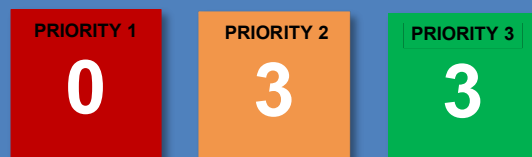


Report #2022-06

TENNIS CONCESSION AGREEMENTS AUDIT

NUMBER OF RECOMMENDATIONS



*City of Glendale
Internal Audit*

03.30.2022



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Acknowledgment

We would like to thank Community Services & Parks Department personnel for the support and assistance provided to us throughout this project.

For questions regarding the contents of this report, please contact the lead auditor, Ani Antanesyan, Internal Auditor, or Jessie Zhang, Internal Audit Manager at internalaudit@glendaleca.gov.

This report is also available online at <https://www.glendaleca.gov>.

A. Overview

Key Outcomes

The Community Services & Parks (CSP) department runs the tennis facilities at the Glorietta and Fremont parks through concession agreements with outside contractors (cessionaires). Internal Audit reviewed the current concessionaires’ operations at both facilities against the contractual requirements and found that 1) the accuracy of City’s share of net revenue could not be determined due to lack of appropriate support for revenues and expenses; 2) the concessionaires were not in compliance with record retention requirements; and 3) the rates to book tennis courts are lower than the prevailing rates based on a survey of other public facilities in the area. Internal Audit recommends that the CSP management 1) enforce or amend the current agreement terms; 2) evaluate the cost benefit of the current revenue sharing structure to determine whether the benefits outweigh the administration costs. Internal Audit also recommends that CSP management incorporate the City’s recently adopted sustainability ordinance in the current and future tennis concession agreements.

Impact Dashboard¹

This table summarizes the applicable value-added categories (total seventeen) for the six recommendations based on their priority rankings.

	Value-Added Categories			
	Compliance	Cost Saving	Efficiency	Risk Reduction
Priority 2 3	3	2	2	3
Priority 3 3	3	1	1	2

¹ Each audit recommendation may have more than one value-added category. The Definitions of Priority Rankings and Value-Added Categories are located at Appendix 1.

B. Action Plan and Target Completion Dates

The action plan and target completion dates are summarized in the table below. Internal Audit will perform quarterly status follow-up to provide assurance that management is taking appropriate and timely corrective action to address audit recommendations.

Ref.	Management Action Plan	Completion Date
Priority 2		
1.	Ensure concessionaire reported revenues are adequately supported through using City-approved reservation roster templates and revenue remittance forms or a reservation software. <i>Value added:</i> Compliance , Cost Saving , Efficiency , Risk Reduction	9/30/2022
Priority 2		
2.	Require that concessionaires submit adequate expense receipts to support net profit sharing calculation. <i>Value added:</i> Compliance , Cost Saving , Efficiency , Risk Reduction	9/30/2022
Priority 2		
3.	Ensure the record retention terms are followed by the concessionaires. <i>Value added:</i> Compliance , Risk Reduction	9/30/2022
Priority 3		
4.	Ensure that tennis facility booking rates are aligned to market rates, and ensure that any changes to proposed rates are communicated to and approved by the City. <i>Value added:</i> Compliance	12/31/2022
Priority 3		
5.	Update the tennis concession agreements to reflect Ordinance Number 5964 requirements that are applicable to the City's concessionaires. <i>Value added:</i> Compliance , Risk Reduction	12/31/2022
Priority 3		
6.	Perform a cost benefit assessment of the current concession agreement structure to determine whether the benefit derived from net profit sharing outweigh the administration costs. <i>Value added:</i> Compliance , Cost Saving , Efficiency , Risk Reduction	12/31/2022

C. Background

In accordance with the Fiscal Year 2021-22 annual work plan, Internal Audit has completed a Tennis Concession Agreements audit.

The City of Glendale owns the tennis facilities located at the Fremont and Glorietta. Fremont has eight courts open to the public, while Glorietta has four tennis courts.

Concession Agreements

In 2015, the City entered into two agreements with different concessionaires to operate the tennis courts at these facilities by providing services, including, but not limited to: court reservations, classes, clinics, camps, tournaments and events. Both agreements can be renewed annually for one-year terms until 2025.

Facility Use Fee

The concessionaires must pay the City each month the following sum, collectively called the Facility Use Fee:

- A flat rate use fee, and
- 10% or 15% of net profit.

On a monthly basis, the concessionaires submit to the City their gross receipts and expenses, which are used to calculate the resulting net profit. Net profit means gross receipts less all documented reasonable costs, fees, and expenses that concessionaires pay or incur while using or operating the courts.

Net Profit Reporting to the City

On a monthly basis, per contractual requirements, concessionaires transmit to the City a report of the previous month's operations that includes concessionaire's gross receipts, expenses and any resulting net profit. The monthly report sent to the City include summary level daily collected totals by revenue category, such as "Court Rentals", "Lesson Revenue", and "Misc Revenue".

In FY 2021, one of the concessionaires transmitted about \$200 per month for the net profit sharing to the City, while the other concessionaire did not report any net profit.

Court Reservations

Currently, neither concessionaire uses an online reservation system to allow patrons to reserve tennis courts or sign-up for tennis instruction. One concessionaire accepts reservations for court rentals via phone call or text and does not keep a log of the reservations. The other concessionaire accepts reservations for court rentals via phone call and keeps a daily reservation log that notes the patron's name and the date and time of booking.

Benchmarking Tennis Concession Agreements

Internal Audit has surveyed benchmark cities in Southern California for their tennis concession agreements to compare court booking rates and the financial structure of agreements. The result of the survey shows that the court booking rates at these two facilities are lower than the four benchmarked cities. Detailed survey results are located at Appendix 2.

D. Objective, Scope and Methodology

The objective of the Tennis Concession Agreements Audit was to determine whether tennis concessionaires are in compliance with their concession agreements and whether the payments to the City are accurate, including review of their financial records and monthly reports submitted to the City.

The scope of this audit primarily covers the period from July 1, 2020 to June 30, 2021.²

In order to accomplish the audit objective, Internal Audit performed the following:

- Reviewed the facility use agreements at Fremont and Glorietta Tennis Courts.
- Interviewed CSP staff and concessionaires.
- Surveyed neighboring cities for court booking rates and concession agreement structure; selection of benchmark cities was based on the benchmark study included in the original agreements.
- Performed detailed testwork on financial records and monthly reports submitted from both concessionaires including:
 - Accuracy and completeness of recorded revenues;
 - Accuracy of the monthly facility use fee calculation;
 - Reasonableness and adequacy of expense supporting documentation;
 - Timeliness of payments transmitted to the City, and whether late charges, if applicable, were appropriately assessed.

As a result of these audit procedures performed, six observations were identified and are detailed in the Observations, Recommendations, and Management Responses Matrix beginning on the following page.

² Internal Audit also reviewed available detailed court reservation records and revenues for the Glorietta tennis facilities for October 2021.

E. Observations, Recommendations, & Management Responses Matrix

Ref	Observation	Recommendation	Management Response
1.	Revenues		
Priority 2	<p>Based upon inquiries and testwork performed on concessionaires' reservation roster and monthly remittance forms submitted, Internal Audit noted the following:</p> <ul style="list-style-type: none"> a. The City did not provide a sample roster of reservations that includes but is not limited to: name of patron, age, and city of residence. b. Sample review of the October 2021 roster for the one concessionaire showed that it did not agree with the reported gross receipts and it was not adequate to support reported revenues. c. The remittance form provided by the City to the concessionaires does not include updated revenue categories nor hourly rates. d. The FY 2021 remittance forms submitted by both concessionaires did not include the number of patrons nor the hourly rate collected per patron. Without this information, the accuracy of the reported revenues could not be verified. 	<p>CSP management perform the following:</p> <ul style="list-style-type: none"> a. Develop a reservation roster template that includes information required by the agreement to allow for accurate tracking and verifying of revenues. The concessionaires should be required to use the correct form. b. Update the revenue remittance form to include all current revenue categories and hourly rates; require that concessionaires use the correct form. c. Require the use of a reservation software that would allow for system reports for tracking patron information and revenues. Monitor the system reports to ensure that gross receipts are complete and accurate. 	<p>Agree and will implement by September 30, 2022.</p>

Ref	Observation	Recommendation	Management Response
2. Expenses			
Priority 2	<p>Based upon testwork performed on judgmentally selected samples of high-dollar expenses reported in FY 2021, Internal Audit noted the following:</p> <ul style="list-style-type: none"> a. One concessionaire was not able to provide support for any of the requested expenses. b. Two of the three expense receipts provided by the other concessionaire were not adequate to support the claimed expenses. 	<p>CSP management perform the following:</p> <ul style="list-style-type: none"> a. Require that concessionaires submit expense receipts on a monthly basis to the City for review. These could be for expenses above a City-approved threshold, and/or non-recurring. b. Require that concessionaires keep receipts of all expenses claimed for revenue sharing calculation. 	<p>Agree and will implement by September 30, 2022.</p>

Ref	Observation	Recommendation	Management Response
3. Records Retention			
Priority 2	<p>The agreements require that the concessionaires “must maintain, in original form, while the contract is in effect and for a period of four years after contract ends, all records, books, papers or documents that are related to the Facility Use Fee”. The Facility Use Fee includes a percentage of their net profit sharing with the City, which necessitates the City’s review of the concessionaires’ gross receipts and expenses. The agreements also require concessionaires to maintain a roster of reservations that would support their gross receipts.</p> <p>Upon inquiry, Internal Audit noted that one concessionaire was not able to produce a roster of reservations that supports the reported gross receipts. The other was only able to provide a roster of reservations for two most recent months.</p>	<p>CSP management enforce the contractual records retention terms with concessionaires.</p>	<p>Agree and will implement by September 30, 2022.</p>

Ref	Observation	Recommendation	Management Response
4. Court Booking and Instruction Rates			
Priority 3	<p>The concession agreements require that concessionaires set facility rental and other rates aligned to market rates. Internal Audit benchmarked tennis concessionaire agreements with nearby cities to compare court booking and private tennis instruction rates (see Appendix 2), and noted that:</p> <ul style="list-style-type: none"> a. The rates charged for booking tennis courts at these two facilities are relatively lower compared to facilities in nearby jurisdictions. b. The rates for private tennis instruction charged by concessionaires could not be verified, because the rates are not included on remittance forms and are not publicly available. c. The private tennis instruction fees included in the agreements and approved by the City have not been updated since 2015. One of the concessionaires verbally quoted a higher rate for private tennis instruction than what is documented in the agreement's fee schedule. 	<p>CSP management perform the following:</p> <ul style="list-style-type: none"> a. Complete and review the benchmarking study and determine whether any rates should be adjusted to market rates. b. Periodically survey similar tennis facilities to ensure that the tennis court reservation rates are aligned to market rates. c. Establish a policy to review rates periodically. d. Ensure that concessionaires communicate any proposed rate changes to the City for approval. e. Ensure that concessionaires publicly post all rates including for private instruction. 	<p>Agree and will implement by December 31, 2022.</p>

Ref	Observation	Recommendation	Management Response
5. Compliance with Sustainability Ordinance			
Priority 3	<p>On April 6, 2021, City Council adopted an ordinance prohibiting the use of polystyrene and single use plastics that extends to concessionaires hired by the City. The ordinance pertains to single-use, disposable products used for serving, consuming or transporting prepared food and/or beverages (with the exception of sealed, pre-packaged beverages).</p> <p>During a site visit, one concessionaire stated that polystyrene and/or single use plastic cups have been used to provide water to patrons/customers on premises.</p>	<p>CSP management incorporate the Sustainability Ordinance (Number 5964) requirements to its current and future tennis concessionaire agreements.</p>	<p>Agree and will implement by December 31, 2022.</p>

Ref	Observation	Recommendation	Management Response
6. Agreement Structure			
Priority 3	<p>The current tennis concession agreements stipulate that the concessionaires must pay a percentage of their operational net profit in addition to a monthly flat fee to the City for using the City facilities. Based upon a review of the FY 2021 net profit reported by both concessionaires, and interviews with concessionaires and CSP staff, Internal Audit noted the following:</p> <ul style="list-style-type: none"> a. For FY 2021, one of the concessionaires did not report any net profit. The other concessionaire reported an average of \$200 per month of net profit sharing. It appeared that the administrative costs to review concessionaire’s gross receipts and expenses outweigh the net profit sharing from concessionaires, especially without using a reservation software. b. None of the benchmark cities surveyed had a facility use fee structure that is based on a percentage share of concessionaire’s net profit. The benchmarked cities either had a flat fee structure, or a percentage share of gross receipts. 	<p>CSP management perform the following:</p> <ul style="list-style-type: none"> a. A cost benefit assessment to determine whether the monthly net profit sharing payments from concessionaires outweigh the administrative costs required to ensure accuracy of the calculation. b. Determine whether it is more beneficial to administer the tennis concessionaire agreements through a flat usage fee in order to reduce the administrative burden for both the City and the concessionaires. 	<p>Agree and will implement by December 31, 2022.</p>

Appendix 1: Definitions of Priority Rankings and Value-Added Categories

Definitions of Priority Rankings

The priority rankings are assigned by internal auditors based on their professional judgment. They are also agreed to by management based on their evaluation of the alignment with the strategic goals, priorities and available resources. A timeline has been established based on each priority ranking:

- a. **PRIORITY 1** - Critical control weakness that exposes the City to a high degree of combined risks. Priority 1 recommendations should be implemented within **3 months** from the first day of the month following report issuance or sooner if so directed.
- b. **PRIORITY 2** - Less than critical control weakness that exposes the City to a moderate degree of combined risks. Priority 2 recommendations should be implemented within **6 months** from the first day of the month following the report issuance or sooner if so directed.
- c. **PRIORITY 3** - Opportunity for good or better practice for improved efficiency or reduce exposure to combined risks. Priority 3 recommendations should be implemented within **9 months** from the first day of the month following the report issuance or sooner if so directed.

Definitions of Value-Added Categories

The four value-added impact categories are defined based on their impact from the audit recommendations:

- a. **COMPLIANCE** - adherence to laws, regulations, policies, procedures, contracts, or other requirements.
- b. **COST SAVING** - lower the costs related to conducting City business.
- c. **EFFICIENCY** - ability to avoid wasting resources (money or time) in achieving goals.
- d. **RISK REDUCTION** - lower the risks related to strategic, financial, operations and compliance.

Appendix 2: Benchmarking Tennis Concession Structures³

Services	Glorietta	Fremont	Los Angeles*	Costa Mesa	Fountain Valley	Burbank
Weekday Court Rental Rate (Non-Peak Hour)	\$4	\$5	\$8	\$12	\$9	\$19
Weekday Court Rental Rate (Peak Hour)	\$6	\$7	\$12	\$12	\$12	\$21
Weekend Court Rental Rate	\$6	\$7	\$12	\$12	same as weekday	\$19/\$21 (depends on time of day)
Senior Court Rental Rate	NA	NA	NA	NA	\$6/\$9 (depends on time of day)	\$10
Tennis Instructor/School/League Court Rental Rate	\$10	NA	\$15	NA	NA	NA
Individual Tennis Lesson Rate	\$60**	\$55**	NA	\$95	\$95	Private Lessons (have to contact coaches directly)
Number of Courts	4	8	12	12	10	10 Hard Courts 2 Har-Tru Clay Courts
Reservation System	Call to book	Call or Text to book	Web booking via WebTrac***	Call to book	Web booking via Agape Tennis Academy Site	Web booking via Kourts App
Facility Use Fee and/or Revenue Sharing Structure	\$1,000-\$1,200 monthly facility use fee and 10% of net profit	\$4,500 monthly fee and 15% of net profit	14% of gross receipts from tennis lessons, and 8% of gross receipts for pro shop sales, subject to \$40,000 (\$3,333 per month) minimum annual payment.	NA	Year 1 - \$5,000 monthly fee Year 2 - \$5,300 monthly fee Year 3 - \$5,500 monthly fee	\$2,500 monthly fee or 10% of gross receipts, whichever is greater. Plus \$500 per month for capital improvements reserves. Minimum monthly fee is adjusted for CPI increases annually, not to exceed 3%.

* Two locations at Griffith Park - Riverside Courts and Vermont Canyon Courts.

**The individual tennis lesson rates are per the proposed fee schedule from the original agreements.

*** Credit card payments are accepted by third party site, where customer is redirected for payment.

³ The benchmark cities were selected based on the Sample Fees for Tennis Court Usage in Various Southern California Cities included in the original agreements. Internal Audit reached out to five cities, but only four provided data. A couple of the cities are in the process of preparing an RFP.