



EP6.10
Appendix A

Internal Audit Report: Revenue and Receivable Process Controls Review

Exhibition Place

August 8, 2017

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Background

The Board of Governors of Exhibition Place operates, manages and maintains Exhibition Place on behalf of the City of Toronto. The City is entitled to any surplus resulting from the Board's activities and is responsible for any deficit the Board incurs. In a report to Exhibition Place's Finance & Audit Committee, dated July 31, 2016, entitled *Proposed Three-Year Key Business/Operational Audit Review Cycle*, the Chief Executive Officer of Exhibition Place proposed implementing a continuous review process of key business processes in support of its financial goal to effectively monitor costs and revenues. The three year plan identified audits in the following areas:

2016	Parking Operations (review conducted by PWC)
2017	Revenue/Receivable Process Controls
2018	Payroll, Benefits and related process and procedures

Exhibition Place requested Internal Audit to include in its 2017 work plan a review of its revenue processes pertaining to its operations at Exhibition Place, the Enercare Centre and the Beanfield Centre, formerly the Allstream Centre.

As per the Board's December 31, 2015 financial statements, combined annual revenues totaled approximately \$54 million, of which revenues from events (which include meetings, conferences, festivals and trade and consumer shows) accounted for over 70% (\$38.8 million) broken down as follows:

Building rental	\$19.6 million
Sale of Services	<u>\$19.2 million</u>
Total Event Revenue	\$38.8 million

Objectives

The objectives of this review were to assess whether:

1. Adequate controls and procedures exist and are working effectively to ensure accuracy and completeness of revenues, recovery of costs, including billings and collection; and
2. Potential opportunities for operational improvements and process efficiencies exist.

The review covered building rental and sales of service agreements and related transactions for the period from January 1, 2016 to May 31, 2017 (17 months).

Methodology

The audit consisted of:

- An assessment of the processes and procedures with respect to event billings, collections and cash/cheque handling.
- An examination on a sample basis of agreements and related transactions, such as deposits, invoice billings, collections and final settlement billings.
- A review of the job costing system and processes used to determine labor and material charges for services provided by Exhibition Place.
- Discussions with Exhibition Place staff responsible for negotiation of agreements and processing of revenue billings, collections and deposits.
- A review and examination of other relevant documents and records as required.

Findings and Recommendations

Exhibition Place has effective procedures and controls in place to ensure that:

- rental and sales of service revenue is invoiced to licensees accurately and timely;
- payments for rent and services are received prior to events, per licence agreements contractual terms, and are properly recorded; and
- revenue is recognized in the proper period.

Our assessment of processes identified opportunities for further improvement by formalizing management's authority for providing discounts and refunds and working in consultation with City Real Estate to ensure leases have appropriate clauses. Also, integration of the event booking and financial systems could create efficiencies and reduce the risk of errors.

1. Integration of Event Booking and Financial Systems

Exhibition Place uses two software systems to generate, track and record rental revenues. The systems are not integrated, requiring manual intervention to transfer information between the two systems.

The Event Business Management System is used to manage event venue booking dates. A key control within this system is the venue rental rate price list which can only be updated by a system administrator. The rental prices are system calculated using Board approved rates and the venue square footage. The system generated event rental fees are transferred to a License Agreement (LA). A copy of the LA is provided to Finance to manually create journal entries and client invoices in the Great Plains Financial Accounting and Reporting System to record deferred revenues. Once the show is complete a journal entry is prepared to recognize the revenue.

While we did not note any errors during our sample review of invoices, errors are an inherent risk of manual processes. Automation of the invoicing and revenue recognition processes could produce efficiencies and reduce the risk of error.

Recommendation #1:

To improve efficiency and reduce the inherent risk of error with manual processing, the Chief Financial Officer and Corporate Secretary should assess the feasibility of implementing an interface between the event booking and financial systems to automate the invoicing and revenue recognition processes.

Management Response:

Management agrees that having the event booking system integrated to the ERP will generate additional efficiencies. A working group will be created in 2017 to review current process to recommend next steps in integrating through automation of our event booking and ERP.

2. Discounts Provided at Management Discretion

Review of event files noted an instance where Sales and Marketing provided a credit to a licensee after lengthy discussions. Another instance was noted during testing of credit notes, where a fee for service was absorbed by Sales and Marketing. Neither of these credits were significant, less than \$3,000.00 each.

Management direction, provided in an internal memorandum, from the Chief Financial Officer indicates that periodically additional discounts and/or refunds can be provided to licensees for various reasons, such as:

- complaints and disputes over service level or quality
- financial constraints of licensee
- to secure long term license agreements
- to retain existing clients.

Internal Audit concurs, given the nature of Exhibition Place business, that management requires the discretion and authority to provide refunds or discounts in a timely manner to licensees in certain circumstances. However, the current practice does not conform to the financial delegation of authority nor provide transparency to the Board of Governors of the level of discounts provided. The current management direction allows the Director of Event Services to approve discounts up to \$1,500, while the General Manager Sales and Event Management can approve, with final approval from the CFO discounts or concessions in excess of \$1,500. These types of discounts/refunds have the potential to be inappropriately or inconsistently applied and used for reasons other than that outlined in the management direction.

Recommendation #2:

To ensure increased accountability and transparency, the Chief Financial Officer and Corporate Secretary should formalize the management direction through a policy or incorporation in the Financial By-law. In addition, a procedure should be implemented that outlines the circumstances where discounts/refunds can be provided to licensees and the approval authority that follows the financial delegation of authority, including approval by the Board of Governors when applicable.

Management Response:

Discounts and or concessions provided by the Sales and Event Management Department are rigorously reviewed and reasons for them are documented and are subject to final review by the CFO on final show settlement.

Management will update By-Law 2-13 to specifically reference Licensee discounts with approval thresholds.

3. Re-Assessment of Revenue Thresholds for Percentage Rent

Exhibition Place enters into lease agreements for the rental of lands and buildings located on its grounds. In addition to basic monthly rent payments, some lease agreements contain provisions for "participation percentage rent" requiring the tenant to pay in each lease year a percentage of their gross revenues in excess of a threshold amount as provided for in their RFP submission.

Our review of tenant lease agreements noted that they do not include a provision to periodically reassess the percentage rent threshold amount. Through discussion with management it is noted that these agreements are contractual after the award of the RFP and approved by the Board and City Council.

Revenue thresholds specified in the leases are normally based on the tenant forecasted revenue at the time the agreements were executed based on the RFP submission. There is a risk that economic conditions may change over time, impacting tenants' ability to achieve their revenue projections, resulting in potential lost rental revenue. Given the long term nature of the majority of Exhibition Place lease agreements, it would be prudent to include provisions in future RFP and lease agreements to periodically re-assess the revenue thresholds throughout the term of the lease.

Recommendation #3:

The Chief Financial Officer and Corporate Secretary, should work closely with City Real Estate Services to ensure that future RFP and lease agreements contain the appropriate clauses and provisions to re-assess revenue thresholds.

Management Response:

The RFP process relating to the leasing of Exhibition Place buildings include a provision for proponents to specify their revenue projections that may include a participation rent percentage in addition to the guaranteed base rent. Current lease agreements with tenants range from 4 years to 49 years. Management will work with the City on the long-term leases new RFP to provide a mechanism to revisit the revenue thresholds relating to performance rent in evaluating lease proposals.

Approved by:



Stuart Campbell
Director, Internal Audit



Gifford Chu
Manager, Internal Audit



Megan McAdam
Manager, Internal Audit