

AUDIT TEAM
Matt Weller, CPA, City Auditor
Janet McWilliams, CPA, Audit Manager

**AUDIT OF CERTAIN PUBLIC EVENT
FACILITY-RELATED AGREEMENTS**

OCTOBER 22, 2024

MAYOR AND CITY COUNCIL

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October 22, 2024

The Mayor and City Council:

The Office of the City Auditor has completed an audit of controls ensuring compliance with significant financial requirements included in certain City-owned public event facility-related agreements administered by the City Manager's Office, the accuracy and completeness of related deposited revenues, and the validity of related paid expenses.

Based on the results of our audit, we believe that, for the fiscal year ended June 30, 2023:

- Controls ensuring compliance with significant financial requirements in ASM Global (ASM) agreements for management of City-owned public event facilities and related agreements were reasonably adequate and effective, except for controls ensuring ASM operating budgets reasonably aligned with operational needs and were accurate and complete.
- Adequate controls have not been established to ensure the accuracy and completeness of facility-related agreement revenues and improved payment review and approval controls are needed to ensure the validity of facility-related expenses.

Recommendations for improving compliance with facility-related agreements and controls over related revenues and expenses discussed in more detail in the attached report, are summarized as follows:

- Annual ASM-proposed facility operating budgets used to determine required City operating subsidies and measure ASM's financial performance should align with operational needs and facility capital funding requests should be separate. See Recommendations 1 and 3.
- A full accounting for the use of excess City operating subsidies, averaging nearly \$2 million annually for Paycom Arena/Cox Center over the six fiscal years ended June 30, 2023, should be obtained from ASM and reviewed at least annually. See Recommendations 2a and 2b.
- Price quotations or sole source documentation and final invoices should be obtained from ASM for capital purchases using more than \$5,000 of City funding. See Recommendation 4.
- ASM operating budgets should be reviewed for accuracy, completeness, reasonableness, and compliance with the terms of other relevant agreements. See Recommendation 5.

EXECUTIVE SUMMARY: Audit Report 20-02

- Game expenses to be billed to the Thunder by ASM on the City's behalf should be reviewed for contractual compliance during budget reviews and net overbillings identified during the audit totaling approximately \$244,000 should be repaid. See Recommendations 6a and 6b.
- Negotiation with the Thunder for more flexibility in applying game expense inflationary increase limits should be considered in the next agreement. See Recommendation 7.
- Procedures ensuring all facility-related agreement revenues are accurately and completely billed, collected and deposited should be established. See Recommendations 8a and 9.
- Unbilled, underbilled and/or uncollected revenues identified during the audit totaling approximately \$517,000 should be collected. See Comment 8 and Recommendation 8b.
- All payments should be reviewed by two employees with sufficient knowledge to determine transaction accuracy and validity and completion of facility capital improvements should be evidenced by ASM or applicable lessees prior to payment. See Recommendation 10.
- Adding another dedicated staff person to the Program to assist with financial oversight and agreement administration should be considered. See Recommendation 11.

All comments, recommendations, suggestions and observations arising from our audit have been discussed in detail with appropriate representatives from management. These discussions were held to assure a complete understanding of the content and emphasis of items in this report. Responses to this report from management are attached.


Matt Weller
City Auditor


Janet McWilliams
Audit Manager

AUDIT OF CERTAIN PUBLIC EVENT FACILITY-RELATED AGREEMENTS

AUDIT OBJECTIVES, BACKGROUND, SCOPE, AND METHODOLOGY

The objectives of this audit were to determine, for the year ended June 30, 2023, the adequacy and effectiveness of City Manager’s Office (CMO) controls ensuring:

- Compliance with significant financial requirements included in agreements with ASM Global (ASM) for management of City-owned public event facilities and related agreements; and
- The accuracy and completeness of revenues deposited, and the validity of expenses paid in relation to City-owned public event facility-related agreements.

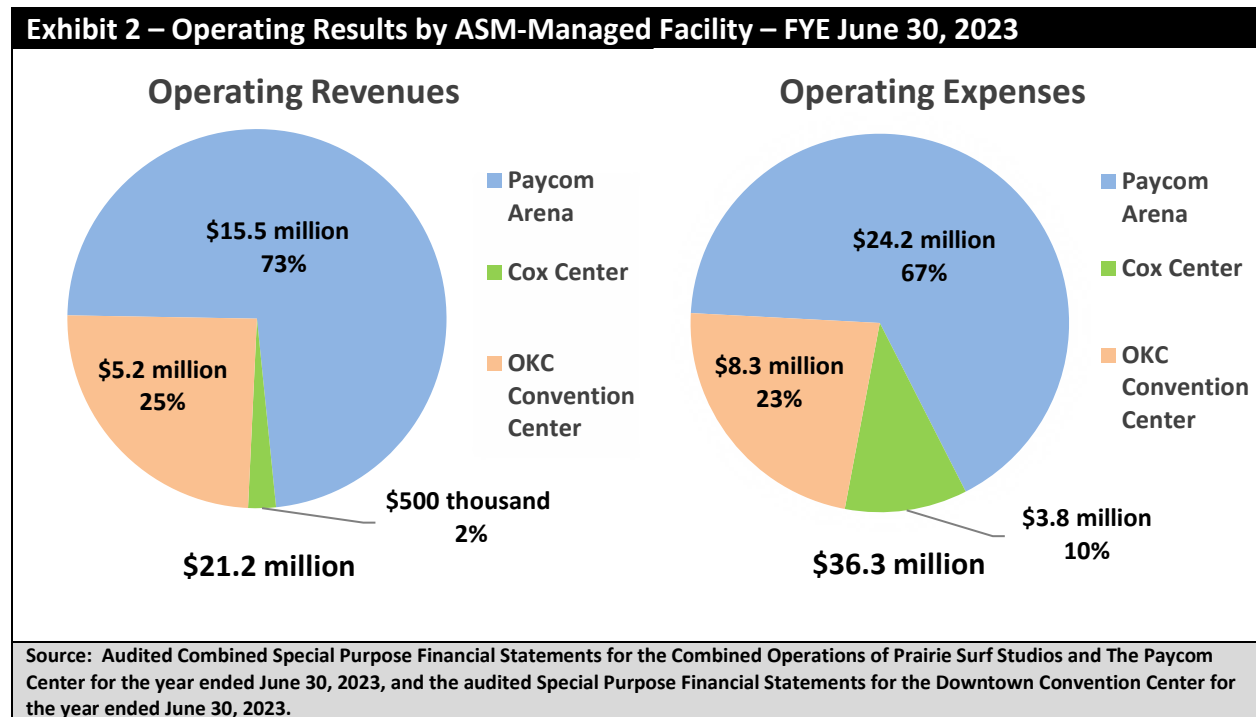
Agreements relating to certain City-owned public event facilities (facility management, leases, sponsorships, etc.) are administered by the Event and Tourism Development Program Manager (Program Manager) in the CMO. The Program Manager currently oversees City-owned public event facility-related agreements as illustrated in Exhibit 1 below.

Exhibit 1 – Facility-Related Agreements Administered by the City Manager’s Office	
Facilities	Agreements
Paycom Arena/Cox Center	<ul style="list-style-type: none"> • Facilities Management Agreement with ASM • Arena Use License Agreement with ASM and Professional Basketball Club, LLC (PBC, LLC) • Food & Beverage Agreement with ASM and PBC, LLC • Prairie Surf Studios Sublease Agreement • Enhanced Wireless & Cellular Agreements¹
Oklahoma City Convention Center	<ul style="list-style-type: none"> • Facilities Management Agreement with ASM
Devon Park	<ul style="list-style-type: none"> • Lease & Management Agreement with USA Softball • Sponsorship Agreement with Integris Health • Sponsorship Agreement with OG&E
Chickasaw Bricktown Ballpark	<ul style="list-style-type: none"> • Sublease with MB OKC, LLC
NBA Practice Facility	<ul style="list-style-type: none"> • Sublease with PBC, LLC
Downtown Parking Lot	<ul style="list-style-type: none"> • Sublease with COTPA
State Fairgrounds	<ul style="list-style-type: none"> • Sublease with Oklahoma State Fair²

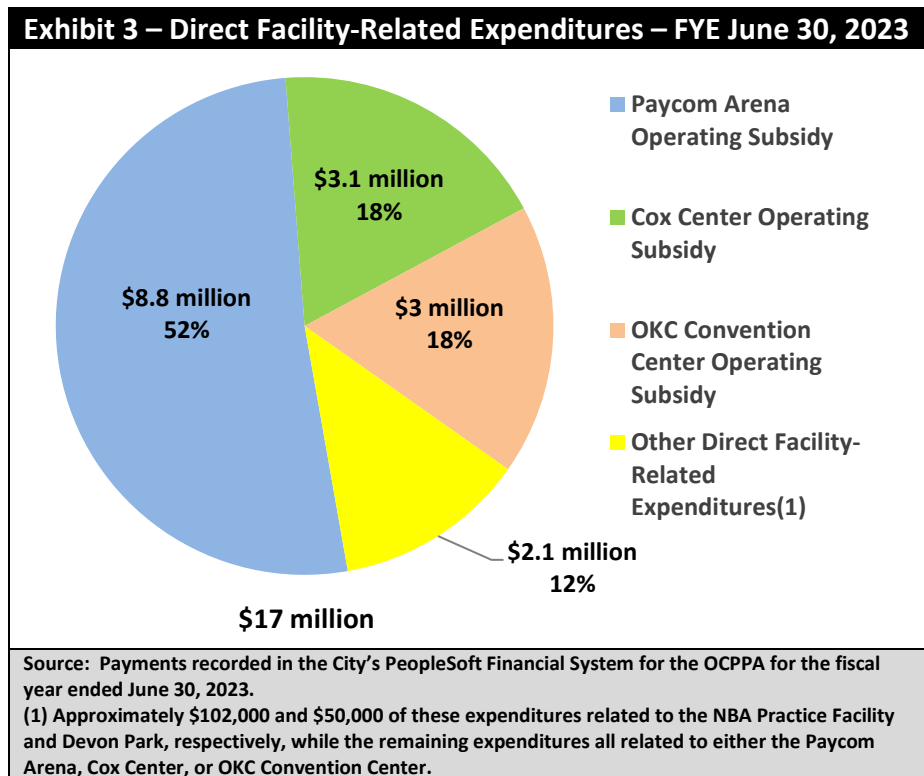
¹ These agreements include access permit and licensing agreements with five cellular telephone service providers for use of equipment known as a Distributive Antenna System installed in the Paycom Arena and Cox Center for the provision of enhanced wireless services within those facilities and additional agreements with two of the five cellular telephone service providers for installation of equipment known as a small cell antenna system in the Paycom Arena for enhanced cellular telephone service.

² The Program Manager’s role in administering this agreement is limited to overseeing billings to the Oklahoma State Fair for fairground utility expense reimbursements required by the related sublease agreement.

The facilities managed by ASM under agreements administered by the Program Manager accounted for \$21.2 million in total revenues and \$36.3 million in total expenses for the fiscal year ended June 30, 2023, as shown in Exhibit 2 below.

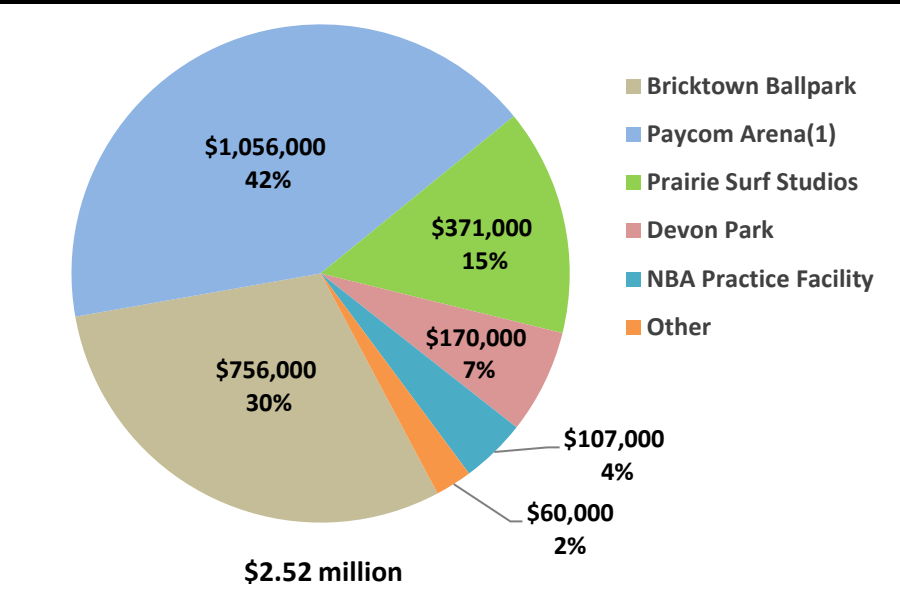


Operating subsidies are budgeted and paid to ASM to offset the excess of facility expenses over facility revenues in Exhibit 2. Operating subsidies are paid by the Oklahoma City Public Property Authority (OCPPA) using transfers from the City’s General Fund. Subsidy payments along with expenditures for other direct, facility-related purchases are authorized by the Program Manager. Total facility-related expenditures by type for the fiscal year ended June 30, 2023, are shown in Exhibit 3.



The Program Manager is also responsible for billing and collecting lease revenues, facility fees, utility reimbursements, naming rights and/or sponsorship fees, and licensing fees relating to certain facility and/or facility-related agreements outlined in Exhibit 1 above³. Those collected funds are generally used either to fund direct purchases for the related facilities or reimburse utility costs relating to those facilities. Total collected facility-related revenues by facility are shown in Exhibit 4.

Exhibit 4 – Facility-Related Revenues Collected – FYE June 30, 2023



Source: Revenues recorded in the City's PeopleSoft Financial System for the OCPPA for the fiscal year ended June 30, 2023.
 (1) These revenues include approximately \$519,000 for Paycom Arena naming rights collected from ASM and licensing fees of approximately \$537,000 received from cellular service providers for use of enhanced wireless/cellular equipment in the Paycom Center.

Procedures performed during this audit included interviews of the Program Manager and CMO staff providing administrative support, Finance Department staff, Municipal Counselor's Office staff, and ASM management; reviews of facility-related agreements, annual ASM-prepared facility budgets, ASM-prepared periodic financial reports, and audited annual ASM financial statements; verification of the accuracy and completeness of related City revenue deposits and the validity of related City expenditures on a sample basis; and assessment of City procedures for ensuring compliance with requirements included in facility-related agreements.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). GAGAS requires that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following section of this report includes recommendations intended to provide constructive suggestions for improving controls ensuring compliance with management agreements for City-owned public event facilities, the accuracy and completeness of related revenues, and the validity of related expenditures. Each recommendation included in this report is immediately followed by a *management response*, which is also attached to this report in its entirety.

³ Facility fees are surcharges included in event ticket prices that are collected by lessees, remitted to the OCPPA, and held by the OCPPA in a reserve account to fund capital improvements at the related facilities.

RESULTS OF WORK PERFORMED

ASM FACILITY MANAGEMENT AGREEMENT COMPLIANCE

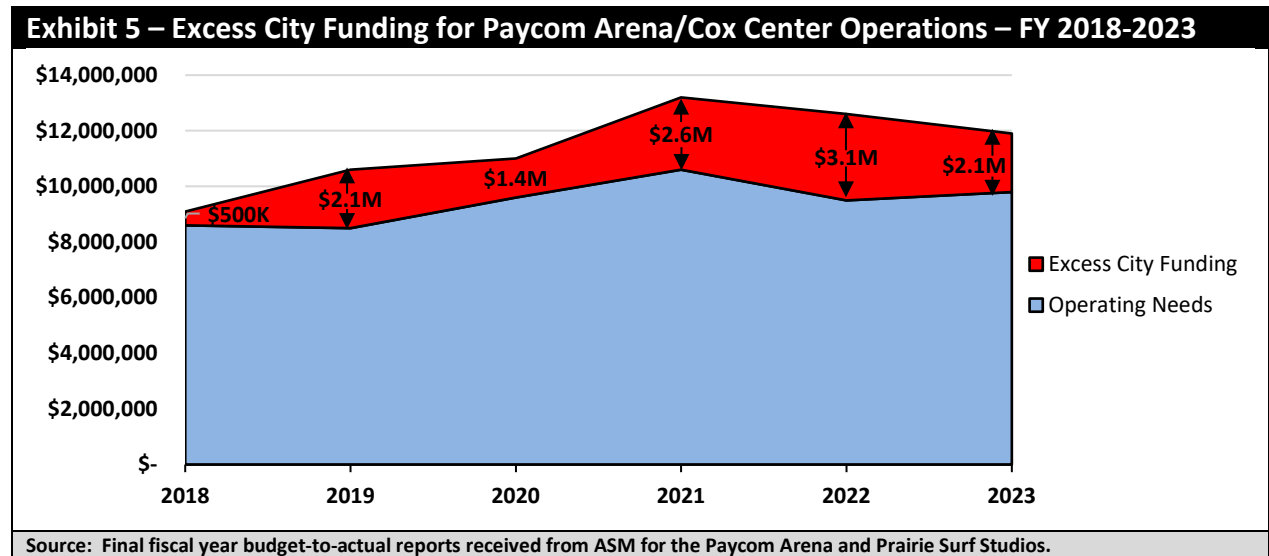
Controls ensuring compliance with significant financial requirements included in agreements with ASM for management of City-owned public event facilities and related agreements were reasonably adequate and effective for the fiscal year ended June 30, 2023; except for controls ensuring ASM's submitted operating budgets reasonably aligned with operational needs and were accurate and complete.

Paycom Arena/Cox Center Operating Budget

The ASM management agreements require ASM to submit an annual operating budget for each facility. The excess of expenses over revenues (net loss) included in ASM's submitted operating budget for each facility is used to determine the operating subsidies and direct expenses to be budgeted and paid by the OCPPA. The funds provided to ASM are held in trust for OCPPA in bank accounts specified in the agreements.

ASM proposed a combined net loss of \$13.4 million in the fiscal year 2023 operating budget for Paycom Arena/Cox Center. OCPPA paid cash operating subsidies to ASM totaling \$11.9 million and directly paid other budgeted operating expenses on ASM's behalf in the net amount of \$1.5 million for fiscal year 2023⁴. An actual net loss of \$9.8 million was reported for the facilities by ASM for fiscal year 2023 (including operating expenses paid by the City on ASM's behalf) and ASM retained an additional \$1.5 million in performance incentive fees. Total funding provided by the City exceeded facility operational needs by \$2.1 million for fiscal year 2023.

City funding has exceeded Paycom Arena/Cox Center operational needs by approximately \$11.8 million in total for fiscal years 2018-2023 as shown in Exhibit 5.



⁴ The net amount of other budgeted operating expenses paid by the City consisted of utilities paid directly by the City on behalf of ASM of \$2.4 million offset by rent and utility reimbursements of \$350,000 expected to be received by the City from Prairie Surf Studios and arena naming rights proceeds of approximately \$500,000 expected to be received by the City from ASM.

ASM retains and uses the excess funding for facility capital improvements, and to supplement an “Other Events Marketing Account” in certain circumstances as defined in the agreement⁵. However, ASM has not historically provided a full accounting for the use of the excess funding to the City. At our request, ASM provided a reconciliation of excess funding on-hand as of June 30, 2023, showing approximately \$853,000 transferred to the Other Events Marketing Account and approximately \$565,000 used for facility capital improvements during fiscal year 2023 with approximately \$2.4 million remaining on-hand.

Facility capital improvement expenditures are not considered operating expenses and are the City’s responsibility unless otherwise agreed by the City and ASM according to the agreements. However, the agreements require ASM to include recommendations for capital improvements to be accomplished during the year and estimated costs with annual facility operating budgets submitted. Those recommendations are not submitted, however, ASM does submit individual capital improvement expenditures made from excess City-provided funds for City approval.

Additionally, ASM may earn a fiscal performance incentive fee based upon demonstrated actual savings in comparison to the approved Paycom Arena budget. The fiscal performance incentive fee that may be earned equates to 50% of the demonstrated actual savings up to 200% of the base management fee⁶. ASM received the maximum allowable fiscal performance incentive fees for fiscal years 2023 and 2022, totaling \$672,116 and \$652,540, respectively.

Comment 1

Annual ASM operating budgets for Paycom Arena/Cox Center have not aligned sufficiently with actual operating needs for fiscal years 2018 through 2023 to be useful for incentivizing financial performance. Annual operating budgets proposed by ASM have far exceeded operational needs as shown by the excess City funding illustrated in Exhibit 5 on page 4. Though excess City funding is primarily used by ASM for capital improvements and such use is allowed with the City’s approval by the agreement, the intent of including this provision does not appear to have been for capital funding to be a routine component of annual budgeted operating expenditures.

Resources may not be effectively used to achieve desired operational goals and incentivizing economical achievement of those goals based upon performance comparative to the operating budget is not practical if those budgets do not reasonably align with actual operating needs.

⁵ The agreement authorizes creation and funding of a separate, non-operating “Other Events Marketing Account” to fund the promotion of events at the Paycom Arena other than those associated with the Oklahoma City Thunder NBA basketball team. The agreement also provides that City-approved committed and expended amounts from the account may be reimbursed by ASM from operating funds and supplemented from event profits exceeding profits budgeted for the events by ASM, up to the account balance limit of \$1.25 million.

⁶ Prior to the fiscal year 2021 effective date of the current ASM management agreement, the fiscal performance incentive fee was based upon the improvement of the actual net loss over a benchmark calculated as the rolling average of net losses for the previous three fiscal years.

Recommendation 1

The CMO should direct ASM to propose annual operating budgets reasonably aligning with expected operational needs for all managed facilities and use those operating budgets as the benchmark in determining ASM's eligibility for financial performance incentives.

Development and use of a different benchmark more meaningfully capturing ASM's financial performance comparative to expectations could also be considered.

City Manager's Office Response 1

Agree with Recommendation – The CMO will work with the Finance Department to review ASM actual budgets from prior years to approve proposed budgets for future fiscal years. CMO will direct ASM to submit a budget and subsidy request that more adequately reflects the delta in the budget starting with fiscal year 2026.

Comment 2

A full accounting for the use of excess operational funding provided for Paycom Arena/Cox Center is not obtained from ASM. Though ASM obtains City approval for capital improvement expenditures made from excess operational funding, there has historically been no separate accounting by or reporting from ASM relating to balances retained for that purpose. Similarly, ASM has not historically provided an accounting for restricted funds held for marketing other events or excess operational funding used for that purpose to the City.

City funding has exceeded Paycom Arena/Cox Center operational needs by approximately \$11.8 million in total for fiscal years 2018-2023 as noted above. Inappropriate use of funding by ASM or uses by ASM not aligning with City priorities could go undetected without a full accounting from ASM for how those funds are expended.

Recommendation 2a

The CMO should require that ASM provide reconciliations of how all excess operational funding provided by the City for all managed facilities has been used at least annually. Reconciliations provided should account for all inflows, outflows, and ending balances relating to the excess operational funding.

Additionally, the CMO should request that ASM hold excess operational funds designated for facility capital improvements in a separate restricted, non-operating account, like the funds separately held currently for other event marketing expenses for the Paycom Arena.

City Manager's Office Response 2a

Agree with Recommendation – The CMO has worked with ASM and they will begin producing a detailed report on the other two accounts that are funded with excess operating monies [marketing fund & CIP fund] with the assistance of the Finance Department and Auditor's Office. Reporting will begin immediately. Excess funds are in ASM non-operating accounts.

Recommendation 2b

The CMO should review ASM reconciliations of excess operational funding, ensuring that:

- Beginning balances of capital improvement funds and other event marketing funds held agree to the ending balances from the last reconciliation.
- Included capital improvement expenditures agree to such expenditures already individually approved by the CMO.
- Included other event marketing fund commitments agree to such commitments approved by the City and related reimbursements comply with agreement requirements.

City Manager's Office Response 2b

Agree with Recommendation – The CMO has worked with ASM and they will begin producing a detailed report on the two other accounts that are funded with excess operating monies [marketing fund & CIP fund] with the assistance of the Finance Department and Auditor's Office. Reporting will begin immediately. In addition, the Finance Department will assist with accuracy, completeness, and reasonableness of funds.

Comment 3

ASM recommendations for Paycom Arena/Cox Center capital improvements to be completed during the year and estimated related costs are not submitted with annual operating budgets as required by the agreement. The Program Manager and ASM management meet periodically to determine facility capital improvements to be funded from excess operational funding and each related ASM expenditure is approved by the Program Manager. However, the agreement provisions requiring ASM to annually submit capital improvement recommendations suggest a more coordinated, planned approach to carrying out annual facility capital improvements.

Inadequately planned and coordinated capital spending can potentially lead to unexpected and unfunded future costs for replacing or repairing facility assets.

Recommendation 3

The CMO should request that ASM submit recommendations for facility capital improvements to be completed and estimated costs with annual facility operating budgets.

City Manager's Office Response 3

Agree with Recommendation – The CMO will work with ASM to identify capital needs and an estimation of costs within the annual operating budget for the rest of fiscal year 2025 and for future years.

Comment 4

ASM capital improvement expenditures from excess Paycom Arena/Cox Center operational funds provided are not thoroughly reviewed for compliance with requirements included in City purchasing policies ensuring competitive prices are obtained. ASM policies incorporated into the agreement by reference require that ASM purchases using City funds comply with City Purchasing Policies and Procedures. Evidence of more than one price quotation or sole source support was not available for 6 of 12 tested ASM purchases using City funds during fiscal year 2023. Additionally, related final invoices are not obtained and verified against quoted prices.

Unreasonable ASM capital spending using City funding could go undetected if controls are not in place to ensure ASM carries out those purchases at reasonably competitive prices.

Recommendation 4

The CMO should obtain evidence of at least three price quotations or sole source support from ASM as required by City purchasing policies for capital purchases using \$5,000 or more in City funding, obtain the related final invoices from ASM for those purchases, and verify that final costs reasonably agree to quoted prices.

City Manager's Office Response 4

Agree with Recommendation – The CMO will continue to review all CIP requests to ensure competitive bidding and request ASM send invoices of completed CIP work to coincide with approved quote from the Project Manager.

City Review of ASM Annual Facility Operating Budgets

ASM annual facility operating budgets include projected revenue and expense totals by account and schedules detailing projected attendance and revenues net of direct expenses by event; projected ancillary revenues (e.g., food and beverage) net of commissions by event; projected other event revenues by type and event; and projected indirect expenses by operating division.

The Program Manager performs a limited review of the operating budgets that does not include review of the detailed schedules provided as support for projected revenue and expense totals by account. The Program Manager subsequently forwards the budgets to the City's Office of Management and Budget (OMB) for inclusion in the City's overall operating budget. OMB does not review the facility operating budgets, relying instead on the Program Manager review.

Additionally, the agreements require the City and ASM to jointly determine a reasonable direct economic spending target for both the Paycom Arena/Cox Center and the OKC Convention Center before the fiscal year begins⁷. A fiscal year 2023 target was not determined for the Paycom Arena until after the fiscal year had concluded, though management reports that any target that would have been set would have been exceeded because of an unanticipated increase in fiscal year 2023 events.

The City and ASM are parties to separate agreements with PBC, LLC, ownership group of the Oklahoma City Thunder NBA basketball team (Team). These agreements include the Arena Use License Agreement (ULA) governing use of the Paycom Arena by the Team and a related Food & Beverage Agreement that governs concession and premium food service at the Paycom Arena under the ULA. The agreements significantly impact the Paycom Arena operating budget since over a third of events held at Paycom Arena annually are Team home games.

The ULA provides for the Team to pay rent consisting of game expenses and license fees to ASM for use of the Paycom Arena for each home game. The game expenses portion is intended to approximate all ASM actual direct costs for staffing games according to the agreement. Game expenses and license fees were subject to annual increases beginning in the twelfth operating year of the ULA (fiscal year 2020) equating to the lesser of the average monthly increase in the Consumer Price Index (CPI) for the year or 3%⁸.

ASM includes game expenses and license fees billed to the Team for each home game in the annual operating budget and periodically bills the Team for those expenses. The accuracy of game expenses and license fees billed to the Team by ASM is generally not verified by the City. Additionally, ASM's average direct staffing costs per game exceeded game expenses fully adjusted for ULA-provided increases by just over \$20,000 per game during fiscal year 2023.

Comment 5

The details of ASM annual facility operating budgets are not being adequately reviewed for accuracy, completeness and reasonableness and direct spending targets are not consistently adopted prior to the fiscal year. The Finance Department previously assisted in reviewing ASM annual facility operating budgets as needed. However, the new Program Manager was not aware of the previous review assistance provided by the Finance Department.

Annual operating subsidies paid by the City, totaling approximately \$14.9 million for fiscal year 2023, could be significantly over or under funded if operating budgets used to determine those subsidies are inaccurate, incomplete, or unreasonable. Further, resources and expected results

⁷ ASM is eligible, according to the management agreements, to earn a performance incentive fee for meeting a mutually established annual target for direct spending representing the impact of facility operations on the Oklahoma City economy. Actual direct spending related to facility operations is calculated by ASM in accordance with the methodology applied for such calculations by the Oklahoma City Convention and Visitors Bureau and compared to the established target to determine if payment of an incentive fee to ASM is warranted.

⁸ The Team exercised their rights under the ULA to renew the ULA for an additional three-year term through fiscal year 2026 upon termination of the initial term at the end of fiscal year 2023. According to the ULA, game expenses and license fees to be paid by the Team for the three-year renewal term are to be the same amounts as were paid during the last operating year of the initial ULA term.

may not be appropriately aligned if performance targets, when applicable, are not established alongside and consistently with proposed operating budgets.

Recommendation 5

The CMO should work with the Finance Department to ensure ASM annual operating budget reviews before adoption consist of at least the following:

- Projected revenues, expenses, number of events, and attendance are reasonable based on current economic conditions and prior year results.
- Detailed calculations of projected revenues by event and type, and projected expenses by operating division are accurate and roll up to revenue and expense account totals.
- ULA and Food & Beverage agreement requirements, such as food and beverage commission percentages to be paid, are accurately calculated. Also see **Comment 6** below.
- Applicable performance targets have been established and are reasonably consistent with the operational levels reflected in facility operating budgets.

City Manager's Office Response 5

Agree with Recommendation – The CMO will have the Finance Department assist with review of the operating budget, financials and subsidy.

Comment 6

Significant ASM under and over billings of the Team for ULA game expenses and license fees since fiscal year 2020 were not detected through annual facility operating budget reviews.

Annual increases to game expenses and license fees billed to the Team by ASM did not begin in fiscal year 2020 as required by the ULA. Additionally, a temporary reduction to game expenses and license fees according to a pandemic-related amendment to the ULA was not appropriately applied by ASM resulting in significant overbillings of the Team in 2022⁹. Annual ASM operating budgets did not include sufficient details for these errors to have been reasonably discovered.

The Team was underbilled by approximately \$451,000 from fiscal year 2020 through 2024 and overbilled by approximately \$695,000 during fiscal year 2022 as a result¹⁰. Unnecessary disputes with the Team could potentially occur regarding over or under billings by ASM if these amounts are not verified during annual operating budget reviews.

⁹ The ULA was amended by Council action on June 8, 2021, to temporarily reduce game expenses to address the adverse financial impact of the pandemic. These rates were to remain in effect until the later of the Mayor's termination or withdrawal of the related State of Emergency declaration or January 1, 2022, at which time the rates were to return to the amounts in effect on March 11, 2020.

¹⁰ Due to the magnitude, we extended calculations of this error beyond our fiscal year 2023 audit period.

Recommendation 6a

The CMO should obtain ASM's calculation of planned Team billings for ULA game expenses and license fees with annual operating budgets submitted and verify the accuracy of those planned billings as part of the annual operating budget review included in **Recommendation 5**.

City Manager's Office Response 6a

Agree with Recommendation – Addressed and corrected – new adjusted billing amount for Game Day Expenses and License Fee are implemented and will be continued in future fiscal years.

Recommendation 6b

The CMO should work with ASM to ensure the Team is repaid for the net amount of overbilled game expenses and license fees identified, totaling approximately \$244,000.

City Manager's Office Response 6b

Agree with Recommendation and completed.

Comment 7

Game expense increases specified in the ULA are not keeping pace with ASM's direct staffing costs per game as contemplated in the ULA. Average direct staffing costs per game exceeded game expenses billed to the Team for each game by just over \$20,000 for fiscal year 2023 and this difference continues to increase. This per game difference results in significant losses for 41 home games per season and is a result of inflation exceeding the 3% increase cap in the ULA¹¹.

Game expenses in effect during the current ULA renewal term running from fiscal year 2024 through fiscal year 2026 are specifically required to be the same amount that was in effect during the final operating year of the initial term of the ULA according to the renewal terms. However, negotiation of a new ULA with the Team and ASM is currently underway. Continued increasing per game losses may significantly increase facility operating subsidies paid by the City if unaddressed.

¹¹ All NBA teams play 41 regular season home games each season, however, a varying number of additional pre- and post-season home games may also be played each season.

Recommendation 7

The CMO should consider negotiating with the Team for more flexibility in applying any cap on game expense inflationary increases in the next ULA to provide an avenue for addressing more extreme inflation such as what has been experienced recently.

City Manager's Office Response 7

Agree with Recommendation – The CMO is negotiating with the team on a new ULA for the new arena. Game Day expenses are being discussed.

FACILITY-RELATED AGREEMENT REVENUES AND EXPENSES

Controls were not adequate and effective for the fiscal year ended June 30, 2023, to ensure the accuracy and completeness of facility-related revenues deposited, and improved payment review and approval controls are needed to ensure the validity of facility-related expenses.

Revenue Billings and Collections

Facility-related agreement revenue billings and collections are primarily carried out by one employee assigned to assist the Program Manager and others within the City Manager's Office with administrative tasks. Those revenues totaled over \$2.5 million for fiscal year 2023 as shown in Exhibit 4 on page 3 and include rent, facility fees, utility reimbursements, naming rights and/or sponsorship fees, and licensing fees relating to certain facility-related agreements. Those agreements contain terms impacting billed amounts such as scheduled CPI increases and variable amounts payable dependent upon paid admissions or event tickets sold.

Comment 8

Adequate procedures are not in place to ensure all facility-related agreement revenues are accurately and completely billed, collected, and deposited. The following weaknesses were identified in billing and collection procedures during the audit:

- Billings are not reviewed for accuracy and consistency with agreement terms (e.g., annual CPI increases required by agreements) by the Program Manager.
- Billing and collection responsibilities are not consistently segregated, creating the potential for theft to occur and go undetected, particularly given that billings are not reviewed.
- Deposits are occasionally incorrectly recorded, creating the risk of unavailable funding for specific purposes (e.g., practice facility rents to be used for facility capital improvements).
- Annual licensing fees due from cellular service providers relating to agreements for usage of enhanced wireless/cellular equipment in the Paycom Arena/Cox Center are not being billed.
- A comprehensive, up-to-date listing of all revenue amounts billed, collected, and remaining due is not maintained.

Because of some of those weaknesses, the following unbilled, underbilled and/or uncollected revenues were identified during the audit¹²:

- Annual licensing fee remittances by a cellular service provider in 2020, 2021, and 2022 were not adjusted for annual CPI increases, resulting in underpayments of over \$167,000.
- Annual licensing fees totaling over \$317,000 for 2022 and 2023 have not been remitted by a cellular service provider.
- Billed NBA practice facility rent for fiscal years 2023 and 2024 was not adjusted for lease-required annual CPI increases and the Team was underbilled by approximately \$33,000.

Incomplete revenue collections are likely and undetected revenue theft is possible if billing and collection procedures do not ensure all amounts due are billed, bills are reviewed for accuracy and completeness, billing and collection duties are appropriately segregated, and all collections are deposited and appropriately recorded.

Recommendation 8a

The CMO should establish procedures adequately ensuring revenues relating to all facility and facility-related agreements are accurately and completely billed, collected, and deposited. Those procedures should include but not necessarily be limited to ensuring:

- All billings relating to agreements administered within the Program are identified.
- Billings are reviewed by the Program Manager for accuracy and consistency with agreement terms.
- All billings require direct remittance to the City Treasurer's Office and the City Treasurer's Office is aware of the appropriate allocation codes to use in recording the receipts.
- A comprehensive, up-to-date listing of all contractually required billings, collections, and remaining amounts due is maintained and periodically reviewed by the Program Manager.

City Manager's Office Response 8a

Agree with Recommendation – The CMO will work with the Finance Department to track revenue agreements. The CMO will work with the Finance Department to develop procedures ensuring all facility-related agreement revenues are accurately and completely billed, collected, and deposited.

Recommendation 8b

The CMO should work with the Team and the cellular service provider to collect unbilled, underbilled and/or uncollected revenues identified during the audit.

¹² Due to the magnitude, we extended calculations of these errors beyond our fiscal year 2023 audit period.

City Manager's Office Response 8b

Agree with Recommendation – The CMO and the Finance Department will continue to work with AT&T and the Municipal Counselor's Office to resolve payment issues. Partial collections have been made by the City in August 2024.

Comment 9

Information needed to assess the reasonableness of receipts that vary or may vary based on paid admissions or tickets sold to Bricktown Ballpark and Devon Park events is not obtained and reviewed. Bricktown Ballpark rent is the greater of a CPI-adjusted minimum rent amount or 7% of paid admissions according to the lease agreement, while facility fees for each facility are \$1.00 per ticket sold. Though the Bricktown Ballpark lease requires the lessee to annually submit paid admissions data and a calculation of minimum rent due, that information is not currently submitted. The Devon Park lease does not require annual reporting of tickets sold.

Collected rents and facility fees are used to fund maintenance of and capital improvements at these facilities in accordance with the related leases. Future costs for replacing or repairing facility assets may not be adequately funded if collected rents and facility fees are incomplete.

Recommendation 9

The CMO should obtain paid admissions data and the minimum rent calculation required by the Bricktown Ballpark lease agreement annually and assess the reasonableness of rent and facility fees paid using that information. Similarly, the Devon Park lease should be amended to require annual reporting of ticket sales data and that information should be obtained and used to assess the reasonableness of facility fees paid.

City Manager's Office Response 9

Agree with Recommendation – The CMO will review ticket sales with the Ballpark and will send a memo to USA Softball/Devon Park to address the issue. The CMO will work with USA Softball on a proposed amendment to the current lease to ensure ticket sales data is accurate. The goal is to have this completed by the end of fiscal year 2025.

Payment Reviews & Approvals

The Program Manager is the sole approver of facility-related payments. Payment processing is carried out by the same employee that assists the Program Manager with revenue billings and collections as discussed above. Facility-related payments totaled \$17 million for fiscal year 2023 and consisted primarily of facility operating subsidy payments and payments for capital improvements or other facility services as shown in Exhibit 3 on page 2.

Comment 10

Reviews of documentation supporting facility-related payments do not comply with internal control standards for payment approvals included in City purchasing policies. City purchasing policy internal control standards require that two staff members having sufficient knowledge of the transactions be involved in either approval of purchases or verifying receipt of purchases. This requirement is in place to ensure all purchase transaction phases are not controlled by a single City staff person.

While a second employee besides the Program Manager is involved in processing payments in the City's financial system, that employee does not have sufficient transactional knowledge to detect payment errors or inadequate supporting documentation. OKC Convention Center operating subsidy payments not agreeing to budgeted amounts and adjustment of the related subsidy for customer satisfaction incentive fees without customer satisfaction survey results to support payment of those fees were identified during the audit.

Program procedures for approving facility capital improvement expenditures include a control requiring that ASM confirm those improvements have been completed before those payments are authorized by the Program Manager, mitigating some of the risk of having only a single City approver. However, no evidence was available from ASM or lessee that related improvements had been completed for 5 of 24 tested facility capital improvement expenditures.

A single City staff person effectively controlling all phases of the purchase transaction creates the risk for erroneous or fraudulent payments to go undetected.

Recommendation 10

The CMO should require that two employees with sufficient knowledge of Program transactions review documentation supporting all payments for accuracy and validity. Evidence should also be consistently obtained from ASM or lessees that facility capital improvements have been completed before payments for those improvements are authorized.

City Manager's Office Response 10

Agree with Recommendation – The CMO and the Finance Department will continue to work with current personnel for accurate and valid payments; and will continue to work with facilities to verify work and projects have been completed to the operator's satisfaction before payment is released. The Business Manager or another staff member in the Finance Department is now assigned to provide a second level of review on the contracts and associated payments for accuracy and completeness.

OTHER COMMENT

Comment 11

Adequate City staffing may not be devoted to the Event and Tourism Development Program.

Currently, Program duties are mostly carried out by the Program Manager with assistance from a Management Specialist on billing and payment administrative duties.

Besides the management agreement with ASM, Paycom Arena/Cox Center has multiple related agreements as shown in Exhibit 1 on page 1. Those agreements along with the OKC Convention Center management agreement are complex, account for significant financial activity as shown in Exhibit 2 and 3 on page 2 and require a high degree of financial oversight as evidenced by the comments and recommendations included in this audit report. The contemplated addition of oversight of other City-owned facility agreements to this Program and other eventual new arena agreements will further increase the need for adequate Program controls.

High profile City-owned facilities may not be operated as intended by the City and/or may fall into disrepair without adequate financial oversight and administration of these agreements.

Recommendation 11

The CMO should consider adding another dedicated staff person to this Program to assist with financial oversight and administration of these agreements. Alternatively, and at a minimum, more assistance should be enlisted from the Finance Department with these Program duties.

City Manager's Office Response 11

Agree with Recommendation – The CMO will work with the Finance Department to ensure there is additional staff available to have multiple layers of redundancy. The Business Manager or another staff member in the Finance Department has been assigned to assist with the financial oversight and administration of these agreements. The CMO will continue to assess whether an additional staff member is needed.

ATTACHMENT A
MANAGEMENT RESPONSES



MEMORANDUM

The City of
OKLAHOMA CITY



TO: Matt Weller, City Auditor

THROUGH: Craig Freeman, City Manager *CF*

FROM: Sue Hollenbeck, Executive Manager/Special Projects Manager *SH for ST*

DATE: October 21, 2024

SUBJECT: The following are management’s responses to the recommendations outlined in the audit.

1. Response 1 - Agree with Recommendation – The CMO will work with the Finance Department to review ASM actual budgets from prior years to approve proposed budgets for future fiscal years. CMO will direct ASM to submit a budget and subsidy request that more adequately reflects the delta in the budget starting with fiscal year 2026.

2. Response 2a – Agree with Recommendation – The CMO has worked with ASM and they will begin producing a detailed report on the two other accounts that are funded with excess operating monies [marketing fund & CIP fund] with the assistance of the Finance Department and Auditor’s Office. Reporting will begin immediately. Excess funds are in ASM non-operating accounts.

 Response 2b – Agree with Recommendation – The CMO has worked with ASM and they will begin producing a detailed report on the other accounts that are funded with excess operating monies [marketing fund & CIP fund] with the assistance of the Finance Office and Auditor’s Office. Reporting will begin immediately. In addition, the Finance Department will assist with accuracy, completeness and reasonableness of funds.

3. Response 3 – Agree with Recommendation– The CMO will work with ASM to identify capital needs and an estimation of costs within the annual operating budget for the rest of fiscal year 2025 and for future years.

4. Response 4 – Agree with Recommendation – The CMO will continue to review all CIP requests to ensure competitive bidding and request ASM send invoices of completed CIP work to coincide with approved quote from the Project Manager.

5. Response 5 – Agree with Recommendation – The CMO will have Finance Department assist with review the operating budget, financials and subsidy.

6. Response 6a – Agree with Recommendation - Addressed and corrected – new adjusted billing amount for Game Day Expenses and License Fee are implemented and will be continued in future fiscal years.

Response 6b – Agree with Recommendation and completed.

7. Response 7 – Agree with Recommendation – The CMO is negotiating with the team on a new ULA for the new arena. Game Day expenses are being discussed.
8. Response 8a – Agree with Recommendation – The CMO will work with the Finance Department to track revenue agreements. The CMO will work with the Finance Department to develop procedures ensuring all facility-related agreement revenues are accurately and completely billed, collected, and deposited.

Response 8b – Agree with recommendation – The CMO and the Finance Department will continue to work with AT&T and the Municipal Councilor’s Office to resolve payment issues. Partial collections have been made to the City in August 2024.

9. Response 9 – Agree with Recommendation – The CMO will review ticket sales with the Ballpark and will send memo to USA Softball/Devon Park to address the issue. The CMO will work with USA Softball on a proposed amendment to the current lease to ensure ticket sales data is accurate. The goal is to have this completed is end of fiscal year 2025.
10. Response 10 – Agree with Recommendation – The CMO and the Finance Department will continue to work with current personnel for accurate and valid payments; and will continue to work with facilities to verify work and projects have been completed to the operator’s satisfaction before payment is released. The Business Manager or another staff member in the Finance department is now assigned to provide a second level of review on the contracts and associated payments for accuracy and completeness.
11. Response 11 – Agree with Recommendation – The CMO will work with the Finance Department to ensure there is additional staff available to have multiple layers of redundancy. The Business Manager or another staff member in the Finance Department has been assigned to assist with the financial oversight and administration of these agreements, The CMO will continue to assess whether an additional staff member is needed.