

Internal Audit Report 15-01
Public Facility Ticket Fee
February 2015



City of Sioux Falls
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PUBLIC FACILITY TICKET FEE INTERNAL AUDIT REPORT 15-01

INTRODUCTION

Approximately \$300,000 in Public Facility Ticket Fees were collected in 2014. The Public Facility Ticket Fee is charged on all paid admissions to events at the Events Center, Sioux Falls Arena and Sioux Falls Convention Center and all other sports or entertainment facilities having a fixed seating capacity in excess of 2,500 people. The ticket fee is not charged on events held at facilities owned by any school district, county or non-profit educational or religious institutions. The City currently has agreements with SMG to operate the Events Center, Arena, and Convention Center and with the Sioux Falls Canaries Professional Baseball Club (the Club) to operate the Stadium.

BACKGROUND

The Public Facility Ticket Fee requirement was established by City Ordinance 118-04. The fees are collected by the operators of the facilities and are either deposited into an operating account or remitted to the City. Under the 5-year agreement with SMG the ticket fees are included in the definition of “operating revenues” and, under the agreement, must be deposited into the operating account. Under the 20-year Sioux Falls Baseball Stadium Agreement, the ticket fees are to be collected and remitted to the City. The ticket fee is determined based on the face value of the ticket and type of event as follows:

Fees for season tickets sold for any season beginning in 2004 for professional sports teams with agreements for season use of the facility:

- a. Twenty-five cents per ticket with a face value of \$11.99 or less.
- b. Fifty cents per ticket with a face value of \$12.00 or more.

Fees for tickets sold for seasons beginning in 2005 and thereafter, and for all single game tickets sold for the 2004/2005 season after January 1, 2005, for professional sports teams with agreements for season use of the facility:

- a. Fifty cents per ticket with a face value of \$11.99 or less.
- b. One dollar per ticket with a face value of \$12.00 or more.

Fees for all other admissions:

- a. Twenty-five cents per ticket with a face value of \$7.99 or less.
- b. Seventy-five cents per ticket with a face value from \$8.00 to \$15.99.
- c. One dollar fifty cents per ticket with a face value from \$16.00 to \$29.99.
- d. Two dollars per ticket with a face value of \$30.00 or more.

OBJECTIVES

The objectives of this audit were to:

1. Determine if the Public Facility Ticket Fee is being properly charged and collected for events at the Events Center, Arena, Convention Center, and Stadium.
2. Determine if the Public Facility Ticket Fees are deposited into the operating account (Arena, Convention Center, and Events Center) or remitted to the City (Stadium) on a timely basis.

SCOPE AND METHODOLOGY

The scope of this audit included a review of accounting records, City Ordinances and agreements and testing of the ticket fees collected from a sample of events held at the Arena, Convention Center and Events Center from 2013 and 2014. We also reviewed ticket fees collected at the Stadium for the 2013 and 2014 seasons. Our audit work included the following:

- Interviews with SMG and Canaries management.
- Interviews with City staff and management.
- Review of City Ordinances, management agreements, written policies and procedures, internal documents and third party reports.
- Review of internal controls.
- Review of prior audit recommendations.
- Detailed testing of event ticket sales using a statistically valid sample with a 95% confidence level and a sampling error of plus or minus 3.5%.
- Review of the accounting for or remittance of ticket fees as applicable to each organization.

RESULTS

Public Facility Ticket Fee Properly Charged

We recalculated ticket fees charged on 28 events held at the Events Center, Arena, and Convention Center and found that overall the Ticket Fee is being properly charged at the tiered rates set forth by City Ordinance. There were 3 events where an additional charity fee or promoter surcharge was included in the "Facility Charge" line of the ticket price. These additional fees were then remitted back to the promoter therefore there was no effect on the Public Facility Ticket Fees charged and collected. There was one event where the Ticket Fee was charged at a flat rate rather than the tiered rate due to the promoter's request. This resulted in a total of \$1,595 in Public Facility Ticket Fees being overcharged to ticket purchasers over the 2 day event. The promoter for this event was reimbursed \$0.50 of the facility fee for each ticket purchased for a total of \$2,534.50. The net result of this agreement was a loss of \$939.50 in Ticket Fees.

We recalculated the ticket fees charged on tickets sold at the Stadium for the 2013 and 2014 seasons. Our recalculation showed that the Club is still collecting the Ticket Fee at the rates established by City Ordinance in 2004 however the Ordinance states that the fees were to increase in 2005. This resulted in lost ticket fee revenue for the 2013 and 2014 seasons as shown in the table below. Wording in the Sioux Falls Baseball Stadium Agreement states that if the Ticket Fees increase during the term of the agreement the Club shall receive a credit back towards their annual financial obligation (lease payment). The club credit is calculated based on the increase less the amount the fee would have increased due to inflation.

The table below shows our recalculations of the Tickets Fees that should have been collected per Ordinance, the resulting club credit, the amount remitted to the City by the Stadium and the overall lost revenue for the 2013 and 2014 seasons.

	<u>Recalculation of Ticket Fees per Ordinance</u>	<u>Recalculation of Club Credit</u>	<u>Net amount Due to City per Recalculations</u>	<u>Actual Ticket Fees Remitted to City</u>	<u>Lost Ticket Fee Revenue</u>
2013 Season	\$ 37,823.00	\$ (13,138.50)	\$ 24,684.50	\$ (19,780.75)	\$ 4,903.75
2014 Season	32,457.00	(11,018.48)	21,438.52	(16,228.50)	5,210.02
Total	<u>\$ 70,280.00</u>	<u>\$ (24,156.98)</u>	<u>\$ 46,123.02</u>	<u>\$ (36,009.25)</u>	<u>\$10,113.77</u>

Currently the Public Facility Ticket Fees collected and deposited and/or remitted are done via a self-reporting relationship between the City and the operator. The City does not have a policy or procedure for determining the accuracy of the ticket fee deposits/remittals.

Public Facility Ticket Fee Properly Deposited or Remitted

We reviewed the individual event files for each of the 28 events in our sample selection of events held at SMG operated venues. Each file contained an Event Settlement Entry for SMG’s accounting systems where we were able to see the amount of the ticket fees. This demonstrates that the proper amount is being accounted for and moved to the operating account on a timely basis after each event. Current wording in the Facilities Management Agreement with SMG conflicts with the wording in the Ordinance as to whether the fees should be retained in the operating account or remitted to the City.

We recalculated the ticket fees for the Stadium using the ticket sales and 2004 rates as these were the rates the Club was using to calculate the fee at the time of remittal. These recalculated amounts were then traced to the copy of the check remitted to the City without exception. Currently the Club is remitting the ticket fees once per year at year end. This practice conflicts with wording in the Ordinance requiring remittal within 60 days of receipt.

FINDING

Current practices for collecting and remitting the Public Facility Tickets fees charged on paid admissions at the Stadium do not agree with City Ordinance and the Sioux Falls Baseball Stadium Agreement. The Club should be collecting fees at the proper rates and remitting those fees to the City within 60 days of receipt. The City should be calculating and issuing a credit against the annual lease payment. Additionally, the City entered into an Agreement with SMG that allows them to retain the Public Facility Ticket Fees in their operating account rather than remitting them to the City.

RECOMMENDATIONS

We made the following recommendations that address the above referenced results and audit finding.

- 1) The City should revise the current Ordinance and/or amend current agreements to address the following:
 - Simplify the fee structure or allow operators discretion when working with promoters.
 - Ensure there is no conflicting wording between agreements with operators and the ordinance.
 - Implement or revise the Sioux Falls Baseball Stadium Agreement regarding the calculation and issuance of a credit against the annual lease payment.
 - Enforce or revise the wording in the ordinance that requires operators to remit fees to the City within 60 days.

Management's Responses:

SMG - As it pertains to the Denny Sanford Premier Center, SMG is in agreement with the simplification of the fee structure with capability for operator discretion and the revision of contract and/or ordinance for consistent language.

Management Representative Responding: Kelly Zamora

Stadium - Canaries management will work with the city offices to revise the baseball agreement to make sure the ticket fee increase is equal to the rebate to the lease payment for the Sioux Falls Stadium.

Management Representative Responding: Matt Ferguson

City - The City Finance Team will collaborate with other stakeholders to craft any necessary revisions to the ordinance or agreements to address the points identified above.

Management Representative Responding: Tracy Turbak

Date of expected implementation: 2015

- 2) The City should establish procedures to verify the accuracy of the Public Facility Ticket Fees collected. This can be accomplished through analytical analysis or requiring documentation of ticket sales to accompany remittals. Analytical analysis or ongoing verifications of any Public Ticket Facility Fees collected and retained by operators should also be conducted on a regular basis.

Management's Response:

City - The City Finance Team will evaluate the range of options available for verifying the accuracy of fees collected and implement additional procedures that are deemed to be both effective and cost beneficial.

Management Representative Responding: Tracy Turbak

Date of expected implementation: 2015

- 3) Fees collected by or on the behalf of the City should be as transparent as possible. The Public Facility Ticket Fee should be broken out on each ticket. Other promoter fees such as charity fees or additional surcharges should not be included in with the Facility Fee.

Management's Response:

SMG - As it pertains to the Denny Sanford Premier Center, SMG agrees to the transparency of the facility fee.

Management Representative Responding: Kelly Zamora

Stadium - Canaries management agrees to the transparency of the facility fee.

Management Representative Responding: Matt Ferguson

City - The City Finance Team will collaborate with each facility operator to identify opportunities to increase the clarity of the fees included on the tickets and implement improvements within the limitation of the ticketing systems used.

Management Representative Responding: Tracy Turbak

Date of expected implementation: 2015

- 4) All tickets issued as complimentary or for trade purposes should be properly documented. Public Facility Ticket Fees should be collected and remitted to the City on tickets issued when services were received in return.

Management's Response:

Stadium - The ordinance requires the fee to be charged on "paid admissions" and therefore is not applicable to complementary tickets. The Canaries starting in the 2016 season will have a special code built in to track tickets traded for services.

Management Representative Responding: Matt Ferguson

Date of expected implementation: 2016

CONCLUSION

The Public Facility Ticket Fees serve as a way for the City and facility operators to mitigate the cost of maintaining the City's entertainment and sports venues. Updating the current ordinance and agreements will help simplify the collection and remittance of fees and allow operators the flexibility they need for day to day operations. City management appears to have a good working relationship with both operators and on March 17, 2015 City Council approved a resolution approving the change of control of the Sioux Falls Baseball Stadium Agreement from the Sioux Falls Canaries Professional Baseball Club, LLC to Mankato Baseball, LLC. We would like to thank SMG, the Sioux Falls Canaries, and City management and staff for their cooperation and assistance during the audit.

AUTHORIZATION

The Sioux Falls City Council approved this audit by resolution in December 2014 as part of the 2015 Annual Audit Program. The Internal Audit division operates under the authority of an Internal Audit Charter adopted by City Council resolution 11-13.

AUDIT STANDARDS

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

STATEMENT OF INDEPENDENCE

Internal Audit is administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Internal Audit Manager is accountable to an Audit Committee appointed by the City Council per section 32.022 of the Code of Ordinances of Sioux Falls, SD.

DISTRIBUTION OF REPORT

This report is intended for the information and use of the Mayor and City Council, management, and others within the City of Sioux Falls. However, the report is a matter of public record and its distribution is not limited.

PERFORMED BY

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