



21-05

INTERNAL AUDIT REPORT

ASM Global Management Agreement

October 2022

City of Sioux Falls Internal Audit Department
Carnegie Town Hall | 235 West 10th Street
Sioux Falls, SD 57117-7402
siouxfalls.org/council/internal-audit



Contents

- Contents.....2
- Introduction.....3
- Background3
- Objective3
- Scope.....3
- Methodology.....4
- Results4
 - Account Requirements4
 - Budget Requirements.....5
 - Reporting Requirements.....5
 - Insurance Requirements.....7
- Opportunity for Improvement7
- Conclusion7
- Authorization8
- Audit Standards8
- Statement of Independence.....8
- Distribution of Report8
- Performed By.....8

Introduction

The City Council authorized this audit as part of the 2020 Annual Audit Program. This is the first internal audit of the facilities management agreement between the City of Sioux Falls (City) and ASM Global (ASM). The purpose of this audit was to evaluate ASM's compliance of Agreement 17-4229 with the City.

Background

ASM Global is a venue management company that operates in over 350 stadiums, arenas, convention centers, and theaters worldwide. The services they provide include venue operations, asset management, content and programming, marketing, and safety. ASM provides revenue optimization and cost management, helping drive the financial performance of the City's venues. They also bring experience and knowledge of best practices from operating venues across the globe.

The City owns the Sioux Falls Arena, the Sioux Falls Convention Center, the Orpheum Theater, the Denny Sanford Premier Center, and the Sioux Falls Baseball Stadium. On November 12th, 2017, ASM entered into an agreement with the City to provide management services for these facilities on the terms and conditions set forth in the agreement. Services provided began on January 1st, 2018 and the term of the agreement will conclude on December 31st, 2022. The City has the option to extend the agreement for an additional five-year term, at its sole discretion. On June 14th, 2019, the City and ASM amended the agreement to remove the Orpheum Theater from the list of venues. Effective July 1st, 2019, management services provided to the Orpheum Theater were contracted with Washington Pavilion Management, Inc.

Objective

- 1 Determine if ASM Global is compliant with the major requirements of the Facilities Management Agreement 17-4229.

Scope

The scope of this audit included a review of the terms of Agreement 17-4229, effective January 1, 2018 through December 31, 2022, and internal controls as they are currently in place. Any detailed testing of transactions and reports included those that occurred during the calendar year of 2019.

Methodology

To complete this audit, we performed the following steps:

- Interviewed ASM management and staff.
- Interviewed City staff involved in the contract monitoring process.
- Documented and evaluated current management contract monitoring.
- Reviewed established City of Sioux Falls ordinances.
- Reviewed written policies and procedures over ASM's management and monitoring processes.
- Reviewed the 2019 External Audit performed by Eide Bailly.
- Reviewed items in Munis and Tyler Content Management (TCM).

Results

Account Requirements

The agreement requires ASM to maintain a bank account designated by the City for the operation and promotion of the City's venues. Operating revenues must be deposited into this operating account, and operating expenses of each respective venue must be paid from the operating account. All funds in the operating account are the property of the City and held in trust by ASM. ASM is not allowed to use any additional bank accounts in operating the facilities with respect to services provided in accordance with the agreement, with the exception of the event account described below. We reviewed bank statements of ASM's operating account from 2019 and verified they use this bank account for recording operating revenues and expenses.

ASM must also establish and maintain an interest-bearing bank account for all ticket sales and similar event revenues with respect to an event being held at one of the facilities. Event revenues are held to provide a source of funds for payments to performers, promoters, and other event expenses. At the completion of each event, ASM will transfer the event account into the operating account; all amounts to be paid to performers, promoters, and other expenses will be paid from the operating account. We also reviewed bank statements of the event account from 2019 and verified ASM holds event revenues here and transfers them to the operating account at the conclusion of the event.

During testing, we identified a third bank account which held funds for pre-opening and grand opening activities. ASM was required to provide these funds as part of the original agreement. The current

agreement does not address this bank account or how the funds in it should be utilized. **See opportunity for improvement below.**

Budget Requirements

The agreement states that ASM will provide the City a proposed operating budget each year on an individual and combined basis with respect to the facilities. Each budget must contain appropriate line items for operating revenues, operating expenses, and the projected operating income (loss) in the format set forth in Exhibit B of the agreement. Each proposed budget is subject to the City's review, adjustment, and ultimate approval. The 2019 budget was presented to the City on July 24th, 2018, and included a short narrative providing explanations of certain budget items. This budget was in the format set forth in Exhibit B and satisfies the annual operating budget requirements listed in the agreement.

The City is obligated to pay for capital improvements and capital equipment, and these are not included in operating expenses. ASM is required to make recommendations for capital improvements and capital equipment purchases to be made during the following year and four subsequent years; this is in accordance with the City's five-year capital improvement planning process. We reviewed ASM's five-year capital improvement and equipment budget and verified through the various Munis accounts that the City does pay for them. At the start of the agreement, ASM was also required to provide a \$500,000 contribution to be used at the City's discretion for capital improvement projects. We verified through the journal entry that the \$500,000 was wired to the City on December 22nd, 2017.

Reporting Requirements

In accordance with the agreement, ASM has to keep separate and full accounting records relating to its operations with respect to each venue. To satisfy this requirement, ASM provides the City with monthly reports that shows the accounting records of each venue separately, as well as a combined total of all facilities. These reports include a statement of net assets, variance analysis, statement of revenues, expenses, and changes in net assets, rolling forecasts, consolidated projections, and comparisons to the budget and the prior year. These reports are consistent with ASM's requirement of keeping separate and full accounting records for the facilities.

ASM has to provide the City an annual management plan with respect to all activities performed by ASM, if requested by the City. This plan must include information regarding ASM's anticipated operations, planned equipment and facilities maintenance activities,

anticipated events, and anticipated marketing, advertising, and promotional plans. The annual plan is subject to the City's review, adjustment, and ultimate approval. Although the City does not specifically request a management plan, we verified with the City that ASM does provide an annual budget, monthly financials, an annual marketing plan, a year-in-review report, and an annual survey review. Furthermore, many discussions on strategy and operational plans occur in the monthly meetings between ASM and the City. While there is no formal management plan submitted by ASM, all of the required information is provided to the City throughout the year.

The agreement requires ASM to maintain an operations manual that is up-to-date, and they are to provide a copy to the City upon request. We received a copy of the operations manual from the City's Finance department that was reviewed and updated in March 2020; ASM is in compliance with this requirement.

Another requirement of ASM is to deliver to the City a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows accompanied by an auditor's report of an independent certified public accountant by May 31st each year. The 2019 audit was conducted and issued on May 8th, 2020 by Eide Bailly. The audit report contains an opinion expressed by the auditor as to the fair presentation of the financial statements prepared by ASM. In addition to a base fee ASM receives for services provided, they can also receive additional incentive fees for performing well during the year. These incentive fees are payable to ASM after the City's acceptance of the annual audit report. For 2019 operations, these incentive fees were calculated and paid to ASM on July 14th, 2020.

By the 25th day of each month, ASM is to provide to the City a written monthly report detailing anticipated activities for the upcoming month and reporting on the prior month's activities and finances. In addition, the reports include operating revenues and expenses for the month compared to the same month of the previous year, for the year-to-date compared to the year-to-date of the previous year, and for the month- and year-to-date compared to the operating budget. Finally, the reports provide explanations for material variances between the budget and actual results. We reviewed the reports from 2019 and verified with Finance that ASM provides them by the 25th of each month.

Insurance Requirements

ASM is required to keep in full force and effect during the agreement terms the following insurance policies:

- Commercial general liability
- Liquor liability
- Automobile bodily injury and property damage
- Professional liability
- Workers' compensation
- Umbrella liability
- Fidelity bond

ASM is to be the named insurer for all insurance policies, with the City being named additional insured. We reviewed the certificates of insurance ASM has provided to the City and determined they are all active and in effect, with the correct amounts listed for each type of insurance.

Opportunity for Improvement

1

We recommend the City include in future agreements language specifying the proper restrictions and usage of the third bank account. We also recommend the City's post-contract management process include steps to ensure all bank accounts are properly closed and funds are transferred since this specific bank account is not addressed in the most recent agreement.

Management's Response: *"There is no need to maintain the separate account that was originally set up for pre-opening and grand opening expenses. Finance will instruct ASM Global to close the account and transfer the funds into the primary Operating Account. Since the other two accounts are contemplated in the existing and proposed agreement (starting 2023), no additional modifications to the management agreement are proposed related to this issue."*

Date of expected implementation: Already implemented.

Conclusion

The City has engaged with ASM to provide management services for the Sioux Falls Convention Center, the Sioux Falls Arena, the Denny Sanford PREMIER Center, and the Sioux Falls Baseball Stadium. Based on our review and testing, we can provide reasonable assurance the City and ASM have various procedures in place to ensure and maintain compliance with the requirements of Agreement 17-4229. The recommendation we made will help ensure the pre-opening and grand opening funds ASM provided will remain accounted for. We would like to thank everyone from the City and ASM for their cooperation and assistance provided during the audit.

Authorization

The Sioux Falls City Council approved this audit by resolution as a carryover audit on the 2022 Annual Audit Plan. The Internal Audit Division operates under the authority of Sections 32.010 through 32.025 of the Sioux Falls Code of Ordinances.

Audit Standards

This audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors.

Statement of Independence

Internal Audit is administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Internal Audit Manager is accountable to an Audit Committee appointed by the City Council per Section 32.022 of the Code of Ordinances of Sioux Falls, SD.

Distribution of Report

This report is intended for the information and use of the Mayor and City Council, management, and others within the City of Sioux Falls. However, the report is a matter of public record and its distribution is not limited.

Performed By

Shana Nelson & Ryan Lauseng