

# A U D I T

## City of Los Angeles

Limited Scope Fiscal Audit at  
the Department of Convention  
and Tourism Development

April 4, 2017



**RON | GALPERIN**  
Los Angeles City Controller

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**CITY OF LOS ANGELES**  
INTER-DEPARTMENTAL CORRESPONDENCE

**DATE:** April 4, 2017

**TO:** Doane Liu, Executive Director  
Department of Convention and Tourism Development

**FROM:** Alfred Rodas, Director of Auditing  
Office of the Controller



**SUBJECT: LIMITED SCOPE FISCAL AUDIT AT THE DEPARTMENT OF CONVENTION AND TOURISM DEVELOPMENT**

The Controller's Office conducted a limited scope fiscal audit at the Department of Convention and Tourism Development (CTD) focused on payroll and cash handling. We performed an analysis of hours worked and bonuses paid to CTD employees for a two-week pay period to determine whether all payroll payments were properly supported. We also performed a surprise count of CTD's petty cash funds to determine whether adequate controls were in place.

In addition, we inquired about CTD's oversight functions relative to the four bank accounts used by its contractor, AEG Management LACC, LLC (AEG) to assess the extent to which CTD monitored AEG's expenditure of City monies derived from the operation and management of the Los Angeles Convention Center (LACC).

Our audit was performed in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our 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.

Overall Results

We found no issues with the Department's payroll, as hours worked and bonuses paid to employees were properly supported. Our audit also found no issues with CTD's authorized petty cash funds. We counted \$300 of currency, coins, and one voucher.

As a result of our inquiries into the four bank accounts maintained by AEG, we noted there may be an opportunity for CTD to enhance oversight of City funds, and improve internal controls over City assets related to LACC operations.

### **RELEVANT INFORMATION**

In 2013 upon completing a three-year process, the Office of the City Administrative Officer (CAO) proposed an agreement for the management and operations of the LACC, which was approved by City Council (C.F No. 12-0692). The Management Agreement was developed utilizing the expertise of the City's consultants. According to CTD, the City's consultants advised on the proposed governance structure and since 2014, CTD has served as the administrator of the Management Agreement between the City and AEG. While the City maintained ownership of the LACC, CTD assumed the responsibility of overseeing AEG's functions relative to managing the facility, which is funded by City monies.

The Management Agreement between the City and AEG requires AEG to maintain several bank accounts to fund its operations and deposit revenues collected from the sale of goods and services at the LACC for, but not limited to, food/beverage concessions, box office sales, parking fees, and rental fees. As of April 2016, the total cash balance in all four bank accounts was \$13.9 million.

These four bank accounts contain City monies that are not controlled by the City Treasurer or CTD, and require dual signatures from AEG's staff in order to disburse funds via checks or wires. CTD is not a required signer for disbursements from the accounts, and does not review AEG's expenditures from these accounts in detail. CTD indicated that it reviews monthly financial reports and an annual operating budget submitted by AEG and relies on annual audits of AEG's financial statements to fulfill its expenditure monitoring responsibilities.

We noted the monthly financial reports summarize the financial condition of the LACC by summarizing all revenues and expenditures into categories, providing a profit/loss statement.<sup>1</sup> Further, the external annual audits do not assess or conclude whether expenditures are necessary or reasonable. While these controls provide a good starting point for CTD management to assess AEG's expenditure performance as compared to AEG's budget, there may be additional opportunities to fulfill its oversight function.

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<sup>1</sup> These reports are also presented at monthly Board of Commissioners meetings. Annually, AEG is required to submit an operating budget that is reviewed and presented by CTD staff to the Board of Commissioners for its consideration and approval. Also annually, CTD staff presents the Board of Commissioners with proposed performance metrics goals, and a review of actual performance metrics achieved in consideration of approving AEG's annual incentive payment.

Doane Liu, Executive Director

April 4, 2017

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A draft of this report was provided to CTD and we considered management's comments and perspectives as we finalized this report. As discussed with your staff on February 22, 2017, the Controller's Office is considering a future audit or review to examine opportunities for CTD to enhance its oversight of AEG's financial operations, and related controls over City-owned assets at LACC.

We appreciate the cooperation and assistance provided by CTD during our review.