

State of Rhode Island and Providence Plantations

Department of Administration  
BUREAU OF AUDITS  
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April 29, 2016

Mr. James P. McCarvill  
Executive Director  
Rhode Island Convention Center Authority  
One Sabin Street  
Providence, RI 02903

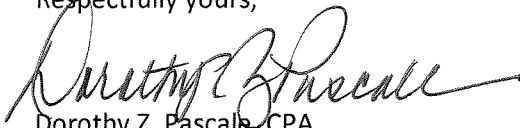
Dear Director McCarvill:

The Bureau of Audits has completed its performance audit of the Rhode Island Convention Center Authority. This limited Scope audit concentrated on the contracts that the Authority has in place with vendors for the management of the Rhode Island Convention Center and the Dunkin Donuts Center. The audit was conducted in accordance with Rhode Island General Law (RIGL) §35-7-3. The recommendations included herein have been discussed with members of management, and we considered their comments in the preparation of this report.

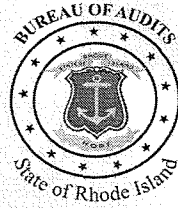
RIGL §35-7-3(b), entitled *Audits performed by bureau of audits*, states that, "Within twenty (20) days following the date of issuance of the final audit report, the head of the department, agency or private entity audited shall respond in writing to each recommendation made in the final audit report." Accordingly, management submitted its response to the audit findings and recommendations on April 13 2016, and such response is included in this report. Pursuant to this statute, the Bureau may follow up regarding recommendations included in this report within one year following the date of issuance.

We would like to express our sincere appreciation to the staff of the Rhode Island Convention Center Authority for the cooperation and courtesy extended to the members of our team during the course of this audit.

Respectfully yours,

  
Dorothy Z. Pascalle, CPA  
Chief

c—Michael DiBiase, Director, Department of Administration  
Honorable Daniel DaPonte, Chairperson, Senate Finance Committee  
Honorable Raymond Gallison, Chairperson, House Finance Committee  
Dennis Hoyle, CPA, Auditor General



## AUDIT Executive Summary

### Why the Bureau Did This Review

Rhode Island General Law §42-155-7, Audit of quasi-public corporations, requires the Bureau of Audits to conduct a performance audit of all quasi-public corporations once every five years. The Bureau of Audits established an initial five-year schedule; this limited scope performance audit of the Rhode Island Convention Center Authority was performed in compliance with the statute and the established schedule.

### Background Information

The Rhode Island Convention Center Authority (RICCA) is a quasi-public organization established by the General Assembly. RICCA is responsible for the operation of the Rhode Island Convention Center (RICC), Dunkin' Donuts Center (DDC), Veterans Memorial Auditorium (The Vets), and two parking garages

### THE BUREAU OF AUDITS RECOMMENDS:

- Competitively bid third-party contracts.
- Monitor third party sales figures.
- Increase use of Ticketmaster system.

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## Introduction

The Rhode Island Convention Center Authority (RICCA) is a quasi-public organization established by the General Assembly. RICCA operates the Rhode Island Convention Center (RICC), Dunkin' Donuts Center (DDC), Veterans Memorial Auditorium (The Vets), and two parking garages. RICCA describes its mission as:

*“To construct, manage and operate facilities used to house conventions, trade shows, exhibitions, meetings, banquets, concerts, sporting events, family shows and other events, as well as facilities which are related thereto such as parking lots, garages, office buildings, including incidental retail facilities located thereon. To generate positive growth in the surrounding community and the State of Rhode Island and serve as a positive influence on the quality of life in Rhode Island”.*

## Recommendations for Improved Controls and Management Responses

### Competitively Bid Third-Party Contracts and Reduce Term of Agreement

The contract between the Rhode Island Convention Center Authority and SMG was executed and extended for a 13-year period, not expiring until June 30, 2025. The length of this contract exceeds those commonplace in the industry in which an Authority operates (typically three-year terms).

The potential exists for SMG to underperform its respective duties while contracted for longer terms, causing the Authority and its affiliates (Dunkin' Donuts Center and Rhode Island Convention Center) to incur poor financial results.

#### **Recommendation:**

1. RICCA should implement procedures to periodically evaluate its contracts with third-party vendors, and to consider soliciting bids from other companies for terms more in line with industry standards.

#### **Management's Response:**

*The Authority has solicited bids for management of its facilities in 1992, 1997, 2002, 2005 and 2010. The process has drawn some competitive responses however, SMG has been selected in each case by the Authority. The contract of 2010 was amended to expire in June 2012 and renewed for a term expiring June 30, 2025. The extension was part of an overall initiative to provide stability to the management teams, reduce fees and generate capital infusion from the operators, SMG and Sportservice. A review of the fees paid in recent years shows a 15% - 28% reduction in fees paid to SMG. The extension also provides for a \$750,000*

capital investment from SMG to be spent on mutually agreed upon improvements to the Convention Center and \$750,000 capital investment by Sportservice at the Dunkin' Donuts Center.

*The other compelling factor in the extensions (including Sportservice) was the relationship between our primary tenant, the Providence Bruins and Delaware North Companies and the Boston Bruins. At the time of these discussions three things were happening. Sportservice concession agreement at the Dunkin' Donuts Center was nearing its end, the Player Development Agreement between the Boston Bruins and the Providence Bruins was expiring and the AHL was studying realignment of divisions (creation of a Western division.) Delaware North is the parent company of the Boston Bruins and the parent company of Sportservice. The Player Development Agreement and Concession Agreement were a package deal. It seemed likely or at least possible that if Sportservice did not retain concession rights in 2012 that the affiliation would follow them out the door to another facility that was due to lose its team to the West Coast. (Worcester and Manchester have since lost their teams). To avoid this and in view of the professional job being done by Sportservice, not to mention the Providence Bruins whose sales and marketing efforts have been extraordinary, the Authority chose to renew with both Sportservice and SMG to promote a harmonious work environment and have everyone's efforts focused on great service, new business opportunities and operational excellence rather than a contentious renewal process.*

### **Shorten Contract Term**

*It has been noted that the long term agreement at the Rhode Island Convention Center contains little in the way of incentive for the operator and the length reduces worry about contract retention. The current Board has recognized this and has plans to renegotiate the agreement to a shorter term with a lower fixed fee that does however provide meaningful financial incentives for extraordinary performance.*

*The Authority realizes that a 15 year contract is atypical and is exploring ways to negotiate a new agreement with a shorter contract term.*

**Responsible Party:** - Executive Director

**Estimated Completion date:** - 12/15/2016

## **Review Sportservice Information**

A “Daily Revenue Report” containing the food and beverage sales figures for a given event is provided to the Dunkin’ Donuts Center by Sportservice. DDC staff represented that currently there is no process in place to ensure that the sales figures reported by Sportservice are in agreement with source documents. Per discussion with Sportservice staff, source documents exist and are maintained in their internal department.

Prior to July 2014, the former Director of Facilities performed periodic audits of Sportservice reports. This process was not delegated to another individual after the Director’s retirement in July 2014.

The potential exists for Sportservice to provide inaccurate sales figures that will not be detected by RICCA. As these figures are used in the final settlement with Sportservice, it is possible that RICCA resources could be inappropriately allocated.

### **Recommendation:**

2. Implement review procedures to agree Sportservice sales figures with underlying supporting documentation.

### **Management’s Response:**

*In response to the Bureau of Audit’s observation regarding Sportservice procedures will be implemented by SMG to ensure agreement with underlying supporting documentation.*

- *Concession amounts will be traced to supporting signed off/approved Pre Event Stand Sheets and later to Post Event Stand Sheets and further to the Sales Summary Reports.*
- *An analysis will be completed to ensure that proper calculations are being applied to all concession categories that vary according to our contract.*
- *An internal analysis and routine monthly procedures will indicate whether per capita and other financial information is consistent with historical results.*
- *The most current fiscal year end certified revenue statement will be requested from Sportservice and reviewed by the Director of Finance.*
- *A member of the SMG finance department has been assigned to spot check supporting documentation for our transactions with Sportservice.*

**Responsible Party:** - SMG, RICCA, Executive Director

**Estimated Completion date:** Current – Progress report by June 15<sup>th</sup> on the effectiveness of new procedures

## Use Ticketmaster System for all Event Ticket Sales

The Dunkin' Donuts Center utilizes Ticketmaster to sell and record all ticket sales, regardless of distribution channel (i.e., internet, box office or retail outlet). At the Rhode Island Convention Center, Ticketmaster is not used in certain instances, and manual tickets are used instead.

Ticketmaster has not been set up at the Rhode Island Convention Center Box Office, resulting in ticket sales that are tracked manually by SMG.

Since Ticketmaster is used by the Rhode Island Convention Center in some instances, it is necessary to generate both Ticketmaster and internal reports in order to ascertain the total number of tickets sold for a given event. As such, inefficiencies may exist due to the use of a separate, manual ticket tracking system. In addition, the potential for errors exist when reports are manually prepared.

### **Recommendation:**

3. All tickets should be sold and recorded through the Ticket master system.

### **Management's Response:**

- *The Ticketmaster services system at the RI Convention Center is installed, has full capabilities and is used whenever possible subject to agreement of the tenant.*
- *It is up to the promoter of an event and for some events like the Home Show, Auto Show, Boat Show and where the norm in the industry is roll tickets and advance sales or reserved seating is not called for, promoters and producers are reluctant to take on the costs associated with the Ticketmaster system. Recently however, the Flower Show and Comic Con were added to Ticketmaster. Other opportunities will be pursued as well.*

**Responsible Party:** - Larry Lepore, SMG General Manager

**Estimated Completion date:** - Ticketmaster is in place, will review progress regarding tenant preference.

## Objective and Scope

The Bureau of Audits conducted a limited scope performance audit of the Rhode Island Convention Center Authority. The purpose of this Limited scope performance audit was to assess the effectiveness of contract oversight.

## Methodology

As part of our audit work, we gained an understanding of the contracts for operations that are in place with SMG, Sportservice and other service providers. To address our audit objective, we performed the following for each contract entered into by RICCA:

- Reviewed applicable contract and amendments.
- Documented key provisions in the contracts and tested for compliance.
- Performed detailed testing on samples of transactions.

The Bureau used an external audit firm, LGC&D LLP, to supplement its staff during the performance of this audit. LGC&D performed the detailed audit work and was selected using a competitive bidding process.





April 13, 2016

Ms. Dorothy Z. Pascale, CPA  
Department of Administration  
Bureau of Audits  
One Capitol Hill  
Providence, RI 02908-5889

Dear Ms. Pascale;

The Rhode Island Convention Center Authority has reviewed your audit findings and would like to take this opportunity to respond. We have inserted Management's Response following each Recommendation. Our responses are intended to demonstrate an understanding of each issue brought forth and to indicate our plans to proactively address the concerns raised in the audit.

The Rhode Island Convention Center Authority would like to express our appreciation for the courteous and professional manner in which the audit was conducted. I would further like to commend you and Mr. Sprague for your oversight throughout the process.

Sincerely

A handwritten signature in cursive script, appearing to read "James P. McCarvill".

James P. McCarvill  
Executive Director

Cc: Bernie Buonanno, Chairman  
Jeff Hirsh, Treasurer