



Office of Internal Audit

**Audit of the Kovens Conference Center's
Auxiliary Operations**

Report No. 13/14-08

November 25, 2013



**FLORIDA
INTERNATIONAL
UNIVERSITY**

OFFICE OF INTERNAL AUDIT

Date: November 25, 2013
To: Mike Hampton, Dean, Chaplin School of Hospitality & Tourism Management
From: Allen Vann, Audit Director 
Subject: **Audit of the Kovens Conference Center's Auxiliary Operations
Report No. 13/14-08**

Pursuant to our approved annual plan, we have completed an audit of the Kovens Conference Center (Center)'s auxiliary operations. The Center, which is managed by the Chaplin School of Hospitality & Tourism Management generates almost a million dollars a year in revenues mostly from conference services but nevertheless has sustained systemic deficits over the years. The Center's revenue and expenditure streams were audited to ensure that they were properly accounted for and financial controls were adequate and effective. The Center's business practices were also reviewed to try and identify the challenges it faces in becoming a self-supporting auxiliary operation as required.

Overall, our audit disclosed that the Center's established controls and procedures were good and revenues, expenditure, and assets were properly accounted for. Some areas of financial management and revenues recognition that could strengthen the Center's finances were identified. Management agreed to implement our seven recommendations.

We would like to take this opportunity to express our appreciation for the cooperation and courtesies extended to us during this audit.

Attachment

C: Sukrit Agrawal, Chair, BOT Finance and Audit Committee and Committee Members
Mark B. Rosenberg, University President
Douglas Wartzok, Provost and Executive Vice President
Kenneth A. Jessell, Chief Financial Officer and Senior Vice President
Javier I. Marques, Chief of Staff, Office of the President
Mohammad Qureshi, Associate Dean, Chaplin School of Hospitality & Tourism Management
Simone Champagnie, Executive Director, Institute for Hospitality and Tourism Education and Research
Jean Harris, Associate Director Operations, Kovens Conference Center

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| OBJECTIVES, SCOPE, AND METHODOLOGY | 1 |
| BACKGROUND | 2 |
| Personnel | 3 |
| Financial Consideration | 4 |
| FINDINGS AND RECOMMENDATIONS | 5 |
| 1. Financial Management | 6 |
| 2. Revenue Controls | 8 |
| a) Conference Fee Charge | 8 |
| b) Unrecognized Revenues..... | 9 |
| 3. Expenditure Controls | 11 |
| a) Payroll Expenditures | 11 |
| b) Operating Expenditures..... | 11 |
| c) Catering Services..... | 12 |
| 4. Asset Management..... | 13 |
| 5. Operations Manual | 13 |

OBJECTIVES, SCOPE AND METHODOLOGY

Pursuant to our approved annual plan we have completed an audit of the Kovens Conference Center (Center)'s auxiliary operations. The primary objectives of our audit were to evaluate whether the Center's revenue and expenditure streams were properly accounted for and financial controls and procedures relating to revenue and expenditures were: (1) adequate and effective; (2) were being adhered to; and (3) were in accordance with University policies and procedures, applicable laws, rules and regulations. We also determine whether the Center was a self-supporting auxiliary operation as required.

Our audit included the Center's revenues and expenditures for the period from July 1, 2012 through June 30, 2013. The audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, and included tests of the accounting records and such other auditing procedures as we considered necessary under the circumstances. Audit fieldwork was conducted from August to September 2013.

During the audit we:

- Reviewed University policies and procedures, applicable Florida statutes, and regulations;
- Observed and evaluated current practices and processing techniques;
- Interviewed responsible personnel; and
- Tested selected transactions.

Sample sizes and transactions selected for testing were determined on a judgmental basis.

As part of our audit, we reviewed internal and external audit reports issued during the last three years to determine whether there were any prior recommendations related to the scope and objectives of this audit and whether management had effectively addressed prior audit concerns. There were no prior audit recommendations related to the scope and objectives of this audit requiring follow-up.

BACKGROUND

The Kovens Conference Center is a 57,640 square feet building located at the Biscayne Bay Campus of Florida International University. Constructed in 1995, the Center supports the teaching mission of the University by offering 41,000 square feet of flexible meeting space for educational and training seminars.



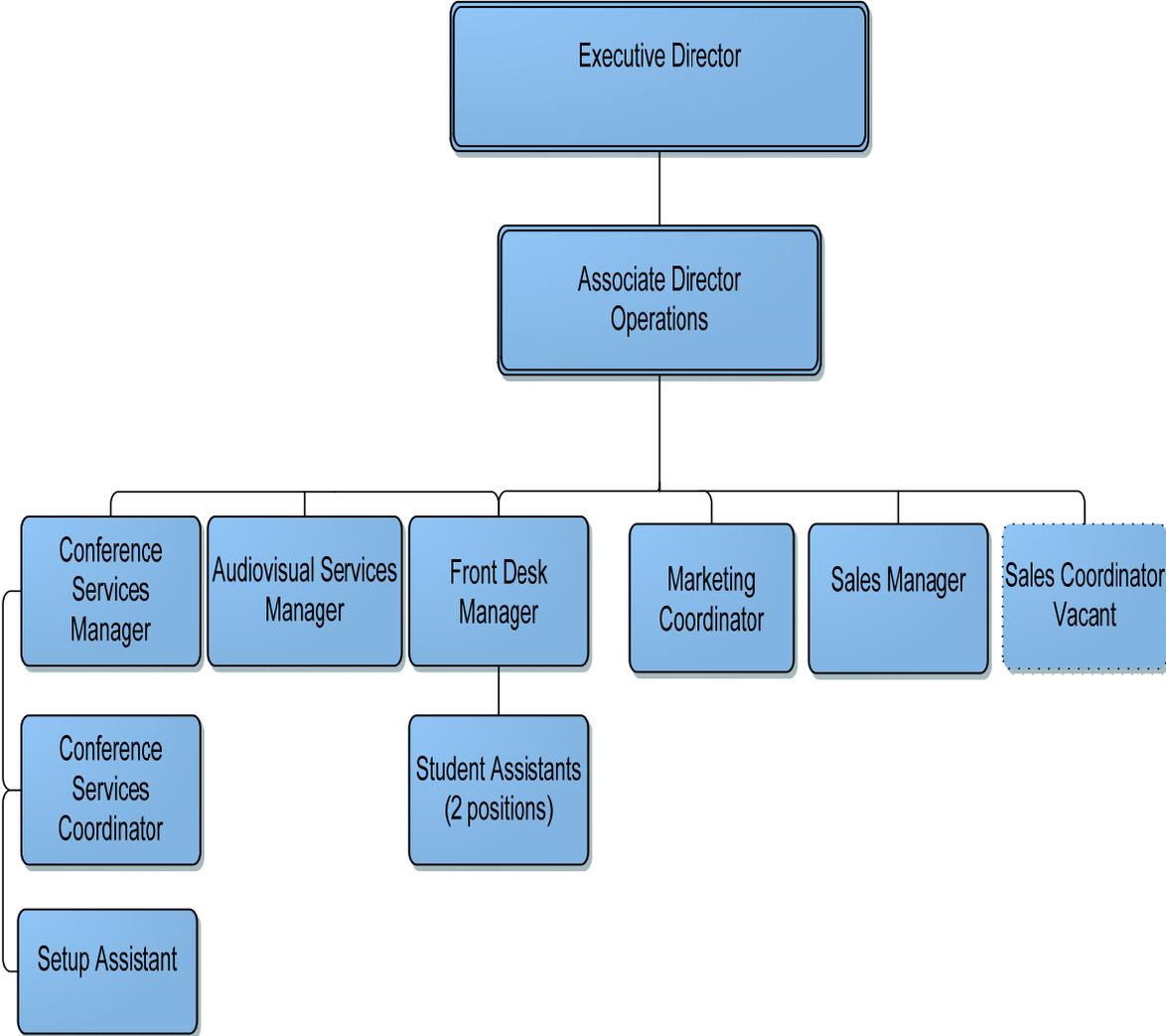
The Center is fully equipped with state-of-the-art telecommunication resources, including computer labs; case study rooms; video-conferencing capabilities; audio-visual technology; and complementary wireless internet access through the entire building.



Since 2008 the Center has been managed by the FIU Chaplin School of Hospitality and Tourism Management (School). Currently the first and second floors are mainly used to generate revenues from conference services. The third floor is occupied by the FIU College of Medicine and the School's Institute for Hospitality and Tourism Education and Research.

Personnel

The Kovens Conference Center is part of the FIU Chaplin School of Hospitality and Tourism Management. The Center's operations were overseen by the Executive Director of the Institute for Hospitality and Tourism Education and Research (IHTER). The Center's organization chart as of September 30, 2013 is shown below.



Financial Consideration

The Center generates its revenue from fees charged for conference services offered to the University community and the general public. Fees charged for conference services are based on a fee schedule established by the Center's management. To account for the Center's revenues and expenses a self-supporting auxiliary account was established in the University's Auxiliary Trust Fund. Please refer to our observations under section 1 for further details (see page 6).

FINDINGS AND RECOMMENDATIONS

Overall, our audit disclosed that the Center’s established controls and procedures were adequate and its revenue and expenditure streams were mostly accounted for. Nevertheless, our audit identified some areas in need of improvement, particularly financial management and unrecognized revenues.

Our overall evaluation of internal controls is summarized in the table below.

| INTERNAL CONTROLS RATING | | | |
|---|--|---|--|
| CRITERIA | SATISFACTORY | FAIR | INADEQUATE |
| Process Controls | X | | |
| Policy & Procedures Compliance | | X | |
| Effect | X | | |
| Information Risk | X | | |
| External Risk | X | | |
| INTERNAL CONTROLS LEGEND | | | |
| CRITERIA | SATISFACTORY | FAIR | INADEQUATE |
| Process Controls | Effective | Opportunities exist to improve effectiveness | Do not exist or are not reliable |
| Policy & Procedures Compliance | Non-compliance issues are minor | Non-compliance Issues may be systemic | Non-compliance issues are pervasive, significant, or have severe consequences |
| Effect | Not likely to impact operations or program outcomes | Impact on outcomes contained | Negative impact on outcomes |
| Information Risk | Information systems are reliable | Data systems are mostly accurate but can be improved | Systems produce incomplete or inaccurate data which may cause inappropriate financial and operational decisions |
| External Risk | None or low | Medium | High |

The areas of our observations during the audit are detailed below.

1. Financial Management

The Center is managed as a self-supporting auxiliary activity. The Center sustained operating losses for fiscal years 2011-12 and 2012-13 totaling \$27,836 and \$111,023, respectively, as expenses outpaced revenues as illustrated below:

Revenues and Expenses for FY 2012 & FY 2013



As a consequence of systemic deficits, the Center’s negative fund balance has reached a balance of \$379,426 as of June 30, 2013. During the audit the Center revised its fee structure based on a new methodology to cover its operating costs (see Finding No. 2(a) for more detail).

Recommendation

| | |
|--|---|
| The Chaplin School of Hospitality and Tourism Management should: | |
| 1.1 | Work with the Finance Department’s Office of Auxiliary & Enterprise Development ¹ to develop a business plan that will eliminate the Center’s operating deficit and negative fund balance. |

¹ The Office of Auxiliary & Enterprise Development (AED) is responsible for the oversight of auxiliary operations to ensure that they promote the University’s strategic mission and best leverage University resources. The AED approves the creation and dissolution of auxiliary departments and aids with budget development. Also, the AED assists auxiliaries address operating challenges and identify opportunities for growth.

Management Response/Action Plan:

- 1.1 A meeting is scheduled with the Office of Auxiliary & Enterprise Development (AED) on December 4, 2013. Management looks forward to working closely with AED to develop a plan that will eliminate the Center's operating deficit and negative fund balance.

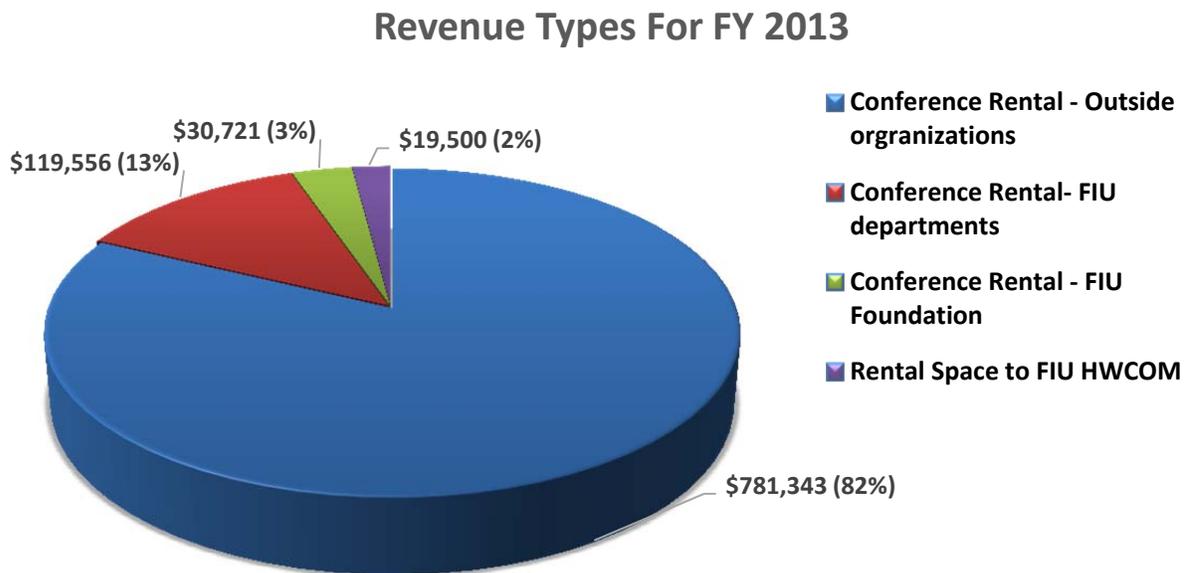
Implementation date: June 2014

2. Revenue Controls

The Center's revenues for the fiscal year 2012-13, as recorded in the University's accounting records, totaled \$951,120. More than 82% of its revenues came from conference rentals to the general public.

The following chart provides a breakdown of the Center's revenues for FY 2013:

Our audit disclosed that the Center's controls and procedures relating to revenue collections were mostly adequate except for two observations noted below.



a) **Conference Fee Charge**

The Auxiliary Enterprise Operating Guidelines states, "Auxiliary operations are managed as self-supporting activities through the fees they charge their customers for products or services rendered..." The Guidelines also states that fees charged for all individual auxiliary activities must incorporate the reimbursement of costs incurred in providing the services, including: a) cost recovery of direct and indirect costs; b) reasonable working capital needs; and c) reserve for expected capital outlay."

The Center generates the majority of its revenues from conference services activities. The methodology used to establish the conference services fee charged for fiscal years 2012 and 2013 were not based on the incurred costs of the Center. The Center's management informed us that the methodology was based on the conference rate for the surrounding hotels and conference centers. The operating cost of the Center was never factored into the methodology; therefore, the Center could not cover its cost of operations.

During the audit the Center developed a new fee structure based on a total number of conference attendees divided by the budgeted operating cost of the Center. This figure was used to calculate per head breakeven point. However, the Center's management was concerned that the new pricing structure would price the Center out of the market; therefore, a discount was created to allow price flexibility for its sales staff.

The new fee methodology does not take into consideration deferred maintenance (reserved for expected capital outlay) and controls over fee discounts have not been established. Auxiliary Enterprise Operating Guidelines require that the rate established by auxiliaries be nondiscriminatory to ensure that all users/customers are charged the same rate for the same level of goods or services purchased under similar circumstances. Without clearly defined criteria for fee discounts the Center cannot ensure that the price charged to clients are fair and justifiable.

b) Unrecognized Revenues

BOG Regulation 9.013 (2), *Auxiliary Operations* states: "Each auxiliary service is an individual entity and shall be accounted for as such. . . . all pertinent institutional revenues and costs shall be assigned to each auxiliary and the consequent financial results of operations determined." Accordingly, the Center should account for its all revenues and costs.

During the audit we observed the Chaplin School of Hospitality and Tourism Management utilized the Center's resources but the Center received no compensation. For example, a company held an event at the Center and provided the School with a sponsorship package with an estimated value of \$12,500; however, the Center did not receive any compensation. According to management, the School often pays for related expenses at Kovens Conference Center directly from its own funds, which offsets the uncompensated use of the facility.

Recommendations

| | |
|--|--|
| The Chaplin School of Hospitality and Tourism Management should ensure that: | |
| 2.1 | The Center factors deferred maintenance into its fee structure. |
| 2.2 | The Center develops and applies clearly defined criteria for its fee discount. |
| 2.3 | The Center accounts for all revenues and costs. |

Management Response/Action Plan:

- 2.1 Management will meet with the Dean, Executive Director of IHTER, and Associate Dean to evaluate how to implement deferred maintenance into the fee structure.

Implementation date: March 1, 2014

- 2.2 Management agrees and has developed a discount policy. Will seek sales team input over the next few months to ensure the criteria and percentages meet pricing demand.

Implementation date: Immediately

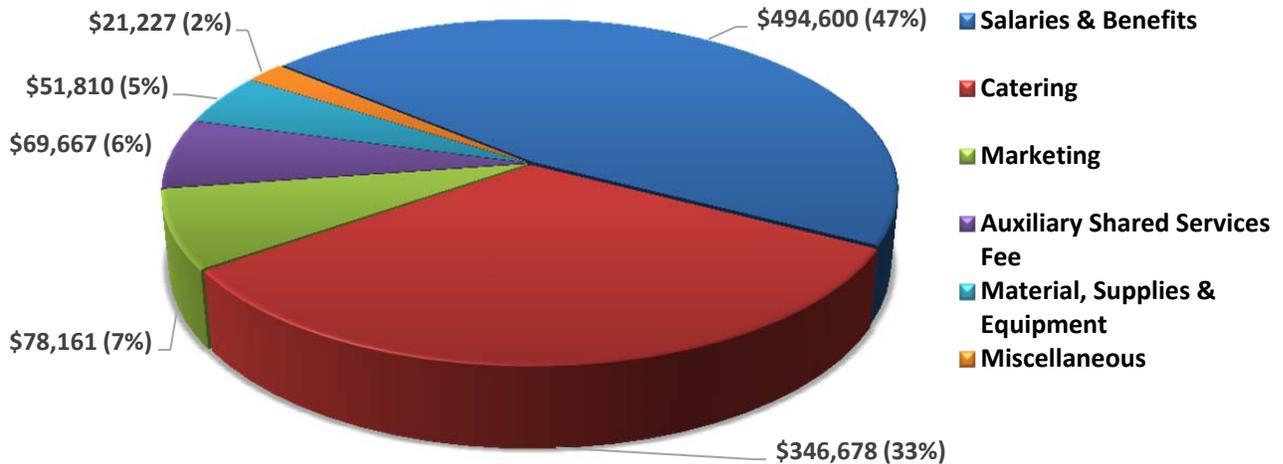
- 2.3 Management understands the importance of accounting for all revenues and costs. Waived Fee/Discounted Event Summary will continue to be tracked annually along with any expenses paid by CSHM on Koven's behalf.

Implementation date: Immediately

3. Expenditure Controls

Except for some of the observations noted below, our audit disclosed that the Center's expenditures were appropriate, allowable, and in accordance with University policies and procedures, applicable laws, rules and regulations. The Center's expenditures for the fiscal year 2012-13 totaling \$1,062,143, are summarized below:

Expenditure Categories For FY 2013



The areas of expenditures tested are as follows:

a) Payroll Expenditures

The Center's total payroll expenditure for fiscal year 2013 totaled \$494,600. As part of payroll test, we verified that the Center's employees were bona fide and employee background checks were completed as required. In addition, we determined that: the majority of PantherSoft time entries were approved by an appropriate level supervisor; and terminated employees were timely removed from the payroll, thus, no inappropriate payments were made after termination and their access to the Center were removed timely. No reportable anomalies were noted in this area.

b) Operating Expenditures

The Center's total operating expenditure, excluding payroll and auxiliary shared services fee (overhead), for fiscal year 2013 was \$497,876. We tested 382 disbursements, including 147 credit card transactions, representing over 75% of the total annual operating costs for compliance with University policies and procedures, applicable laws, rules and regulations. With few exceptions, the disbursements tested were allowable and related to the operation of the Center. They were also properly approved by authorized personnel, and complied with University Purchasing policies and procedures and applicable laws, rules and regulations.

c) Catering Services

Since 2009 catering services have been provided exclusively by a company called Exquisite Catering by Robert, Inc. (Exquisite Catering). Payments made to Exquisite Catering totaled approximately \$362,000 in fiscal year 2012 and \$347,000 in fiscal year 2013. In fiscal year 2013 catering cost accounted for almost 33% of the Center's expenditures. Also, the Center has budgeted \$589,000 for catering expenditure in fiscal year 2014.

Exquisite Catering developed various menu selections and prices charged to the Center. The Center marks up the price prior to presenting it to its clients. If a client request items not on the preset menu, the Center asks Exquisite Catering to provide separate pricing. According to FIU's Purchasing Department, the Center's purchase of catering services is exempt from competitive solicitation requirements. While the arrangement with Exquisite Catering is classified as exempt for bid purposes, management should periodically ensure that the prices it is paying are reasonable.

Documentation as to the operating agreement with Exquisite Catering was limited to support for the agreed upon price. There was no written agreement detailing other vital information such as license, insurance, equipment, etc.

Recommendations

| | |
|--------------------------------------|--|
| The Kovens Conference Center should: | |
| 3.1 | Execute a formal contract with the catering company. |
| 3.2 | Perform a periodic market analysis to ensure that the Center is receiving the best value for the service provided. |

Management Response/Action Plan:

- 3.1 Management agrees and will work with General Counsel to develop a formal agreement with the catering company.

Implementation date: February 1, 2014

- 3.2 Management agrees and will perform an annual market analysis to ensure that the Center continues to receive the best value for the service provided.

Implementation date: January 15, 2014

4. Asset Management

Per the University's asset management system, the Center had 36 capital assets with associated cost totaling \$304,207. We reviewed the Center's capital asset inventory and determined that the inventory dates were current. We also confirmed with the Assistant Controller for Property that there were no missing capital assets while taking an annual physical inventory.

We also noted that the Center kept track of its attractive/sensitive property such as laptops and audio/video equipment that cost less than \$5,000 but particularly vulnerable to theft and misuse, as required by University Property Control Manual.

We commend the Center's control over asset management and have no recommendations in this area.

5. Operations Manual

Auxiliary Enterprise Operating Guidelines states; "Each auxiliary must have written policies and procedures which guide the day-to-day operations of the activity, document the rate development methodology or other noted information about the activity and direct its business processes." The Center does not have a comprehensive written policies and procedures manual, to guide day-to-day operations. In order to effectively communicate management expectations, it is a best practice to maintain an operating manual. It provides staff with a readily available reference source, guidance and training tool enumerating duties and responsibilities, and provides for the consistent application of the management's policies and procedures. This would be particularly beneficial in the area of establishing service charges where the methodology employed is not well documented.

Recommendation

| | |
|--------------------------------------|---|
| The Kovens Conference Center should: | |
| 4.1 | Develop, disseminate, and periodically update an operations manual giving due consideration to relevant University policies and procedures. |

Management Response/Action Plan:

4.1 Management agrees with the recommendation. A template is being developed and all procedures are being outlined and documented appropriately. This manual will be reviewed annually and updated accordingly.

Implementation date: March 30, 2014