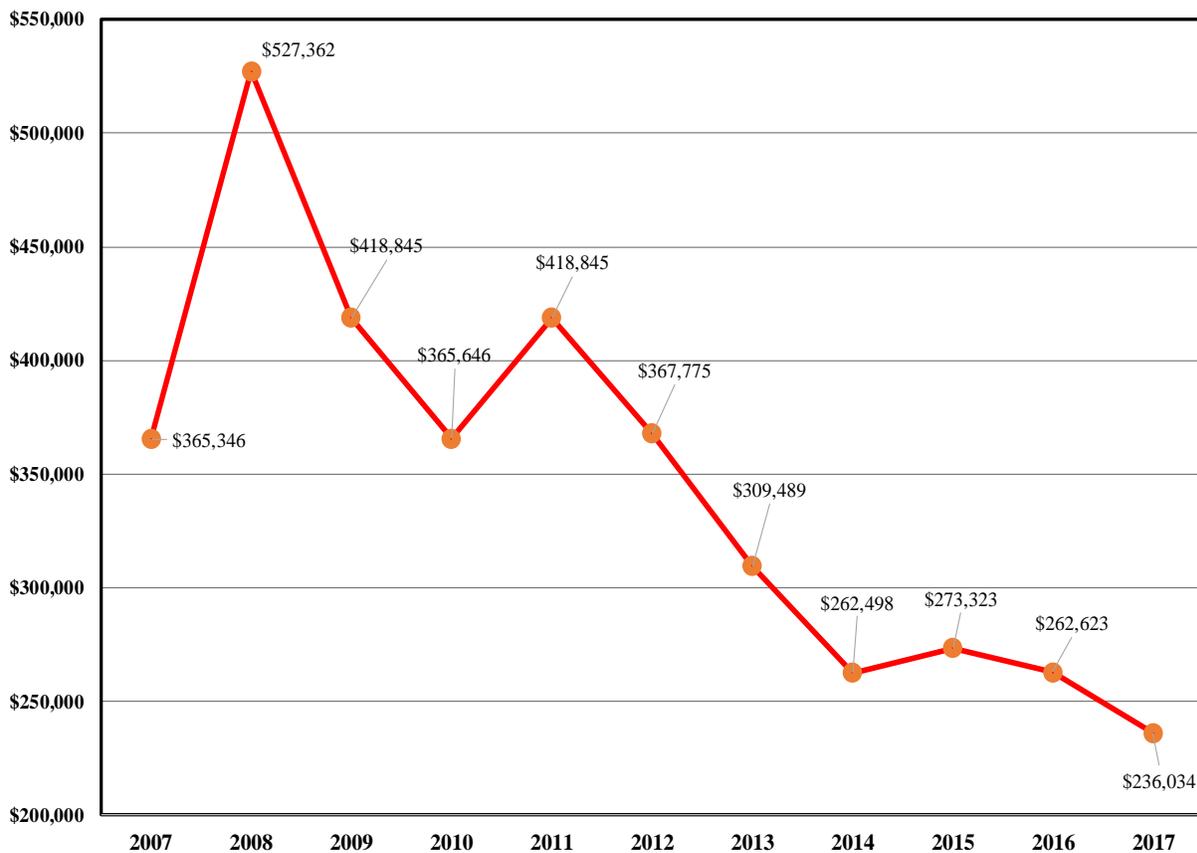
BACKGROUND

The Travis County Exposition Center is an event and recreation facility with paved parking for 4,000 vehicles located on 128 acres at 7311 Decker Lane, Austin TX 78724. The facility is available for rent by the public and businesses. Clients may rent the Luedcke Arena, Skyline Club, Banquet Hall, and Show Barn for a wide variety of events such as wedding receptions, car shows, and horse shows; the Exposition Center is also the permanent home to the Star of Texas Fair and Rodeo. Excluding the Rodeo, each of these events create county revenue in the form of rental fees and commissions from concession sales.

In 1999, the County hired Aus-Tex Concession, Inc. (Aus-Tex) to perform the concessions and catering at the Travis County Expo Center. In 2006, Aus-Tex merged with GMC Catering, Inc. The County renewed this agreement for five years in November of 2017.

Excluding collections for events held in March, which includes the Rodeo, GMC is required to remit 40% of concession revenue and 10% of catering revenue to the County as commissions. The following graph details GMC's total commissions revenue remitted to the County by year:

Travis County Expo Center Concessions Revenue FY07-17



AREAS OF CONCERN

1. RECORD OF ACCOUNTS

While we were able to obtain bank statements, invoices, tax returns, financial statements, and other documents requested from GMC, we did not receive complete detailed supporting documentation for revenue collections and sales transactions related to events handled by GMC. Specifically, GMC was unable to provide complete supporting documentation for 38 (59%) of the 64 events occurring in the 11 months of 2016 under detailed review.

Based on this review, GMC failed to maintain documentation reflecting the state of its inventory in accordance with Section 3.3 of the contract and failed to provide detailed sales reports in accordance with Section 3.5. Due to this lack of support, we were unable to perform a complete audit of the records of GMC. Specifically, we were unable to adequately account for all sales transactions nor determine the reasonableness of the commission payments made by GMC to the County. Without these important documents, the cash control and revenue/commission review areas were un-auditable.

Recommendations

Going forward, GMC should maintain all relevant supporting documentation as required by the contract, particularly the information related to sales and collections. This detailed support should be remitted to Facilities Management with the summary commissions reports for each event handled by GMC.

In addition, Facilities Management personnel should regularly (preferably on a surprise basis) monitor and verify sales and collections data during events as allowed by Section 18.0 of the contract, which states the following:

“The County reserves the right to perform periodic on-site monitoring of Concessionaires compliance with the terms of this Contract, and of the adequacy and timeliness of Concessionaire’s performance under this Contract. After each monitoring visit, County shall provide Concessionaire with a written report of the monitor’s findings. If the report notes deficiencies in Concessionaire’s performances under the terms of this Contract, it shall include requirements and deadlines for the correction of those deficiencies by Concessionaire. Concessionaire shall take action specified in the monitoring report prior to the deadlines specified.”

This process should include conducting beginning and ending inventories of the products being sold, which should be compared to the relevant sales data to ensure that collections reasonably match inventory depletion for each event. Collections monitoring should include counts of all cash on hand at the end of the events; these counts should later be compared to the bank statements and commissions computation.

FMD Management Response

Travis County Facilities Management fully recognizes the serious nature of these findings. Given these discoveries, FMD is inclined to agree with all of the proposed recommendations moving

forward. Additionally, this memo will outline all specifications on how GMC should report their monthly earnings moving forward, and what supporting documentation will be required. This will be done as soon as the report is finalized and released.

Furthermore, FMD intends to hire a private contractor to audit the inventory, sales, and collections of GMC during events. This contractor will serve on an as-needed basis, but will likely attend all major events served by GMC. This position will be solicited once the Commissioners Court gives us the approval.

GMC Management Response

GMC has provided bank statements, sales tax reports, income statements, balance sheets, general ledgers, monthly reports, ATM reports, and inventory reports. We offered invoices to show purchased inventory, but were told they weren't needed. The majority of sales reports were provided, though some were missing due to loss over the years. These are reports completed by employees on the day of the event. All of these records are currently in our possession.

Audit Rejoinder

We understand that supporting documents may be lost or misplaced occasionally. However, as stated above, complete supporting documentation was not available for 59% of the 2016 events sampled. This is a material portion of the supporting documents, indicating that GMC's record-keeping protocols require significant improvement.

2. GROSS CHARGES

For 2014-16, we attempted to reconcile gross receipts reported to the County by GMC to GMC's financial statements, tax returns, and bank statements. For this period, we were unable to verify that a combined \$105,859 of reported gross receipts were properly recorded in GMC's financial records and statements, as well as their associated tax returns for those periods. This issue may relate to GMC's late deposit of its collections.

As required by Section 3.3 of the contract, GMC is responsible for the preparation and fair presentation of its financial statements in accordance with the cash-basis method of reporting. This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Recommendations

We recommend GMC Catering review their 2014-16 financial statements and tax records, determine the source of these differences, and restate/resubmit these schedules as appropriate. Any taxes in arrears should be remitted immediately.

Management Response

Travis County Facilities Management agrees that the conclusions drawn from the evidence above are true and accurate. Should the Commissioners Court decide to continue our relationship with GMC, FMD will request that the County Auditor's Office conducts annual audits of our Concessionaire.

GMC Management Response

The auditor said that the contract states that 11 months (non-Rodeo) of financial data should be separate from the one month (Rodeo) of financial data. No deposits should be made in March that are associated with the County contract and no Rodeo deposits should be made the rest of the year. This is not how we read the contract, and this is the source of the inability to reconcile. GMC has always made deposits at different times of the year, not necessarily based on specific events. If all 12 months are accounted for, there is a difference of \$900 (see chart below):

	2014	2015	2016	
Gross Sales - Travis County	\$574,764	\$681,794	\$533,778	
Gross Sales - Rodeo	\$726,520	\$799,201	\$709,184	
Total Adjusted Sales	\$1,301,284	\$1,480,995	\$1,242,962	
Sales Per Income Statement	\$1,277,624	\$1,485,720	\$1,260,988	
Income Statement/Tax return				
Variance	\$23,660	(\$4,725)	(\$18,026)	\$909

We feel like much of this could have been avoided by proper communication amongst all parties. If we had been audited shortly after taking over this contract, we would have known what specifics were expected. We carried on as the previous concessionaire had done, even using their inventory sheets and sales reports. No documents associated with this audit were ever shredded and no tax returns need to be amended.

Audit Rejoinder

We appreciate GMC’s efforts to reconcile this difference; however, of the balances presented by GMC in the above table, we have thus far been able to verify the validity of two – the Rodeo’s gross sales for 2014 and 2015. Because of this, we cannot currently rely on the above reconciliation. We would be happy to continue to work with GMC to resolve this matter.

We would also like to clarify GMC’s interpretation of our stance on deposit timeliness. Both from the standpoint of good internal controls and contract compliance, GMC should be depositing funds collected at County and Rodeo events in a timely manner, preferably by the end of the next working day after receipt. If an event occurs in the last few days of March, it is reasonable for the collections for that month to be deposited on the first day or two of April. However, collections from events occurring throughout March should not be deposited at various points in April or subsequent months.

3. MIXED BEVERAGE GROSS RECEIPTS TAX

GMC improperly deducted mixed beverage taxes paid to the State from gross receipts, thereby understating commissions due to the County. We recalculated these mixed beverage commissions by reviewing gross receipts tax returns and removing the gross receipts mixed beverage tax from commission payments for the period January 1, 2014 to December 31, 2017. Underpaid commissions totaled \$3,214.56 for this period.

The concessions contract allows for the sale of all food, hot and cold drinks, beer, wine, mixed beverages, and other items as approved by County management. Establishments that sell, prepare,

or serve mixed beverages are required to pay mixed beverage taxes to the State based on their gross receipts for these beverages. They are also required to collect and remit the state sales taxes from their customers on each mixed beverage sold. To clarify, the entity with the liquor license pays mixed beverage taxes, and the customers pay sales taxes.

The contract with GMC requires that GMC pay the County commissions based on gross receipts for mixed beverages. These commissions are to be computed using gross receipts less sales taxes. Mixed beverage taxes cannot be deducted when computing GMC's commissions. Specifically, Section 1.14 of the contract states the following:

“All taxes and licenses of every kind and character on account of the Concession Operations, or on account of the Concession Operation, or on account of the ownership of Concessionaire’s property imposed by County, State, Federal or Municipal government, must be paid by Concessionaire without deduction from Gross Receipts (as such term is defined on the following page).”

Additionally, Section 3.1 states the following:

“The term “Gross Receipts” as used in this Contract means the total receipts before deduction of any costs or expenses save and except sales taxes. Gross Receipts include receipts from all concession sales conducted on the Premises by Concessionaire, including sales made at or from concession stands, snack bars, Catered Events (as defined below), vending machines, beer, wine and liquor sales.”

Recommendations

We recommend that GMC remit \$3,214.56 to the County in settlement for mixed beverage taxes deducted in error. We also recommend that County facility personnel work with GMC to value and recoup estimated collections for mixed beverage gross receipts tax deducted in relevant periods subsequent to December of 2017.

Management Response

Travis County Facilities Management agrees with the above findings. Moving forward, FMD will ensure that these gross sales taxes are not deducted from the mixed beverages commission. Such action shall take place upon the finalization and release of this report.

4. EQUIPMENT INVENTORY

In the concessions contract between Travis County and GMC, 26 County fixed assets were placed under GMC's control. Per the contract, GMC is to properly safeguard and maintain these assets, and GMC should not dispose of these items or remove them from County property. During our review, we attempted to physically verify the existence of these 26 assets, but were unable to locate the 16 items denoted in the table on the following page:

County Equipment	Items Assigned in Contract	Physically Verified	Missing items
Ice Machines	8	6	2
2-door cooler	1	0	1
3-door cooler	1	0	1
4-door cooler	1	0	1
Hot dog grills	4	2	2
Popcorn Machine	4	2	2
3-keg beer coolers	7	0	7
Totals	26	10	16

Recommendations

We recommend that Facilities Management work with GMC to determine the status of the 16 missing items. Going forward, Facilities Management personnel should work with GMC to regularly inventory all assets assigned to the concessionaires.

Management Response

After further research, Travis County Facilities Management has been able to locate records indicating that the majority of the aforementioned equipment was decommissioned on our behest between 2012 and 2015.

Moving forward, FMD staff will perform a walk-thru with GMC in order to locate all remaining equipment. Upon verifying all remaining equipment, FMD will amend the equipment inventory list to reflect an accurate account of all appliances currently entrusted to GMC.