

OFFICE OF THE CITY CONTROLLER



**PARKS AND RECREATION DEPARTMENT
OFFICE OF MARKETING AND SPECIAL EVENTS
AUDIT OF CITY'S CONTRIBUTION
TO THE HOUSTON INTERNATIONAL FESTIVAL**

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OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

May 17, 2001

The Honorable Lee P. Brown, Mayor
City of Houston, Texas

SUBJECT: Parks and Recreation Department
Office of Marketing and Special Events
Audit of City's Contribution to the Houston International Festival
(Report No. 00-38)

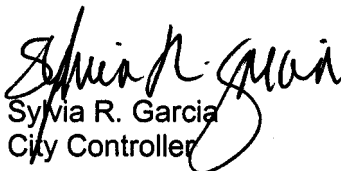
Dear Mayor Brown:

The Controller's Office has completed an audit of the City's Contribution to the 1999 Houston International Festival (Festival). Our audit consisted of examining the financial records that pertain to all public funds or services City Departments provided to the Houston Festival Foundation (Foundation). In addition, we reviewed various elements of the Foundation regarding personnel, travel and other elements for the period of July 1, 1998 through June 30, 2000.

Our report, attached for your review, noted that the City of Houston provided \$252,000 quantifiable in-kind services to the Festival and that departmental cost data is inconsistent and not all-inclusive. In addition, we noted the City and Foundation were not following several provisions of the Ordinance for the Festival. The findings, recommendations and management's responses are presented in the body of the report.

The auditor-in-charge of the audit was Carolyn Y. Armstead and the audit manager was Ken Teer. We appreciate the cooperation extended to our auditors by Department and Foundation personnel during the course of the review and commend the Department for taking actions to address the issues noted in our report.

Respectfully submitted,


Sylvia R. Garcia
City Controller

xc: City Council Members
Albert Haines, Chief Administrative Officer
Philip Scheps, Director, Finance and Administration Department
Oliver B. Spellman, Jr., Director, Parks and Recreation Department
Susan Christian, Deputy Director, Parks and Recreation Department
Steve Ferguson, Chairman, Houston Festival Foundation, Inc.
James W. Austin, President & COO, Houston Festival Foundation, Inc.

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EXECUTIVE SUMMARY

- The City of Houston (City) provided \$252,000 of quantifiable in-kind services to the 1999 Houston International Festival (Festival), which is \$56,000 more than the amount compiled by the Office of Marketing and Special Events (Special Events).
- The electricity the City provided to the Festival was not metered. Therefore the value of the electricity was not quantifiable. We also noted inconsistencies among the departments in determining the cost of in-kind services. For example, some departments included both straight time and overtime while others did not. Further, Special Events excluded some of its own cost when reporting the City's cost related to the Festival. The departmental cost data is inconsistent and not all-inclusive.
- The City and the Foundation are not following several provisions of the Ordinance, because Parks and Recreation Department (Parks) management considers the Ordinance to be archaic and difficult or impossible to enforce. We understand that in December 2000, Park's management presented the City's Legal Department with a draft of a new Special Events Ordinance. We encourage Park's management to continue efforts to pursue a new ordinance. However, until City Council approves a new ordinance, Park's management should work closely with the City's Legal Department to ensure that the staging of the Festival complies with applicable City Ordinances.

SCOPE AND PURPOSE

We have completed an audit of the City's contribution to the Festival. The objective of our financial related audit is to determine the value of the City's 1999 contribution to the Houston Festival Foundation, Inc. (Foundation), the non-profit organizer of the Festival. Our audit focused on financial records of the City that pertained to public funds and services. Our scope did not include an economic impact study. In addition, we reviewed various elements of the Foundation such as personnel and travel related to the Festival.

The audit consisted principally of reviewing responses to a questionnaire we provided to all City Departments, inquiries of department personnel, analyzing financial data and examining supporting documentation, as we deemed necessary.

CONCLUSION

The City provided \$252,000 of quantifiable in-kind services to the 1999 Festival, which is \$56,000 more than the amount compiled by Special Events. Additional significant in-kind services not quantified by us are electricity cost, which is not quantifiable because it has never been metered, and City management costs, which have never been estimated.

Carolyn Y. Armstead
Auditor-In-Charge

Ken Teer
Audit Manager

Steve Schoonover
City Auditor

INTRODUCTION

The Festival is the only special event or festival that is established by City Ordinance (Chapter 12, Article III, Sections 12-81 through 12-97). The ordinance provides that the Foundation has the general responsibility for planning, financing and executing the Festival. The ordinance also provides that the Festival will be an event which generally involves activities such as the commissioning and sale of arts and crafts; the commissioning and presentation of dramatic, musical, theatric and other similar types of performances and entertainment; displays and exhibits concerning historical or cultural matters; and the sale of food and beverages. Since 1988, the Foundation has annually spotlighted a different country or region during the Festival. For thirteen consecutive years the Festival's Education Program has featured the Teacher's Curriculum Guide. The 200-page guide is distributed to 12,000 teachers in more than 27 school districts, reaching as many as 300,000 students.

The Foundation is supported primarily through corporate sponsorships and in-kind services from the City of Houston as provided by City Ordinance. Also, some City Departments waive or discount user fees. Special Events, a division of Parks is the City's official festival coordinator of the event. Special Events estimated the cost of the 1999 and 2000 Festivals to be \$196,000 and \$200,000, respectively.

FINDINGS, RECOMMENDATIONS AND DEPARTMENT RESPONSES

I. COST OF SERVICES

BACKGROUND	Although not required by ordinance, Special Events has compiled the cost of in-kind services provided by the City to the Festival since 1994.
FINDING	The value of the total in-kind service costs for the 1999 Festival, as compiled and reported by Special Events, was \$196,000. Through inquiries of department personnel and examination of supporting documentation from City departments, we quantified that the City provided \$252,000 of in-kind services to the Foundation for the 1999 Festival. The difference of \$56,000 was because Special Events did not include cost data for several departments and it omitted cost data for another division in Parks and Recreation.
RECOMMENDATION	We recommend that Special Events request, verify and include all cost data from each City department to determine the City's contribution of in-kind services to the Foundation for the Festival.
DEPARTMENT RESPONSE	<p>The department agrees to work with city departments to determine quantifiable measures and report them consistently.</p> <p>Throughout the history of the Houston International Festival Ordinance, the City's Festival Coordinator made various</p>

attempts to track the city's in-kind contribution to this event even though the ordinance did not require such an accounting. Prior to the Office of Marketing and Special Events assuming this role in 1994, the annual in-kind services was estimated to be over \$500,000.

Absent any guidelines in the ordinance, the Office of Marketing and Special Events determined that the most important costs to track were personnel overtime costs during the operation of the event and hard costs for materials and supplies because this was the most universal information tracked by all departments.

One of the inconsistencies in tracking personnel costs is that all departments, except for the Fire Department, report overtime excluding benefits. In addition, we did not include personnel costs for the Health Department because they have always been reimbursed through temporary health permit fees. Also, we did not report personnel costs relative to the Municipal Channel because we did not request their services. Further, it is important to note that we did not report straight time because we have always considered this to be part of the normal daily responsibilities of the respective departments.

While we have consistently requested hard costs relative to supplies and materials, some departments include soft costs for equipment usage. Equipment usage reporting needs to be reevaluated and a consistent method of measurement used by all departments. The two largest departments involved in the event, Fire and Police, do not even report this cost. We will meet with the other departments to develop consistent methods of reporting for each category.

II. INCONSISTENCY IN ESTIMATING AND REPORTING COSTS

BACKGROUND

City departments estimate the cost of in-kind services they provide to the Festival and report the cost to Special Events. Departments providing services to the Festival use personnel and/or, supplies and equipment.

FINDING

We examined documentation supporting the cost data for the 1999 Festival, and we noted inconsistencies among the departments in determining the cost of in-kind services. For example, some departments included both straight time and overtime while others did not. Further, the City did not meter electricity cost, and Special Events excluded some of its own cost when reporting the City's cost related to the Festival. The departmental cost data is inconsistent and not all-inclusive.

RECOMMENDATION The method of estimating cost should include all costs, such as personnel costs (including labor burden), services, electricity, supplies and equipment, not just incremental cost. We further recommend that Special Events verify and include all cost data from each City department to determine the City's contribution of in-kind services to the Foundation for the Festival.

DEPARTMENT RESPONSE We somewhat agree with the recommendation. We will work with other departments to develop consistent tracking and reporting mechanisms on costs that are reasonably identifiable.

As we stated above, this department was generally consistent in the information requested of the other departments. Upon review of this audit, however, we will meet with our sister departments to determine how costs will be measured and reported in all targeted areas. Costs pertaining to electrical usage are not readily attainable to our knowledge in any department. In order to determine costs the City would need to install meters and monitor them relative to the electrical cost for each event. None of the events or facility rentals, public or private, permitted by this department are charged for electrical usage. Further, we are not aware of any city department that charges for electrical usage in conjunction with the rental of their facilities.

III. CITY EMPLOYEE TRAVEL

BACKGROUND Executive Order 1-28, Administrative Procedure Regarding Gifts, prohibits City employees from receiving any gift (benefit) including travel, unless the City reimburses the donor the value of the gift. As part of a sponsorship agreement, the Foundation receives travel vouchers from an airline sponsor.

FINDING In March 1999, the Foundation provided to a Special Events employee one of their travel vouchers for airfare to view the exhibit of the country selected for the 2000 Festival. We understand that the City paid for lodging and meals. The Department properly requested and received approval from the City's Chief Administrative Officer for the employee to travel internationally. The Department did not however, either reimburse the donor or obtain a wavier from the Mayor to the Executive Order.

RECOMMENDATION We recommend that when any employee from the Department receives directly or indirectly any gift (benefit) as outlined in Executive Order 1-28, either the City reimburses the donor or the employee obtains an exemption to the Executive Order.

DEPARTMENT RESPONSE We were of the understanding that we were in compliance – according to this audit we were not. If it is so determined that

we should reimburse the airfare or obtain a waiver from the Mayor to the Executive Order we will do so. In the future we will make every attempt to comply.

IV. NON-COMPLIANCE WITH ORDINANCE PROVISIONS

BACKGROUND

The Houston International Festival is governed by Chapter 12, Article III, Section 12-81 through 12-97 of the City's Code of Ordinances (the Ordinance), and it is the only event or festival specifically authorized and governed by City Ordinance.

FINDING

City management is responsible for following and enforcing City Ordinances.

The City and the Foundation are not following several provisions of the Ordinance, because Park's management considers the Ordinance to be archaic and difficult or impossible to enforce. We noted that for example the deadline for submitting the Foundation's audited financial report was not met.

RECOMMENDATION

We understand that in December 2000, Park's management presented the City's Legal Department with a draft of a new Special Events Ordinance. We encourage Park's management to continue efforts to pursue a new ordinance. However, until City Council approves a new ordinance, Park's management should work closely with the City's Legal Department to ensure that the staging of the Festival complies with applicable City Ordinances.

DEPARTMENT RESPONSE

We generally agree with the recommendations. While there are provisions of the festival ordinance that are inconsistent with current city ordinances, Park's management abides by the most current city code.

The deadline date for the festival to submit its audited financial statement was impossible to meet because the date was prior to the end of the Foundation's fiscal year.

At the request of Parks Management, in April of 2001 City Council rescinded the Houston International Festival Ordinance. We are utilizing the Park's Department's existing ordinance, as well as various city codes to manage our special events and permitting operations.

Additionally, we are working closely with the City Legal Department to develop our special events ordinance.