METRO

Metropolitan Exposition-Recreation Commission

Food Service: Evaluation of Contract and Financial Controls

June 2001
A Report by the Office of the Auditor

Alexis Dow, CPA
Metro Auditor

METRO

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REGIONAL SERVICES

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Office of the Auditor

June 25, 2001

To the Metropolitan Exposition-Recreation Commission and Metro Council:

The Metropolitan Exposition-Recreation Commission (MERC) receives about $8 million a year from concession and catering sales at its facilities. MERC contracts with a private concessionaire to operate the concessions business. MERC management is responsible for assuring that it receives the concession revenue it is entitled to, paying the concessionaire a fair fee, and protecting public funds from fraud and waste. To accomplish this, MERC needs to ensure that these elements are in place:

- contract requirements can hold the concessionaire accountable for providing quality services and providing Metro the revenue to which it is entitled
- compensation processes result in fair and accurate payments
- management controls reasonably prevent and detect concessionaire errors and fraud and safeguard assets used by the concessionaire.

The first two elements are in place, but the third can be improved.

Key recommendations of the report include:

- establishing a formal process for evaluating concessionaire financial performance
- evaluating and testing concessionaire's internal controls over revenue, expenses and inventory annually
- documenting concession management and oversight policies and procedures in management directives, administrative policies and an operating manual
- maintaining relevant food service operation documentation in a readily available location.

We reviewed a draft of this report with the Metropolitan Exposition-Recreation Commission Chair, George Bell. The last section of this report presents his written response. We sincerely appreciate the cooperation and assistance provided by MERC and ARAMARK staff as we conducted this review.

Very truly yours,

Alexis Dow

Alexis Dow, CPA
Metro Auditor

Auditor: Jim McMullin, CPA

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Executive Summary

The Metropolitan Exposition-Recreation Commission (MERC) receives about $8 million a year from concession and catering sales at the Oregon Convention Center, Expo Center and Portland Center for the Performing Arts. MERC has contracted with a private concessionaire to operate the concessions business. MERC management is responsible for assuring that it receives the concession revenue it is entitled to, paying the concessionaire a fair fee, and protecting public funds from fraud and waste. To carry out these responsibilities, MERC management needs to ensure that these elements are in place:

- contract requirements can hold the concessionaire accountable for providing quality services and providing Metro the revenue to which it is entitled
- compensation processes result in fair and accurate payments
- management controls are in place to reasonably prevent and detect concessionaire errors and fraud and safeguard assets used by the concessionaire.

The first two elements are in place, but the third can be improved by:

- developing ways to formally evaluate the concessionaire's financial performance
- evaluating the concessionaire's internal controls each year, as well as conducting periodic spot checks of control and safeguard procedures
- documenting policies and procedures for overseeing the concessionaire and maintaining these policies and procedures and other relevant documentation in a central location.

MERC has not had the range of controls needed to reduce risk to a reasonable level. For example, MERC has never evaluated or tested concessionaire internal controls over cash and inventory. Several recent thefts at the Oregon Convention Center (OCC) and Portland Center for the Performing Arts (PCPA) demonstrate that the risk of loss is high and needs to be reduced. In addition, risk has been greater during the past 1½ years due to high turnover in staff responsible for concessionaire oversight activities.

MERC management is aware of the need to improve control procedures and safeguards over food service operations and has made major strides in doing so. MERC has hired a new director of administration and other supporting personnel, so the control risk due to staff turnover is subsiding as these personnel gain experience. In addition, the director of administration is developing more accounting and control procedures for overseeing the contract and evaluating financial performance. Furthermore, the recent thefts have prompted MERC management to evaluate the physical security and cash handling procedures at each MERC facility. The concessionaire has reimbursed MERC for all losses connected with the thefts.

Our more specific recommendations are presented on the following page.

Recommendations

We discussed these recommendations with MERC management during the audit. Management accepted them and was working to implement them as the audit was completed.

1. MERC should establish a formal process for evaluating concessionaire financial performance.

   MERC can do this by establishing detailed monthly budgets that set targeted revenue, expenses and profit. MERC can then measure actual results against these targets. Significant variations may indicate areas where performance needs to be improved.

2. MERC should annually evaluate and test the concessionaire's internal controls over revenue, expenses and inventory.

   MERC can do this by making its own evaluations or hiring a Certified Public Accountant (CPA) firm. In the industry, most contracts provide for an annual CPA audit that is paid for from operating revenue. If MERC decides to evaluate concessionaire controls itself, MERC should:
   - Use the budget process mentioned above to identify areas where internal controls may be weak. Significant variances from budget may indicate that revenue or expenses are being manipulated.
   - Conduct unannounced cash audits and other spot checks of food service activities, such as observing product inventory counts.
   - Consider the extent to which the concessionaire's internal audit can be relied upon. As a minimum, MERC should formally require the concessionaire to inform MERC when an audit is underway, provide MERC a copy of informal and formal audit reports and provide MERC an action plan for correcting identified deficiencies. In addition, MERC should establish procedures to follow up on audit findings to assure corrective action has taken place.

3. MERC should document its concession management and oversight policies and procedures in management directives, administrative policies and an operating manual.

4. MERC should maintain relevant documentation relating to food service operations, such as contracts and proposals, in a readily available location.

Introduction and Background

The Facilities

The Metropolitan Exposition-Recreation Commission (MERC), a unit of Metro, manages the regional convention, trade and performing arts facilities, consisting of:

- the Oregon Convention Center (OCC)
- the Portland Metropolitan Exposition Center (the Expo Center)
- the Portland Center for the Performing Arts (PCPA).

Concessions and catering activities[1] at these facilities generate revenues of about $8 million a year. One private contractor runs these concession operations. The directors of each facility are responsible for overseeing the contractor's concession activities at their facility. MERC's director of administration is responsible for monitoring the contractor's financial controls and providing the facility directors financial reports to assist in their oversight activities.

The Concessionaire

Beginning July 1, 1999, MERC entered a five-year contract with ARAMARK/Giocometti[2], the "concessionaire", to provide concession management services at all its facilities. The concessionaire was selected from a field of four firms that responded to MERC's Request for Proposals to manage its concessions activities. The concessionaire, with minor exceptions, has exclusive rights to manage, operate and sell food and beverages in MERC facilities.

The concessionaire is a $7.3 billion company, headquartered in Philadelphia, providing managed services – food and support services, uniform and career apparel, and childcare and early education programs. The company is privately owned, has about 170,000 employees and operates in 15 countries. The concessionaire manages food services at 70 stadiums and arenas, 27 convention centers, and several conference centers, national parks and resorts.

The concessionaire has a full time staff of 23 persons managing MERC's concessions operations, including a controller, managers for each facility, chefs, sales personnel and accounting support staff. In addition, the concessionaire hires many part-time staff as needed to operate concession stands and cater specific events.

[1] Catering refers to providing meals to a particular group, whereas concession refers to selling food and beverages to customers at stands. The term "concessions" is used throughout this report to refer to both catering and concession activities.

[2] ARAMARK/Giocometti is a joint venture. ARAMARK Sports And Entertainment Services, Inc., provides the services required under the MERC contract and Giocometti, an Oregon corporation, provides expertise in advancing minority businesses.

Revenue, Expense and Net Profit

Of MERC's three facilities, the Convention Center is the largest source of revenue. About three quarters of its revenue comes from catering, whereas catering accounts for one quarter or less of the revenue at the Expo Center and the PCPA.

In fiscal year 2000, MERC earned $2.6 million in net profit on $9.4 million of concessions revenue. This revenue included $1.3 million from the Civic Stadium, which MERC did not manage after FY 2000. For the first 11 months of FY 2001, MERC earned $1.6 million in net profit on $7.0 million of concessions revenue.

Concessionaire Compensation

For FY 2000, the concessionaire earned $561,700 in total compensation. In FY 2001, through May 23, 2001, the concessionaire earned $369,300.[3] The latter does not include an amount for a qualitative incentive, which will be determined after year-end. The qualitative incentive is discussed later in the body of this report. The concessionaire will earn less compensation in FY 2001 because MERC was no longer managing the Civic Stadium.

Objectives, Scope and Methodology

The objective of our review was to evaluate whether the food service contract reasonably protects Metro's financial interests and whether MERC's controls over the concessionaire's financial operations reasonably protect public funds from fraud and waste. Our scope included evaluating and testing whether the concessionaire's internal controls adequately protect revenue and inventory.

To accomplish our objective we:

- interviewed MERC officials, including the general manager, two facility directors, the director of administration and accounting personnel
- reviewed three facility director responses to a set of questions
- interviewed a food industry consultant to discuss contract types and financial controls
- interviewed concessionaire personnel, including the regional vice president, local controller and a senior auditor from ARAMARK headquarters
- reviewed the contract terms and provisions to determine whether they provide a reasonable basis for holding the concessionaire accountable
- evaluated MERC's policies and procedures for overseeing the concessionaire's financial operations
- read recent reports prepared by a Metro consultant, Metro's outside auditor, and the concessionaire's internal auditors.

[3] These compensation amounts are from the concessionaire's statements of operation. MERC's director of administration said this is the best information available because, until recently, MERC's accounting system did not capture this information at this level of detail.

Our criteria consisted primarily of:

- the contract management framework established in our report "Contracting: A Framework for Enhancing Contract Management", dated December 2000
- the internal control standards developed for the Committee of Sponsoring Organizations (COSO) of the Treadway Commission published in 1992.

The COSO report, "Internal Control – Integrated Framework", is aimed at establishing a definitive framework against which public and private organizations can assess their control systems and determine how to improve them. COSO report concepts have been incorporated into regulation and professional standards in the United States, including adoption by the United States General Accounting Office for use in the federal government. They serve as a control framework for hundreds of companies and form the basis for standards in Canada, the United Kingdom and other countries.

Regarding the testing of the concessionaire's internal controls, we relied on the audit work performed by the concessionaire's central office internal audit staff. We believe that the concessionaire's internal audit team is far enough removed organizationally and geographically from the concessionaire's local operations to be sufficiently independent for this reliance.

We also considered the following factors in deciding to rely on the concessionaire's internal audit:

- The concessionaire's manual of financial and operational controls contains a comprehensive and reasonable set of controls that all concessionaire food service operations must follow.
- The concessionaire's central internal audit staff conducted an unannounced audit of these controls at the time of our audit. We interviewed the senior auditor, read their audit work program and their draft audit report. Their approach was comprehensive and involved testing selected transactions. Their draft report identified many inconsistencies with prescribed procedures.

Our audit was performed from January through April 2001 in accordance with generally accepted government auditing standards.

Contract Requirements Generally Protect the Public Interest

Setting contract requirements is essential to establish contractor accountability and ensure appropriate and efficient use of public funds. Two main processes are involved in setting contract requirements. One is selecting the appropriate contract type; the other is including contract language that contains clear statements of expected services, clearly defined performance standards and clear statements of how the contractor will be evaluated.

Our evaluation of the contract shows that MERC selected a contract type appropriate for its goals, the contract contains key provisions that protect the public interest, and the contract reasonably defines expected duties and establishes a process for evaluating their performance. The contract, however, does not address how financial performance will be evaluated.

Contract Type Is Appropriate

Selecting the appropriate contract type is probably the single most important decision made in obtaining a contracted service, because it determines how the service is to be provided, how much financial risk Metro assumes, and the type and level of contract monitoring and administration required.

MERC's food service contract is a management fee, cost reimbursable contract. We believe this contract type is appropriate for MERC given its goal to provide high quality food service and maintain an active role in managing food service operations. Under a management fee contract, the concessionaire receives a certain percent of the gross revenue and a percent of the profits. This arrangement creates incentives for the concessionaire to increase food service sales and control expenses in order to maximize the concessionaire's profit. The MERC contract builds on this framework by establishing an additional incentive, the qualitative incentive, whereby the concessionaire receives additional income depending on how well certain service goals are met.

Specifically, the MERC contract provides that the concessionaire will receive the following compensation:

- 3.9% of net gross receipts[4]
- 8% of net profits in any accounting year
- up to 2.5% of net profits in any year dependent upon attaining certain qualitative goals
- an additional 2% of net profits, if total net profits in any year exceed $3,350,000.

[4] The contract defines "net gross receipts" as gross revenue less applicable Metro excise tax.

The other major type of food service contract – the commission or "P&L" type[5] – is not well suited to MERC's intention of having an active management role and lacks incentives for the concessionaire to maintain high quality service. Under this type of contract, the facility owner receives a straight percentage of sales, while the concessionaire retains all profits and bears all losses. This contract type presents the least financial risk to the owner because the owners receive their income regardless of profit or loss. In addition, the owner's administrative costs are lower, because only revenue has to be monitored and controlled to assure it is being properly handled and reported. The owner is generally not involved in managing most aspects of the food operation.

Despite its financial advantages, the P&L contract can contribute to an adversarial relationship between the parties. The concessionaire is generally interested in maximizing profit, which can conflict with offering good service. To increase profits, concessionaire may be motivated to increase prices, maintain minimal staff, make minimal capital improvements, skimp on cleaning and advertising and not be flexible in dealing with event producers to get their business. As a result, there can be a lot of friction in such a relationship.

Key Provisions Protect the Public Interest

The contract contains provisions that protect the public interest in that MERC has control over key aspects of its concessions business. Even though the concessionaire is responsible for managing day to day operations, the contract gives MERC the power to:

- prescribe policies and procedures for the concessions operations
- approve the kind, quality, brand and price of concessions products
- approve all repairs and maintenance to concessions facilities and equipment
- audit the concessionaire's financial records and operations
- require the concessionaire to retain records for a prescribed time period.

The public interest benefits in another way under the contract. The concessionaire was required to make an initial investment of $1 million for renovations, equipment, signs and operations at MERC facilities. Metro is the sole owner of these funds and MERC management makes the final decision on how the money will be spent.

[5] "P&L" is industry terminology that refers to the fact that under this type of contract the concessionaire assumes all risk of making a profit or taking a loss.

Accordingly, the public benefits from the improvements this money buys and until this money is spent, Metro earns interest on the unspent balance. The fund, for example, was used to set up a Starbucks kiosk at the Convention Center that , according to MERC and concessionaire officials, has proven highly profitable to MERC.

Concessionaire Duties Reasonably Defined and Evaluated

To hold a contractor accountable, contract language should contain clear statements of expected services, clearly defined performance standards and clear statements of how the contractor will be evaluated. The concessions contract contains a unique combination of requirements that results in MERC reasonably meeting the intent of this standard. The contract details the concessionaire’s duties and establishes a process for the concessionaire to earn additional compensation by meeting certain qualitative goals. This combination reasonably holds the concessionaire accountable for fulfilling important duties and provides the concessionaire with strong incentive to perform them well in order to earn additional compensation.

The contract provides that the concessionaire is responsible for performing satisfactorily all functions, duties, and activities outlined in the contract and any incidental activities required to successfully accomplish these functions and duties. The concessionaire must manage and operate the concessions in a professional and efficient manner, which will be conducive to providing first-class, high quality services and products to facility patrons in a clean and appealing environment. The contract then lists 23 specific duties, relating to many facets of the catering business, including:

- professional management
- ordering and handling food and supplies
- employee training
- cleanliness and sanitation
- uniform design and cleanliness
- accounting
- marketing.

The contract enables the concessionaire to earn additional compensation for meeting certain qualitative goals, termed the qualitative incentive. MERC and the concessionaire defined these goals, called quality/service criteria, and many of these consist of duties required under the contract. The criteria were defined for each facility and MERC staff evaluates and scores the concessionaire’s performance on the criteria. These criteria consist of several categories, such as customer service, safety and sanitation, and information analysis and reporting. These, in turn, have specific performance requirements associated with them.

Process Needed For Measuring Financial Performance

While MERC facility directors meet periodically with concessionaire staff and quarterly with MERC's general manager to discuss the concessionaire's overall performance, we believe MERC should have a written formal process for evaluating the concessionaire's financial performance.

The contract does not specifically address how the concessionaire's financial performance will be evaluated. The contract, however, does require the concessionaire to prepare and submit an annual operating budget to MERC for approval. A detailed budget is the key to evaluating performance, according to the food service consultant we contacted. MERC has not used the concessionaire's budget in this way.

The food service consultant told us that a detailed budget, broken into months, is the best tool for holding the concessionaire accountable and for determining whether revenue and expenses are reasonable. The budget sets the targeted revenue, expenses and net profit. Thus, each line item, in effect, becomes a performance standard against which to compare the concessionaire's actual financial performance.

The consultant said management should track actual revenue and expenses against the budget at least monthly. Significant variations should be evaluated because they indicate that management action may be needed, including looking for fraud.

Compensation Processes Appear Reasonable

MERC is responsible for ensuring that a concessionaire is not overpaid. Providing this assurance involves two main processes:

- conducting a price analysis[6] before awarding the contract
- relating compensation to specific work completed.

We believe MERC's processes adequately assure that the concessionaire is being paid fair and reasonable compensation.

Adequate Price Analysis Conducted

MERC conducted a reasonable price analysis before awarding the contract. A seven-member selection committee[7] evaluated proposals from four firms responding to the request for proposals. The committee considered and scored the proposals on many factors, including compensation. The concessionaire received the highest overall score and was awarded the contract.

Compensation Relates to Work Completed

The concessionaire's compensation, including the qualitative incentive, is always related to work the concessionaire has completed because the compensation is calculated on the amount of sales and profit already earned. In addition, we evaluated MERC's process for determining the percentage amount of the incentive and found that although the process is basically subjective, it is also reasonable. The process is as follows:

Under terms of the contract, MERC and the concessionaire developed goals in the form of quality/service criteria for each MERC facility. These criteria consist of several categories, such as customer service, safety and sanitation, and information analysis and reporting. These, in turn, have specific performance requirements associated with them. Possible points are assigned to each category and each performance requirement. There are 100 possible points. A MERC staff person responsible for a given area at each facility determines whether the concessionaire fulfilled the performance requirements in their area and scores the concessionaire accordingly. The staff report the scores to the directors of each facility who, in turn, compile an overall score for the facility and forward it to MERC's general manager who uses the scores to subjectively determine the percentage of profits the concessionaire will receive.

6 Price analysis is a process of comparing a contractor's proposed price to comparable pricing data, such as competing bids.

7 The committee was composed of three MERC commissioners, the general manager of MERC, the director of the OCC, the manager of visitor services at the Oregon Zoo and a representative of the hotel industry.

MERC Procedures Assure Accurate Payments

The concessionaire's compensation is calculated based on net gross receipts and net profit. To ensure accurate compensation, MERC needs to verify the accuracy of these figures. We believe the following procedures used by MERC provide reasonable assurance that compensation is calculated accurately.

Monthly, the concessionaire invoices MERC for fees earned. The fees are based on the revenue and profit information shown on their statement of operations. MERC verifies the invoiced fees by recalculating the fees based on the concessionaire's statement of operations, reconciling the revenue shown on the statement of operations to actual deposits received by MERC, and testing expense amounts shown on the statement of operations to invoices MERC has received during the month from the concessionaire. MERC's director of administration said he also tests the reasonableness of the invoiced fees by comparing the revenue and profit shown on the concessionaire statement of operations against a report showing total revenue and profit according to Metro's accounting system.

MERC Can Improve Oversight Controls

Even though the contract incentives act to reasonably ensure that the concessionaire's interests are consistent with MERC management's interests, MERC must still have procedures to monitor and audit both revenue and expenses. This is because this type of contract still has incentives to manipulate revenue and expenses. For example, the cost reimbursable nature of the contract means that MERC pays all of the concessionaire's expenses, so expenses have to be monitored carefully to make sure they are allowable and reasonable under the contract and have not been inflated or manipulated. In addition, the food service business involves handling a lot of cash and easily marketable inventory, such as food and liquor, increasing the risk of theft. Accordingly, MERC must have management controls to reasonably assure that food service revenue is protected, errors and fraud are detected and that the concessionaire has adequate safeguards to protect cash and inventory.

MERC has not had the full range of controls needed to mitigate these risks. The following recent reports and events demonstrate that MERC needs to strengthen its oversight controls:

- In January 2000, a consultant hired by MERC to review the former concessionaire's expenditures concluded that although there was no evidence of improper expenditures, MERC still needed to improve its internal control and compliance procedures. Specific recommendations were made to improve procedures for establishing the validity of expenditures, compliance with the contract, timeliness and documentation of reviews, including annually reviewing and documenting the concessionaire's cash control procedures, conducting product inventories with concessionaire personnel and performing spot checks of concessionaire activities.

- In March 2001, the concessionaire's internal auditors identified inconsistencies with the concessionaire's prescribed internal control procedures over petty cash, inventory, accounts receivable, accounts payable and sales accountability. Control issues involved inadequate segregation of duties, not maintaining perpetual inventories over alcoholic beverages, unsigned and missing contracts, incomplete receiving logs and spoilage reports, and incomplete documentation to provide a basis for accurate accounting.

- From January to April 2001, over $14,000 in cash was stolen from food service funds at the OCC and PCPA. The three separate thefts apparently involved concessionaire employees. The largest theft was about $13,000 stolen from the PCPA safe of which about $10,600 was MERC money consisting of undeposited receipts and the remainder was the concessionaire's petty cash. The other two thefts involved a stand shortage at the Starbucks kiosk and concessionaire petty cash at the OCC. The concessionaire reimbursed Metro for all of the lost funds so there was no loss to the public. It should be noted that, while the system did not prevent the large theft or identify the culprit, the system did enable the concessionaire and MERC to identify that the theft occurred and its amount.

MERC's new director of administration recognized that MERC needed better information and processes for evaluating the catering business. Accordingly, he has been working to establish a comprehensive reporting and accountability system to enable MERC managers to better identify potential problems and opportunities and measure actual performance. Part of the system is intended to provide more effective oversight over the concessionaire's financial activities. For example, a recently hired staff person has been charged specifically with assuring the integrity of the financial information reported and submitted by the concessionaire and for monitoring and evaluating concessionaire financial activities.

These efforts are a very positive step. We think they can be further enhanced in the following ways:

- using detailed monthly budgets as a key accountability control
- annually reviewing the adequacy of the concessionaire's internal controls and periodically conducting other spot checks
- documenting management and oversight policies and procedures in an operations manual and ensuring that other documents related to food service operations are readily available.

Using Budgets as an Accountability Control

As discussed earlier, a detailed budget is an effective tool for evaluating the concessionaire's financial performance, and that is one reason why we think MERC can make better use of budgets. At the same time, a budget can act as an effective oversight tool. Significant variances between targeted and actual amounts may indicate that revenue or expenses are being manipulated and indicate where to check for weaknesses in controls.

Evaluating the Concessionaire's Internal Controls

MERC does not have a formal policy to evaluate and test concessionaire internal controls. Accordingly, MERC has never provided for independent reviews of the concessionaire's internal controls and has not made its own assessments of these controls. Such assessments are essential for reasonably assuring that the concessionaire is properly handling cash, safeguarding receipts, controlling inventory and preparing accurate reports.

According to the food service consultant we contacted, the typical management fee contract requires the concessionaire to be audited annually by a CPA firm. MERC does not require such an audit. The consultant said that if the contract does not provide for such an audit, then management must have its own assurance procedures for checking the concessionaire's internal controls over revenue, inventories and expenses.

As part of this oversight activity, it is also important for MERC to conduct periodic spot checks of the concessionaire's internal controls. Such checks could include surprise cash counts, observations of inventory counts, or observation of cash handling by employees at concession stands. Such checks would help ensure that these controls are operating effectively.

In developing policies and procedures for evaluating the concessionaire's internal controls, MERC should also consider the extent to which the concessionaire's internal auditors will be relied upon. Issues to consider involve how recently the concessionaire's internal audit was conducted and whether the auditors can be considered sufficiently independent for MERC to rely on their work. These are judgement decisions that affect the extent to which MERC may decide to test particular concessionaire internal controls. At a minimum, MERC should formally require the concessionaire to inform MERC when an internal audit is underway, provide MERC a copy of informal and formal audit reports and provide MERC an action plan for correcting deficiencies. MERC should establish procedures to follow up on audit findings to assure corrective action has taken place.

Documenting Control Policies and Procedures

MERC does not have written policies and procedures relating to key elements of managing the food service contract, including:

- preparing the annual food service budget
- accounting for food service revenues and expenses, including the concessionaire reimbursement process
- determining the qualitative incentive fee to be paid to the concessionaire under the terms of the contract
- monitoring the concessionaire, including evaluating the concessionaire's internal controls
- preparing financial reports.

The absence of such documentation made it difficult for the new director of administration and other new staff to quickly learn what they needed to do and how to do it. The absence also resulted in our taking extra time identifying existing policies and procedures.

The documentation should appear in management directives, administrative policies, or operating manuals. Such documentation is important because it provides the basis for overseeing and holding management and staff accountable, training new employees, assuring that important duties are not neglected or forgotten, providing consistency in handling recurring matters, and efficient and economical audit.

In addition, MERC can improve its documentation by ensuring it has copies of important documents readily available. At times, MERC staff was not able to readily find documents and other information we requested. Relevant documentation was not available in a central place and knowledge of where documents might be was diffused between the MERC Administrative Office and the OCC Office. MERC never was able to provide us a copy of one of the vendor proposals.

MERC Management Supports Need for Control Procedures

During the audit, we discussed the MERC consultant's and our recommendations for improving MERC's controls with MERC's general manager and director of administration. They agreed that MERC should have these controls. The general manager said that due to staff turnover and budget cuts, MERC had not been able to implement all of the consultant's recommendations. He said MERC now has a fully staffed financial team that is working to implement the consultant's and our recommendations. He also agreed that MERC should document its policies and procedures and maintain documentation so it is readily available.

The new director of administration has made significant strides in restructuring the accounting and staffing support needed for effective oversight, such as assigning staff to oversee day-to-day activities, establishing additional accounting codes to provide the basis for better management reports and independent reviews of concessionaire reports. The accounting system he has developed and continues to design and implement will enable MERC to track actual revenue and expenses against a detailed budget. He is also developing the specific procedures needed for preparing annual and monthly budgets and tracking results.

The director of administration told us that as a result of the recent thefts, many changes in procedures and physical safeguards are being made to improve controls over concession cash, including:

- establishing a MERC procedure to assure that deposits are made timely and not allowed to accumulate

- purchasing new safes for PCPA that have separate cash boxes for each cash handler so that only a supervisor will have access to all the money
- redesigning the cash count room at PCPA and requiring two persons to count the cash
- reviewing the cash handling procedures and physical safeguards for food service at each facility to identify ways to improve them.

Response to the Report

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METROPOLITAN EXPOSITION-RECREATION COMMISSION

A METRO SERVICE

June 14, 2001

Honorable Alexis Dow
Metro Auditor
600 NE Grand Avenue
Portland, OR 97232

Re: Response to MERC Food Service Audit

Dear Ms. Dow:

Thank you for the opportunity to review and respond to your recent audit of MERC's food service operations. We appreciate the extensive work that you and your staff have done on this project.

Food and beverage is an important part of our business at MERC. We are pleased that you found that our concessions contract type is appropriate for our goals, that we have crafted key contractual provisions to protect the public interest, that the contract reasonably defines the concessionaire's expected duties, and that we have established a reasonable process for evaluating concessionaire performance.

MERC takes selection of a food and beverage contractor very serious. Our last selection committee was chaired by former MERC Commissioner Baruti Artharee, currently Deputy Director of the Portland Development Commission. Commissioner Artharee led a committee that included outside food and beverage experts and visitor industry representatives as well as MERC staff. We are pleased that you have concluded that MERC's selection process resulted in a fair and reasonable compensation arrangement for our concessionaire. As you noted, MERC's requirement that the concessionaire provide MERC with an initial $1 million cash payment for food and beverage related capital investments also resulted in a significant benefit to the public.

We are also pleased that you have found that MERC's procedures for calculating concessionaire compensation on a regular basis provide reasonable assurance of accuracy. As you noted, our food and beverage contract allows MERC to:

- prescribe policies and procedures for the concessions operations
- approve the kind, quality, brand and price of concessions products
- approve all repairs and maintenance to concessions facilities and equipment
- audit the concessionaire's financial records and operations
- require the concessionaire to retain records for a prescribed time period

As you noted, our contractual arrangements reasonably hold the concessionaire accountable for fulfilling important duties and provide the concessionaire with strong incentive to perform them well in order to earn additional compensation.

Recycled Paper

We also agree that there are steps MERC can take to do even better in our food and beverage oversight activities. We agree with your recommendations and intend to implement them, as follows:

1. We will establish a formal written process for evaluating concessionaire financial performance.

   MERC will do this by establishing detailed monthly budgets that set targeted revenue, expenses and profit. We will then measure actual results against these targets. We agree with you that significant variations may indicate areas where performance needs to be improved. We will begin implementation of this recommendation by September 1, 2001. This will enable us to get through the current fiscal year final year-end closing and provide a base of information from which to work. Implementation of this recommendation will be ongoing throughout the next fiscal year.

2. MERC will annually evaluate and test the concessionaire's internal controls over revenue, expenses and inventory. MERC will investigate the potential costs and benefits of making these evaluations in-house or by hiring a Certified Public Accountant (CPA) firm. We will decide on an in-house or outside annual evaluation program no later than October 1, 2001. If an outside contractor option is selected (as we suspect), we will promptly launch the appropriate selection procedures and move expeditiously to complete the evaluation.

3. MERC will formally document its concession management and oversight policies and procedures in written management directives, written administrative policies and a written operating manual. We will finalize all required written documentation no later than January 1, 2002.

4. MERC will ensure that all relevant documentation relating to food service operations, such as contracts and proposals, is maintained in a readily available location, no later than January 1, 2002.

Thank you once again for your attention to our operations. Please feel free to contact our General Manager, Mark B. Williams, or me if we can be of any further assistance.

Sincerely,

George E. Bell

Commissioner George Bell
MERC Commission Chairman

Cc: Metro Executive Officer Mike Burton
Metro Council Presiding Officer David Bragdon
Metro Councilors
Metro Council Chief of Staff Jeff Stone
MERC Commission
MERC General Manager Mark B. Williams
Metro Chief Operating Officer Pete Sandrock
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Our mission at the Office of the Metro Auditor is to assist and advise Metro in achieving honest, efficient management and full accountability to the public. We strive to provide Metro with accurate information, unbiased analysis and objective recommendations on how best to use public resources in support of the region's well-being.

Your feedback helps us do a better job. If you would please take a few minutes to fill out the following information for us, it will help us assess and improve our work.

Name of Audit Report: MERC Food Service: Evaluation of Contract and Financial Controls

Please rate the following elements of this report by checking the appropriate box.

	Too Little	Just Right	Too Much
Background Information	❑	❑	❑
Details	❑	❑	❑
Length of Report	❑	❑	❑
Clarity of Writing	❑	❑	❑
Potential Impact	❑	❑	❑

Suggestions for our report format:____

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Suggestions for future studies:____

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Other comments, ideas, thoughts:____

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Name (optional):____

Thanks for taking the time to help us.

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