

**City of San Diego**

**AUDIT REPORT**

***AUDIT OF THE  
SAN DIEGO CONVENTION  
CENTER CORPORATION***

***July 29, 2009***

**Office of the City Auditor  
Eduardo Luna, CIA, CGFM, City Auditor**

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THE CITY OF SAN DIEGO

July 29, 2009

Honorable Mayor, City Council, and Audit Committee Members  
City of San Diego, California

Enclosed is the Agreed Upon Procedures Audit Report of the San Diego Convention Center Corporation (SDCCC) conducted by Mayer Hoffman McCann P.C.. The report contains 11 recommendations for improving SDCCC's governance and compliance with the non-profit Standards of Excellence. The report incorporates SDCCC's comments and responses to the audit recommendations.

We would like to thank the SDCCC staff for their assistance and cooperation during this audit.

Respectfully submitted,

Eduardo Luna  
City Auditor

cc: Carol C. Wallace, President and CEO, SDCCC  
Jay M. Goldstone, Chief Operating Officer  
Mary Lewis, Chief Financial Officer  
Jan Goldsmith, City Attorney  
Andrea Tevlin, Independent Budget Analyst  
Stanley Keller, Independent Oversight Monitor



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**SAN DIEGO CONVENTION CENTER**

Agreed-Upon Procedures Report Applied in  
Accordance with the Standards for Excellence

Year Ended June 30, 2008

# SAN DIEGO CONVENTION CENTER

## Agreed-Upon Procedures Report Applied in Accordance with the Standards for Excellence

Year Ended June 30, 2008

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**INDEPENDENT ACCOUNTANTS' REPORT ON  
AGREED-UPON PROCEDURES APPLIED IN ACCORDANCE  
WITH THE STANDARDS FOR EXCELLENCE**

We have performed the procedures enumerated below, which were agreed to by the City of San Diego (City), solely to assist the City in evaluating the San Diego Convention Center's compliance with the "Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector" published by the Standards for Excellence Institute. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the *American Institute of Certified Public Accountants*. The procedures described below were agreed to by the as set forth in our proposal dated December 2, 2008. The sufficiency of these procedures is solely the responsibility of the users specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

**EXECUTIVE SUMMARY**

We found that the San Diego Convention Center Corporation (the Corporation) generally followed the "Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector" that is published by the Standards for Excellence Institute. For thirty-one of the forty-two standards our testing identified no recommendations for consideration by management. Recommendations resulting from the performance of our procedures (described in further detail in the "findings and recommendations" section of our report) were as follows:

1. We recommended that the Board of Directors formally review the Corporation's mission statement at least every 5 years to evaluate whether it needs to be amended to reflect societal or program changes.
2. We recommended that staff prepare an analysis of the percentages of the Corporation's resources that are spent on program and administration to the Board during the budget review process to ensure that the Board members are fully aware of how the resources of the Corporation are being allocated between these two areas.
3. We recommended that the Corporation amend its bylaws to reflect the two-term limit for its Board members to be in consistent with the City of San Diego's policy.

## SAN DIEGO CONVENTION CENTER

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(Continued)

4. We recommended that the Corporation closely monitor which positions are required to have ethics training and ensure that each of these employees are current on their training at all times. When a staff or board member must miss the training provided in-house, the Corporation should make other arrangements for that individual to acquire that training through other means such as a self-study.
5. We recommended that the Corporation either amend its bylaws or develop a written policy that outlines the Corporation's expectations on attendance and participation at board meetings. The amended bylaws or policy should include a process to address noncompliance. In addition we recommended that that management develop a policy of board member expectations to assist in the fulfillment of their responsibilities and duties.
6. We recommended that written minutes be prepared and maintained for all Board Committee meetings just as they are currently being prepared for Board minutes.
7. We recommended that that the Board of Directors be provided with a copy of the current Employee Handbook to review and formally approve. In addition, any new or amended personnel policies should be submitted to the Board for approval prior to implementation.
8. We recommended that as part of the new hire orientation the Corporation distribute copies of the *Standards for Excellence* to all employees to demonstrate the culture of excellence that the Corporation strives for. For all existing employees, we recommended that the *Standards for Excellence* be provided through email or printed copies.
9. We recommended that the Corporation's fraud policy be provided to all employees on an annual basis. Each employee should sign a written statement acknowledging they have read and understand the Corporation's fraud policy. This will reaffirm to employees the importance the Corporation places on fraud and will serve to remind employees of the proper procedures to follow.
10. We recommend the SDCC document and implement a financial policy governing the use of the SDCC's unrestricted net assets. The policy should be approved by the SDCC's Board of Directors.
11. We recommend that the SDCC make the following available on its website: mission statement, most recent audited financial statements, and its most recent approved budget.



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### DESCRIPTION OF STANDARDS FOR EXCELLENCE

The "Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector" are published by the Standards for Excellence Institute. The Standards for Excellence Institute is a nonprofit organization whose purpose it is to establish such standards. These standards (which are enumerated in detail below) represent "best practice" in the administration of nonprofit organizations.

#### BACKGROUND

The San Diego Convention Center Corporation (Corporation) is a non-profit public benefit corporation created by the City of San Diego to manage, operate and market the 2.6 million square foot San Diego Convention Center (SDCC). The Corporation was created in 1984 as a 501(c) non-profit public benefit corporation and first opened in November 1989. It is governed by a seven-member Board of Directors appointed by the Mayor and City Council with an additional 2 non-voting members representing the Hotel-Motel Association and the San Diego Convention & Visitors Bureau. Currently the Corporation employs approximately 236 full-time employees and 325 part-time employees. The President & CEO is hired by the Board of Directors.

The Corporation has a non-profit subsidiary, San Diego Civic Theaters Inc., which manages the San Diego Civic Theatre and Balboa Theatre. The scope of procedures performed does not include testwork over the San Diego Civic Theaters Inc.

The San Diego Unified Port District, a public agency that administers all tidelands property along San Diego Bay, owns the property and building that the SDCC is built upon. The Port leases the building to the City of San Diego for \$1 per year.

During the fiscal year ended June 30, 2008, the SDCC accomplished the following:

- Attracted 996,226 attendees;
- Hosted 234 events;
- Reached a projected occupancy rate of 71.6 percent compared to the national average for similar size facilities of 44.4 percent;
- Convention attendees used 729,696 hotel rooms; and
- Generated \$31.9 million in total tax revenues.

The Standards for Excellence Institute issued "Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector" which provides non-profit Organizations with best practices encompassing the following 8 areas: mission and program; governing body; conflict

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of interest; human resources; financial and legal; fundraising, openness; and public affairs and policy.

#### OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our engagement was to assist the City in evaluating the San Diego Convention Center's compliance with the "Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector" that are published by the Standards for Excellence Institute. Our scope and methodology are described in detail in this report where for each of the Standards for Excellence we described the procedures performed and the results of those procedures.

We conducted our engagement in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our engagement to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence so obtained was sufficient to provide a reasonable basis for our findings and conclusions based on our audit objectives.

The procedures performed and the results of those procedures were as follows:

#### MISSION AND PROGRAM

##### Standard #1

The Organization's purpose, as defined and approved by the Board of Directors, should be formally and specifically stated. The Organization's activities should be consistent with its stated purpose.

##### Procedures

We obtained the SDCC's mission statement and verified the following:

- The mission statement was approved by the Board of Directors.
- The mission statement included a formally and specifically stated purpose.
- The stated purpose in the mission statement was consistent with the SDCC's activities.

##### Results

The SDCC's mission statement was approved unanimously by the Board of Directors at a public meeting held on October 10, 1985. The mission statement is as follows:

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"The San Diego Convention Center is designed and constructed to encourage and promote economic growth and enhancement in the San Diego area. The Center should serve as the keystone of private and public assembly events providing:

- Positive identity to the San Diego area as a nucleus for conventions, trade shows and the visitor industry
- A profound financial benefit for the entire community"

We reviewed the SDCC's annual report prepared for the fiscal year ended June 30, 2008 to determine if the SDCC's operations appear to be aligned with its mission statement. The annual report provided information about the positive economic impact the Corporation had on the San Diego region during the fiscal year ended June 30, 2008 through different forms of tax revenues, consumer spending and the impact it has had on job employment throughout the region.

According to its mission statement, the SDCC will serve conventions, trade shows and the visitor industry. Throughout the fiscal year ended June 30, 2008 there were a total of 234 events, of which 67 were conventions and trade shows, while the other 167 were consumer and community events.

No exceptions were noted as a result of our procedures performed.

#### **Standard #2**

A nonprofit should periodically revisit its mission (e.g. every 3 to 5 years) to determine if the need for its program continues to exist. The Organization should evaluate whether the mission needs to be modified to reflect societal changes, its current programs should be revised or discontinued, or new programs need to be developed.

#### **Procedures**

We inquired with management and reviewed Board minutes to determine when the SDCC's mission statement was last amended or reviewed by those charged with governance.

#### **Results**

Based on discussion with the President & CEO the mission statement of the SDCC has not been revised since it was first approved by the Board of Directors on October 10, 1985. It is the understanding of the President & CEO that the organizational purpose of the SDCC has not changed and there has not been a need to alter the mission statement due to the fact the Convention Center is still operating under the original mission.

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The President & CEO also noted that the Organization's mission statement is provided to the Board of Directors throughout the year in various situations and the members are familiar with the Mission that the SDCC is to operate under.

See finding and recommendation #1.

#### **Standard #3**

A nonprofit should have defined, cost-effective procedures for evaluating, both qualitatively and quantitatively, its programs and projects in relation to its mission. These procedures should address programmatic efficiency and effectiveness, the relationship of these impacts to the cost of achieving them, and the outcomes for program participants. Evaluations should include input from program participants.

#### Procedures

We inquired with management about the procedures in place to evaluate its program participants.

#### Results

Based on discussions with the General Manager; after the completion of an event at the SDCC an exit evaluation is mailed to the show manager. A letter is sent with the evaluation from the General Manager thanking the show manager for their business and explaining the importance of their feedback. The General Manager also provides his direct phone number in the letter as another way to facilitate feedback.

An exit evaluation is sent to the event manager after every event regardless of the event size. According to the General Manager, within the last couple of years responses to exit evaluations have declined and response rates are estimated at below 50%. He believes the declining response rate is due to the fact that the majorities of the SDCC events are repeat business and therefore show managers may not feel inclined to complete an exit evaluation year after year.

A face-to-face exit meeting is held between the show manager and the event manager from the SDCC after the completion of each event. Because feedback is given in person the show manager may not find it necessary to complete a written exit evaluation as well.

In 2009 the SDCC plans to implement a new online exit evaluation. It is the hope of the General Manager that by conducting the exit evaluation online, it will make completing the evaluation more convenient to show managers. The questions on the evaluation have been updated to facilitate more constructive feedback.

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No exceptions were noted as a result of our procedures performed.

#### **Standard #4**

Evaluations should be candid, be used to strengthen the effectiveness of the Organization and, when necessary used to make programmatic changes.

#### **Procedures**

We obtained a copy of the exit evaluation that was provided to program participants as of June 30, 2008. In addition, we inquired with management about the use of information obtained from the evaluations.

#### **Results**

We obtained a copy of the exit evaluation provided to all show managers as of June 30, 2008. It was noted that the evaluation sought feedback in the following areas:

- Sales
- Operations
- Centerplate
- The facility
- Hotels
- San Diego as a destination

Under each of the headings were more specific areas for the show manager to evaluate. The evaluation is set up for the show manager to evaluate the Convention Center's delivery for each of the areas listed above in relation to their expectations. The evaluation provides for three levels of measurement: exceeds, met, below (regarding expectations). At the end of the evaluation is a space for the show manager to complete any written comments they may have.

Based on discussions with the General Manager, Vice President of Human Resources, and the Executive Vice President of Sales & Marketing, client feedback is of the utmost importance to the SDCC. Every evaluation received is reviewed by several different levels of the Corporation staff. Any negative feedback received is addressed with the client directly. According to the General Manager, the most common form of negative feedback relates to the prices to hold an event at the SDCC, hotel costs and costs within the City as a whole.

No exceptions were noted as a result of our procedures performed.

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#### Standard #5

In providing its programs or services, a nonprofit should act with the utmost professionalism and treat persons served with respect. Where appropriate, a nonprofit should have policies in place that protect the confidentiality of personal information and should provide grievance procedures to address complaints. Nonprofits should regularly monitor the satisfaction of program participants.

#### Procedures

We performed the following procedures:

- Inquired with management about the existence of policies that address the protection of confidential information.
- Reviewed policy to note if grievance procedures to address complaints were included within the policy.
- Inquired with management about the existence of procedures to regularly monitor the satisfaction of program participants.

#### Results

We obtained a copy of corporate policy number 405 entitled, "Confidential and Proprietary Information" that was approved by the Board of Directors on April 25, 2008. Per review of the policy it was noted that the policy specifically identifies 16 different types of confidential and proprietary information that an employee of the SDCC may come in contact with during their employment, while also addressing the fact that all types of confidential information can not be identified.

The "Confidential and Proprietary Information" policy does not mention grievance procedures to address complaints. However, based on review of the SDCC Employee Handbook, unauthorized removal or distribution of corporate records or disclosure of confidential and proprietary information is considered a class "1" violation and serves as grounds for automatic termination. All employees are required to sign a form stating their acceptance and responsibility for the policies within the employee handbook. Any grievances would be addressed through either communication to an immediate supervisor, or through the SDCC's anonymous hotline.

See section on "Program Evaluation" above for testwork performed of the procedures in place by the SDCC to regularly monitor the satisfaction of program participants.

No exceptions were noted as a result of our procedures performed.

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#### GOVERNING BODY

##### Standard #6

The Board should engage in long-term and short-term planning activities as necessary to determine the mission of the Organization, to define specific goals and objectives related to the mission, and to evaluate the success of the Organization's programs toward achieving the mission.

##### Procedures

We performed the following procedures:

- Obtained and reviewed the Corporation's "Goals and Objective" for fiscal year 2009.
- Obtained and reviewed the SDCC mission statement.
- Reviewed Goals and Objectives for a relationship towards achieving the SDCC's mission.

##### Results

We obtained the Corporation's "Goals and Objective" for fiscal year 2009. Each goal and objective has a stated purpose, date expected to be accomplished, primary and support responsibility, fiscal/staffing impact, and the Board's committee assignments. They are separated into 4 categories based on their goal/objective. Below is an example of each goal/objective category.

- Fiscal Health

**Develop and supervise sales & marketing initiatives to ensure annual Center revenue goals and room night goals are achieved.**

Due Date: 6/30/09  
Primary Responsibility: Senior Vice President Sales  
Support Responsibility: Executive Vice President Sales and Marketing  
Fiscal/Staffing Impact: \$2,250,000 rental revenue produced for all future years; 800,000 room nights confirmed for all future years  
Board Com. Assignment: Sales & Marketing

- Expansion

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### **Develop Financial Feasibility for Phase 3 Expansion.**

Due Date: 6/30/09  
Primary Responsibility: President & CEO  
Support Responsibility: Vice President Finance  
Outside Contractor  
Fiscal/Staffing Impact: TBD  
Board Com. Assignment: Executive

- Organizational Excellence

### **Create and implement Department response plans to the 2008 Employee Opinion Survey**

Due Date: 6/30/09  
Primary Responsibility: Vice President Human Resources  
Support Responsibility: President & CEO  
General Manager  
Vice President Finance  
Senior Vice President Sales  
Executive Vice President Sales and Marketing  
Vice President Public Affairs  
Fiscal/Staffing Impact: Allocation of staff time  
Board Com. Assignment: OSP

- Strategic Communication

### **Develop and implement strategic alliance with Gaylord Hotels.**

Due Date: 6/30/09  
Primary Responsibility: President & CEO  
Executive Vice President Sales and Marketing  
Support Responsibility: Vice President Public Affairs  
Fiscal/Staffing Impact: Allocation of staff and Board time  
Board Com. Assignment: OSP

The SDCC mission statement is as follows:

*The San Diego Convention Center is designed and constructed to encourage and promote economic growth and enhancement in the San Diego area. The Center should serve as the keystone of private and public assembly events providing:*

- *Positive identity to the San Diego area as a nucleus for conventions, trade shows and the visitor industry*
- *A profound financial benefit for the entire community*



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The Corporation's "Goals and Objectives" make no direct reference to achieving the mission. The mission statement was adopted October 10, 1985 and has not been revised since then.

No exceptions were noted as a result of our procedures performed.

#### **Standard #7**

The Board should establish policies for the effective management of the Organization, including financial and where applicable, personnel policies.

#### **Procedures**

We performed the following procedures:

- Inquired about financial policies relevant to the management of the Organization.
- Obtained corporate policy for internal accounting controls and reviewed for applicable areas.

#### **Results**

We obtained Policy #111, "Internal Accounting Controls". According to the policy, its purpose is to *"Ensure the reliability of and adequacy of financial books and records of the San Diego Convention Center Corporation."*

We reviewed the policy for any procedures in place to report non compliance and noted; *"All control failures, of any type or dollar value, regarding this Corporate Policy are to be reported to the President and CEO so that deficiencies can be corrected and assurance of compliance with the purpose of this Corporate Policy maintained."*

We also found the following financial policies and procedures in place in addition to internal accounting controls:

- Policy # 107 Investment
- Policy # 109 Management of Capital Fixed Assets
- Policy # 301 Procurement
- Accounts Payable Procedures
- Bank Reconciliation Procedures
- Cash Handling Procedures
- Check Handling Procedures
- Payroll Procedures

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No exceptions were noted as a result of our procedures performed.

#### Standard #8

The Board annually should approve the Organization's budget and periodically should assess the Organization's financial performance in relation to the budget. As part of the annual budget process, the Board should review the percentages of the Organization's resources spent on program, administration and fundraising. The full Board should also approve the findings of the Organization's annual audit and management letter and plan to implement the recommendations of the management letter.

#### Procedures

We performed the following procedures:

- Reviewed Board minutes for approval of the fiscal year 2008 budget.
- Reviewed budget and budget memorandum for review of percentages of the Organization's resources spent on program, administration and fundraising.
- Requested findings of the Corporation's annual audit and management letter and any plans to implement the recommendations of the management letter.

#### Results

Per review of minutes, the Corporation's Board of Directors approved the budget on June 20, 2007 for the fiscal year 2008. We reviewed the budget and budget memorandum and found that it included a comparison of budget-to-forecast and budget-to-budget but did not include a review of percentages of resources spent on program, administration and fundraising. However, based on discussions with the President & CEO, the SDCC does not engage in fundraising activities.

We obtained the audited financial statements for the fiscal year ended June 30, 2008 performed by Macias Gini & O'Connell. The report was presented and accepted by the Board on December 5, 2008. Per review of report and communication with the Vice President of Finance, the fiscal year 2008 audit did not result in any management letter recommendations issued by the auditors.

See finding and recommendation #2.

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#### **Standard #9**

The full Board or some designated committee of the Board should hire the Executive Director, set the executive's compensation, and evaluate the Director's performance at least annually. In cases where a designated committee performs this responsibility, details should be reported to the full Board.

#### **Procedures**

We performed the following procedures:

- Obtained the payroll authorization form for the President & CEO and reviewed for proper Board approvals.
- Obtained the most recent performance evaluation for the President & CEO.
- Obtained evidence of communication between the compensation review committee and the Board of Directors.

#### **Results**

We obtained the payroll authorization form for the President & CEO and reviewed for proper Board approvals. We observed the form was signed by the Vice-Chair, and the Compensation Committee Chair.

We reviewed the most recent performance evaluation for fiscal year 2008. The evaluation was signed by the President & CEO, Compensation Committee Chair, and Board Chair.

We obtained the memorandum addressing the Corporation's Board of Directors from the Employee Compensation Review Committee. It included details of the evaluations performed. The President & CEO received a mean overall performance score of 3.65, a rating considered as exceeding performance in core responsibilities, special projects, and goals and objectives. Per the memorandum, this is the top rating category available. The designated committee recommended increasing her compensation for the period from July 1, 2007 to June 30, 2008 by 4%, which is the maximum pay increase a non-represented full time SDCC employee is eligible to receive.

No exceptions were noted as a result of our procedures performed.

#### **Standard #10**

The Board should periodically review the appropriateness of the overall compensation structure of the Organization.

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#### Procedures

We performed the following procedures:

- Inquired with management about the existence of procedures for the Board to review the compensation structure of the SDCC.
- Reviewed budget process for determining how the SDCC reviews the appropriateness of the overall compensation structure of the Organization.
- Obtained copies of all collective bargaining agreements that were in effect as of June 30, 2008.
- Randomly selected 25 employees for testing.
- Judgmentally selected 10 employees in senior level positions for testing.
- Agreed the authorized pay rates per the personnel files, to either the appropriate collective bargaining agreement or authorized pay rate scale.

#### Results

Based on inquires with management, the most recent Board review of the SDCC staff compensation occurred during the review and approval of the fiscal year 2009 budget. We obtained the budget memorandums addressed to the Board of Directors from the finance department. The Board reviewed the memo and line item budget attached that included information on salaries, wages, and benefits. It also included comparison of budget-to-budget and budget-to-forecast schedules.

Based on discussions with the Vice President of Human Resources, a compensation and benefits study was performed for the Corporation in June 2008. The survey conducted an analysis comparing the Corporation's compensation structure to that of other organizations within similar markets. The results of the survey helped form the effective pay rate scale for fiscal year 2009. This pay rates scale determines the minimum and maximum pay rate available for each job position that is not covered by a collective bargaining agreement. The pay rate scale and results of the compensation and benefit study were presented to the Board of Directors.

We obtained a copy of the results from the compensation and benefits study, along with the pay rate scale. We randomly selected 25 employees from the June 30, 2008 employee listing and judgmentally selected 10 senior level staff for testing.

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For each of the 35 employees selected, we obtained personnel files and agreed their approved pay rate as of June 30, 2008 to the amount listed on the pay rate scale based on their job title. For any employees that were covered by a collective bargaining agreement, we obtained that most recently approved agreement and ensured their authorized pay rate, per their personnel files, agreed to the amounts listed within the agreement.

No exceptions were noted as a result of our procedures performed.

#### **Standard #11**

The Board should be composed of individuals who are personally committed to the mission of the Organization and possess the specific skills needed to accomplish the mission.

#### Procedure

We obtained profiles of the Board of Directors and reviewed their backgrounds and qualifications.

#### Results

The members work in a variety of industries ranging from hospitality to the legal profession. Many of the Board members sit on other boards as well as advise and consult a variety of for profit and non-profit organizations. The Board Chair and Vice-Chair's backgrounds and qualifications are described below.

The Chair of the Board is the CEO and Co-Founder of Karl Strauss Brewing Company and has more than 20 years of experience in the craft brewing industry. In addition to the main Karl Strauss distributing brewery in Pacific Beach, the company also operates four high-volume brewery restaurants in the San Diego area. This Board member is active in the community and is involved with many other associations including the San Diego Taxpayers Association, San Diego Rotary Club 33, the California Small Brewers Association, and the California Restaurant Association.

Another Board member is an advertising and public relations executive with 30 years of experience in government and communications, whose company advises a diverse list of clients, including public utilities, labor unions, and non-profit corporations. This member also serves as Secretary-Treasurer of San Diego Theatres, Inc, manager of the San Diego Civic Theater and Balboa Theater and is the Chair of the San Diego LGBT Community Center.

No exceptions were noted as a result of our procedures performed.

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#### **Standard #12**

Where an employee of the Organization is a voting member of the Board, the circumstances must insure that the employee will not be in a position to exercise undue influence.

#### **Procedure**

We obtained a list of active employees as of June 30, 2008 and compared it to the list of members of the Board of Directors.

#### **Results**

Based on test work performed, no employees served as a voting member of the Board of Directors as of June 30, 2008.

No exceptions were noted as a result of our procedures performed.

#### **Standard #13**

The Board should have no fewer than five unrelated directors; seven or more directors are preferable.

#### **Procedure**

We obtained a list of the members of the Board of Directors as of June 30, 2008 and reviewed the number of voting and non-voting members represented on the Board.

#### **Results**

The Corporation's Board of Directors was comprised of seven voting members and two non-voting members as of June 30, 2008.

No exceptions were noted as a result of our procedures performed.

#### **Standard #14**

The Organization's bylaws should set forth term limits for the service of Board members.

#### **Procedure**

We obtained the Corporation's bylaws and reviewed them for term limits for the service of Board members.

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#### Results

Article III, section 3, subsection 1 of the Corporation's bylaws read, "Directors shall serve for a term of three years." The bylaws do not mention how many terms a Board member may serve.

Per discussion with the President & CEO, Board members may serve two terms of three years for a total of six years in accordance with the City of San Diego's policy. We obtained a copy of the City of San Diego Council policy #000-13 dated December 3, 1984 that states that any person appointed to the Board of a City agency may only serve a maximum of two terms.

See finding and recommendation #3.

#### Standard #15

Board membership should reflect the diversity of the communities served by the Organization.

#### Procedure

We obtained profiles of the Board of Directors and reviewed their qualifications.

#### Results

The Directors work in a variety of industries. The Secretary/Treasurer of the Board is a partner in a law firm and advises and litigates on behalf of companies and their boards. Another member has been recognized by the Los Angeles Korean American Chamber of Commerce as the 2004 Entrepreneur of the Year and received a Certificate of Congressional Commendation from the U.S. House of Representatives. In 2003, this same member received a Leadership Award from the Asian Business Association and was named Entrepreneur of the Year by Ernst Young in the Defense Business Category. Many of the Board members participate on other boards as well and advise and consult a variety of for and not-for-profit companies.

No exceptions were noted as a result of our procedures performed.

#### Standard #16

Board members should serve without compensation for their service as Board members. Board members may only be reimbursed for expenses directly related to carrying out their board service.

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(Continued)

#### Procedures

We performed the following procedures:

- Obtained and reviewed the general ledger detail of payments made to Board members during the fiscal year ended June 30, 2008.
- Reviewed payments and expenses for supporting documentation and reasonableness.

#### Results

Based on our review of general ledger detail of Board member compensation, the following expenses were paid to board members throughout the fiscal year ended June 30, 2008:

- |  |             |
|--|-------------|
| 1. Travel expense reimbursement for ASAE Chicago | \$ 2,119.75 |
| 2. Parking reimbursement                         | \$ 24.00    |
| 3. Travel expense reimbursement for ASAE Chicago | \$ 609.22   |
| 4. Travel expense reimbursement for ASAE Chicago | \$ 1,244.33 |

Board members appear to have only been reimbursed for expenses related to carrying out their board service. Although the Standards of Excellence recommend Board members only be reimbursed for expenses relating to Board service. Article III, section 13 of the Corporation's bylaws state, "The Board of Directors may establish directors' fees to be paid to directors attending meetings. The amount of such fee shall not exceed \$50.00 without the written approval of the City of San Diego."

No exceptions were noted as a result of our procedures performed.

#### Standard #17

The Board is responsible for its own operations, including the education, training and development of board members, periodic (i.e., at least every two years) evaluation of its own performance, and where appropriate, the selection of new board members.



## SAN DIEGO CONVENTION CENTER

### Agreed-Upon Procedures Report Applied in Accordance with the Standards for Excellence

(Continued)

#### Procedures

We performed the following procedures:

- Inquired with management about any education requirements for board members.
- Obtained documentation of ethics training for all board members.
- Inquired as to how new board members are elected.

#### Results

We obtained documentation of ethics training for the Board of Directors and noted that all of the Board members had participated in ethics training on February 23, 2007.

Based on review of the Corporation's Bylaws all senior staff employees considered to hold a designated position is required to attend the same ethics training as the Board. The following staff members participated in ethics training on February 23, 2007.

- Purchasing Manager - Procurement
- Vice President Finance
- General Manager
- Vice President Public Affairs
- General Counsel
- Vice President Human Resources
- President & CEO

The following staff member did not attend the training on February 23, 2007 and was therefore not current with her required ethics training as of June 30, 2008:

- Executive Vice President of Sales & Marketing

We obtained the Corporation's bylaws and reviewed for the procedure for selection of new Board members. Article II, section 1 of the bylaws state:

"The City of San Diego will be the sole member of this corporation and shall act through its City Council in accordance with the City Charter, the City's municipal code and applicable State laws. The function of the member shall be to elect the Board of Directors and to perform such other duties as the Board of Directors may from time to time assign or establish with the prior approval of the member."

See finding and recommendation #4

## SAN DIEGO CONVENTION CENTER

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#### **Standard #18**

The Board should establish stated expectations for board members, including expectations for participation in fundraising activities, committee service, and programs activities.

#### Procedure

We obtained the Corporation's bylaws and policies and reviewed for stated expectations for participation in the following:

- i. Fundraising Activities
- ii. Committee Service
- iii. Programs Activities

#### Results

Per discussion with the President & CEO, and review of the 2008 fiscal year audited financial statements, the SDCC does not engage in fundraising activities.

Based on the nature of the operations performed by the SDCC, the main programs offered would be the convention services provided. The Board is involved in the programs of the SDCC through various activities throughout the year. Board members attend events held at the SDCC and other events within the City of San Diego as representatives of the Convention Center.

In 2008 the Board of Directors, along with the President & CEO attended the ASAE (American Society of Association Executives) annual conference held in Chicago. This was an opportunity for the Board to interact with other organizations similar to the Corporation and represent the City of San Diego to thousands of people. At this convention the Board members were able to market the City of San Diego and the SDCC as a destination for future conventions.

As of June 30, 2008 there are 9 committees that operate under the governance of the Board. A listing of those committees is as follows:

- Audit
- Budget
- Executive
- Outreach & Strategic Planning (OSP)
- Sales & Marketing
- Compensation
- Pension
- San Diego Theaters, Inc. Board
- Convis

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Each committee is comprised of various numbers of Board members and at least one staff representative.

No exceptions were noted as a result of our procedures performed.

#### **Standard #19**

The Board should meet as frequently as is needed to fully and adequately conduct the business of the Organization. At a minimum the Board should meet 4 times a year.

#### **Procedures**

We obtained and reviewed all minutes for Board of Directors meetings that took place during the fiscal year ended June 30, 2008.

#### **Results:**

We obtained Board minutes from August 17, 2007 to June 27, 2008. The Board of Directors met 11 times for the fiscal year; of which 4 were special meetings and 7 were regular meetings. Based on review of minutes it appears as though the Board exceeded the minimum recommendation of 4 times a year.

No exceptions were noted as a result of our procedures performed.

#### **Standard #20**

The Organization should have written policies that address the attendance and participation of Board members at Board meetings. These policies should include a process to address noncompliance.

#### **Procedures**

We performed the following procedures:

- Obtained the bylaws of the Corporation.
- Reviewed the bylaws for written policies that address attendance and participation at Board meetings.
- Tested the attendance of Board members based on Board minutes for the fiscal year ended June 30, 2008 to the most recent Board minutes available, April 17, 2009.

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#### Results

We obtained the Corporation's bylaws and noted that they addressed holding regular meetings; however, it was not specific as to how often meetings should be held. The bylaws did provide instructions for how Board meetings should be conducted, such as notice for a meeting and what defines a quorum. However, the bylaws did not specifically address attendance and participation requirements of Board members. A process to address noncompliance of member attendance and participation was not addressed within the bylaws.

We reviewed member attendance from Board minutes from August 17, 2007 to June 27, 2008. Based on the testwork performed, 3 Board members were absent at least 25% of the time. We noted one member was absent 3 of the 11 meetings, a second member was absent 5 of the 11 meetings and a third was absent 4 of the 11 meetings.

See finding and recommendation #5.

#### Standard #21

Written meeting minutes reflecting the actions of the Board, including reports of Board committees when acting in the place of the Board, should be maintained and distributed to the board and committee members.

#### Procedures

We performed the following procedures:

- We obtained and reviewed Board meeting minutes from August 17, 2007 through June 27, 2008.
- We reviewed the Corporation's bylaws and reviewed the policy concerning Board minutes.
- We inquired about the current procedures for maintaining minutes for all committee meetings.

#### Results

Article IV, section 9 of the Corporation's bylaws states:

"The Secretary shall keep, or cause to be kept, a book of minutes at the principal office or such other place as the Board of Directors may order of all meetings of directors and members, with the time and place of holding, whether regular or special, and if special, how authorized, the number of directors present or represented at directors' meetings,

## SAN DIEGO CONVENTION CENTER

### Agreed-Upon Procedures Report Applied in Accordance with the Standards for Excellence

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the notice given thereof, the names of those present at directors' meeting and the proceedings thereof."

We reviewed the minutes and found that they included: the time and place of the meeting; the type of meeting whether regular or special; directors present and absent and a description of the proceedings reflecting the actions of the Board, including reports of Board committees.

Based on inquires with management, minutes are only maintained for Board meetings and not for committee meetings.

See recommendation #6.

### CONFLICT OF INTEREST

#### Standard #22

Nonprofits should have a written conflict of interest policy. The policy should be applicable to all Board members and staff and to volunteers who have significant independent decision making authority regarding the resources of the Organization. The policy should identify the types of conduct or transactions that raise conflict of interest concerns and should set forth procedures for disclosure of actual or potential conflicts and should provide for review of individual transactions by the uninvolved members of the board of directors.

#### Procedures

We performed the following procedures:

- Obtained a copy of the written conflict of interest policy.
- Reviewed the policy for the following items:
  - To what employees and Board members the policy applies
  - Identifies types of conduct or transactions that raise conflict of interest concerns
  - Procedures for disclosure of actual or potential conflicts
  - Provide for review of individual transaction by the uninvolved members of the Board of Directors.

## SAN DIEGO CONVENTION CENTER

### Agreed-Upon Procedures Report Applied in Accordance with the Standards for Excellence

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#### Results

We obtained a copy of the Corporation's written conflict of interest policy that was approved by the City Council of the City of San Diego on December 15, 2006. The policy was amended on July 25, 2008 in compliance with Government Code Section 87305.5 that requires a biannual review and update of local conflict of interest codes.

Based on review of an amended policy dated July 25, 2008, it was noted that the changes to the policy were: revise the titles of existing positions; include new positions which must be designated; delete the titles of those positions that have been abolished and revise disclosure categories.

According to the conflict of interest policy, as amended on July 25, 2008, the following designated positions are required to disclose economic interests:

- Officer of Member of Board of Directors
- Ex-Officio Member of Board of Directors
- President and Chief Executive Officer
- Executive Vice President, Sales and Marketing
- Senior Vice President, Sales and Marketing
- Vice President, Finance
- General Manager
- Vice President, Human Resources/Labor Relations
- Vice President, Public Affairs
- Procurement Manager
- President and Chief Executive Officer – San Diego Theaters, Inc.
- Consultants

The policy divides types of reportable conditions or conflicts into four different categories that include:

- Investment and business positions
- Income and gifts
- Interest in real property

The fourth category handles reportable conditions relating to consultants of the Corporation.

According to the policy, all designated positions (as defined above) and Board members, must file statements of economic interests with the Clerk of the City of San Diego. Consultants must file their statements with the corporation's General Counsel, who is responsible for forwarding the original statements to the Clerk of the City of San Diego. Although the standard suggests the conflict of interest policy should be applicable to employees, it was determined that the Corporation has appropriately limited the policy to designated positions.

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(Continued)

The conflict of interest policy requires disclosure of economic interests for all Board members, including those members who do not have voting power.

No exceptions were noted as a result of our procedures performed.

#### **Standard #23**

Nonprofits should provide Board members, staff, and volunteers with conflict of interest statements that summarize the key elements of the Organization's conflict of interest policy. The conflict of interest statement should provide space for the Board member, employee or volunteer to disclose any known interest that the individual, or a member of the individual's immediate family, has in any business entity which transacts business with the Organization. The statement should be provided to and signed by Board members, staff and volunteers both at the time of the individual's initial affiliation with the Organization and at least annually thereafter.

#### **Procedures**

We obtained a copy of the conflict of interest policy that is provided to the Board members, staff and volunteers. In addition, we obtained and reviewed the California Form 700 that were submitted during fiscal year 2008 for all the Board of Directors and designated positions.

#### **Results**

We obtained copy of the Corporation's policy amended on July 25, 2008 that is provided to all Board members, designated positions and consultants.

Based on discussion with management and review of the nature of their operations, as of June 30, 2008 there were no volunteers of the SDCC.

We obtained a listing of all Board members (voting and non-voting) and employees in designated positions as of June 30, 2008. For all individuals who fell into these 2 categories, we reviewed copies of their completed Form 700, which discloses any reportable economic interests. Based on our review of the conflict of interest policy and discussion with management, the original Form 700's are maintained with the Clerk of the City of San Diego. We viewed copies that were maintained by the SDCC.

No exceptions were noted as a result of our procedures performed.

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#### HUMAN RESOURCES

##### Standard #24

A nonprofit should have written personnel policies and procedures, approved by the Board of directors, governing the work and actions of all employees and volunteers of the Organization. In addition to covering basic elements of the employment relationship (e.g. working conditions, employee benefits, vacation and sick leave), the policies should address employee evaluation, supervision, hiring and firing, grievance procedures, employee growth and development, confidentiality of employee, and client and Organization records and information.

##### Procedures

We performed the following procedures:

- Obtained a copy of the most recently revised Employee Handbook.
- Obtained evidence for the Board of Director's approval of the Employee Handbook.
- Reviewed the handbook to ensure that it addressed the following areas:
  - Working conditions
  - Employee benefits
  - Vacation and sick leave
  - Employee evaluation
  - Supervision
  - Hiring and firing
  - Grievance procedures
  - Employee growth and development
  - Confidentiality of employee, client and organization records

##### Results

We obtained a copy of the Corporation Employee Handbook that was revised in January 2009. Based on discussions with the Vice President of Human Resources, revisions to the Employee Handbook are not approved by the Board of Directors. However, all personnel policies are reviewed by senior staff and approved by the President & CEO.

According to the Vice President of Human Resources, changes are made to the personnel policies within the Employee Handbook throughout the year. If the policy change is considered minor a notification of the change is not sent out to the employees until there are a couple more



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changes to send out all at once. Examples of a minor change include spelling or grammar corrections, or anything that does not substantively change the policy.

If the policy change is considered significant, a notification of the change is sent to all employees immediately. For example, recently a change was made to the accrual of paid time off. The senior staff and President & CEO determined this policy change to be significant and notified all employees of the change right away.

In 2008 the SDCC introduced UltiPro, an intranet website, which publishes employee related documents, such as the employee handbook. All changes to the employee handbook, both minor and substantive are updated on the website which is accessible to all employees through the UltiPro homepage.

We reviewed the Employee Handbook for policies and procedures relating to the following areas:

- Working conditions
- Employee benefits
- Vacation and sick leave
- Employee evaluation
- Supervision
- Hiring and firing
- Grievance procedures
- Employee growth and development
- Confidentiality of employee, client and organization records

See finding and recommendation #7.

### **Standard #25**

With respect to volunteers, the Organization's policies and procedures should also address initial assessment or screening, assignment to and training for appropriate work responsibilities, ongoing supervision and evaluation and opportunities for advancement.

### **Procedure**

We inquired with management if the SDCC utilized volunteers during the fiscal year ended June 30, 2008.

## SAN DIEGO CONVENTION CENTER

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(Continued)

#### Results

Based on inquiry with the SDCC's President & CEO, the SDCC does not utilize volunteers because management feels volunteers are not necessary due to the operational structure and services performed by the SDCC. As a result, this standard is not applicable to the SDCC.

No exceptions were noted as a result of our procedures performed.

#### Standard #26

A nonprofit should have written job descriptions for each employee that clearly identifies roles and responsibilities.

#### Procedures

We performed the following procedures:

- Obtained a listing of all SDCC employees as of June 30, 2008.
- Randomly selected 25 employees for testing.
- Judgmentally selected 10 employees in senior level positions for testing.
- Obtained the job description for all 35 selected employees.
- Reviewed the description to ensure that the roles and responsibilities were clearly identified for each position.
- Inquired with management about any job descriptions that do not appear appropriate for the job title or did not clearly identify the role and responsibility of that position.

#### Results

We obtained a listing of all 565 SDCC employees as of June 30, 2008. From that listing, 25 employees were randomly selected and 10 employees in senior level position were judgmentally selected for testing.

Job descriptions were obtained from the Vice President of Human Resources for all 35 selected employees. We reviewed the job descriptions to determine if the roles and responsibilities for each position were clearly identified.

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Based on review of the 35 job descriptions, it appears that the selected descriptions clearly identify the roles and responsibilities for each particular position.

No exceptions were noted as a result of our procedures performed.

#### **Standard #27**

Organizations should have a system in place for regular written evaluation of employees by their respective supervisors, which should take place at least annually.

#### **Procedures**

We performed the following procedures:

- Inquired with management about the established procedures for performing written evaluations for employees.
- Obtained a listing of all SDCC employees as of June 30, 2008.
- Randomly selected 25 employees for testing.
- Judgmentally selected 10 employees in senior level positions for testing.
- Reviewed evidence of annual evaluations performed by the employee's supervisor.
- For any employees that did not have an annual evaluation performed, inquired with management about the reason for why one was not prepared.

#### **Results**

Based on discussions with the Vice President of Human Resources, annual evaluations are prepared for all employees whose compensation increases are based on merit pay. For those employees whose compensation is merit based, evaluations are required to be performed on an annual basis by their immediate supervisor. For all non-senior level positions, evaluations are to be performed annually on the anniversary of their hire date. All senior level employees have evaluations performed on an annual basis due by August 1<sup>st</sup>.

Beginning in 2008, the SDCC implemented a new software system, UltiPro, which allows human resource documentation to now be available online. Employees are able to log onto this intranet site and access documents they may need. This new software also allows performance evaluations to be now prepared online.

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The Vice President of Human Resources is able to log onto UltiPro and view all completed evaluations. The site also alerts him to future evaluation deadlines. This function allows him to be able to contact employees' immediate supervisor and remind them to complete an evaluation.

For the 35 employees selected for testing, 16 of those employees' compensation is merit based. We viewed each employee's most recently completed evaluation over the intranet site, with the assistance of the Vice President of Human Resources for the 16 employees required to have evaluations performed. When reviewing each evaluation, we noted the date the evaluation was prepared to ensure each evaluation was being prepared on a timely basis.

No exceptions were noted as a result of our procedures performed.

#### **Standard #28**

New employees of the Organization should receive an orientation, which includes review of the Organization's personnel policies and procedures, position description, and an introduction to the Standards for Excellence. Employees should be provided with a copy of the personnel policies and these Standards and should acknowledge the receipt in writing.

#### **Procedures**

We performed the following procedures:

- Inquired with management about the type of new hire orientation that is provided to employees, including how often this orientation is performed and which employment positions are required to attend this orientation.
- Obtained a listing of all SDCC employees as of June 30, 2008.
- Randomly selected 25 employees for testing.
- Judgmentally selected 10 employees in senior level positions for testing.
- Obtained evidence of a completed new hire orientation for all selected employees.

#### **Results**

Based on discussions with the Vice President of Human Resources all employees, regardless of their position, are required to attend a new hire orientation called "The Spirit of San Diego". This training is instructed by an employee of the Human Resources department and is conducted as often as necessary, depending on how often employees are hired.

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The following is a brief list of topics discussed during the new employee orientation:

- Purpose of the Corporation
- History of the SDCC
- Organizational chart of key employees and listing of Board members
- Team vision and values
- Safety guidelines
- Map of the property
- Personnel policies and guidelines
- Introduction to the HR UltiPro intranet site

According to the Vice President of Human Resources, this orientation is generic to all SDCC employees and serves as an introduction to the Corporation. Certain employment positions may require additional specialized training after the completion of "The Spirit of San Diego" orientation.

At this training, each new employee is presented with the Corporation Employee Handbook. As described above, the employee handbook addresses personnel policies and procedures. At the completion of the training, the employee signs a document stating that they have received the employee handbook and are responsible for all of the policies listed within. This signed document is placed in the employees' personnel file.

Based on inquires with the Vice President of Human Resources, the employee signed copy of the receipt of the Employee Handbook serves as evidence for completion of "The Spirit of San Diego" orientation. Attendance rosters are maintained as well to serve as documentation for completion of the training; however, certificates of completion are not maintained within the personnel files.

We obtained the personnel files for the 35 employees selected for testing and reviewed each file for signed evidence of receipt and understanding of the employee handbook.

Based on inquires with management, the SDCC is not currently providing new or existing employees with copies of the *Standards for Excellence*.

See finding and recommendation #8.

### FINANCIAL AND LEGAL

#### Standard #29

A nonprofit should operate in accordance with an annual budget that has been approved by the Board of Directors.

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### Agreed-Upon Procedures Report Applied in Accordance with the Standards for Excellence

(Continued)

#### Procedures

We performed the following procedures:

- Obtained a copy of the SDCC's 2008 budget for the fiscal year ended June 30, 2008
- Obtained evidence of Board approval for the annual budget.
- Inquired with management about the ways the Board monitors the operations of the SDCC in relation to the budget throughout the year.
- Obtained evidence to verify that the Board monitors the operating budget throughout the year.

#### Results

We obtained a copy of the operating budget for the fiscal year ended June 30, 2008 that was approved by the Board of Directors on June 29, 2007.

Per review of Board minutes from August 17, 2007 through June 28, 2009 we noted that budget-to-actual reports for revenues and expenses were presented to the Board on a monthly basis as part of the monthly financial reporting package. These reports compare budgeted amounts to actual amounts for both revenues and expenditures on a monthly and year-to-date comparison.

We viewed the monthly internal financial reports prepared for the 2008 fiscal year and noted budget to actual schedules were presented each month. It was also noted that for any significant variances in either the revenues or expenditures, explanations were provided by the Vice President of Finance.

No exceptions were noted as a result of our procedures performed.

#### Standard #30

A nonprofit should create and maintain financial reports on a timely basis that accurately reflects the financial activity of the Organization. Internal financial statements should be prepared no less frequently than quarterly, should be provided to the Board of Directors and should identify and explain any material variation between actual and budgeted revenue and expenses.

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#### Procedures

We performed the following procedures:

- Inquired with management about the type of financial reports that are maintained by the SDCC throughout the year.
- Reviewed minutes for Board meetings from July 1, 2007 through April 17, 2009 and noted how often the internal financial statements are prepared and presented to the Board.
- Reviewed all internal financial reports that were prepared during fiscal year 2008 and determined if material variations between actual and budgeted revenues and expenses are explained.

#### Results

Based on discussion with the Vice President of Finance, financial statements and analytical reviews are prepared by the accounting department on a monthly basis.

According to the President & CEO, the Corporation prepares financial reporting packages that are presented to the Board at each meeting. The financial reporting package is sent to all Board members prior to the meeting. This allows the members time to review the reports in advance and to come to the meetings prepared with any questions they may have. Included in the monthly financial report is a summary statement of revenue and expenditures. This report shows budget to actual comparisons for the month and the year to date. Explanations for material variations between actual and budgeted revenues and expenses are provided in the financial report package.

According to the President & CEO, herself and the Vice President of Finance attend all Board meetings and are able to address any questions the members may raise relating to the monthly reports.

We reviewed all financial reporting packages that were presented to the Board during the 2008 fiscal year. Based on our review, financial statements were presented to the Board for the following months:

- August 2007
- September 2007
- October 2007
- December 2007
- February 2008
- April 2008

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(Continued)

- May 2008

During the 2008 fiscal year the Board met 7 times. Based on our review of Board minutes and review of financial reporting packages presented to the Board, we noted financial statements were presented to the Board at every meeting. Based on discussions with the Vice President of Finance and President & CEO, for the months in which a Board meeting did not occur, financial statements were sent to each member.

Although financial reporting packages were prepared and presented to the Board for 7 months throughout the year, internal financial statements were prepared for all 12 months during the 2008 fiscal year.

No exceptions were noted as a result of our procedures performed.

#### **Standard #31**

For nonprofits with annual revenue in excess of \$300,000, the accuracy of the financial reports should be audited by a Certified Public Accountant.

#### **Procedures**

We obtained a copy of the Corporation's audited financial statements for the fiscal year ended June 30, 2008.

#### **Results**

We obtained a copy the Corporation's financial statements for the fiscal year ended June 30, 2008. The financial statements were audited by Macias Gini & O'Connell LLP, an independent CPA firm, who issued an unqualified opinion dated November 13, 2008.

No exceptions were noted as a result of our procedures performed.

#### **Standard #32**

Organizations should provide employees a confidential means to report suspected financial impropriety or misuse of Organization resources and should have in place a policy prohibiting retaliation against persons reporting improprieties.



## SAN DIEGO CONVENTION CENTER

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#### Procedures

We performed the following procedures:

- Inquired with management about the procedures an employee would take to report suspected financial impropriety.
- Inquired with management about the existence of a policy prohibiting retaliation against persons reporting improprieties.
- Judgmentally selected 3 SDCC employees for interviews.
- Inquired with the selected employees about the procedures they would take to report any fraudulent activities.

#### Results

We reviewed a copy of the Corporation's fraud policy dated December 2008 and noted that the policy provides a hotline phone number and email address of the audit committee chair for an employee to contact should they become aware of any instances to report. Based on inquiry with the Vice President of Human Resources, he is responsible for managing the fraud hotline phone number.

Also noted within the policy, all instances reported by an employee are to be kept anonymous and without any retribution.

We inquired with 3 SDCC employees about the procedures they would take if they had any suspect of fraud or misuse of organizational resources. 2 of the employees interviewed said they would alert either the Vice President or Director of their department depending on who was suspected. The third employee interviewed held a Director position. This employee stated they would go directly to the President & CEO if they suspected any fraudulent activities taking place at the SDCC. In addition, we asked each of the 3 employees whether they were aware of a hotline or other means to anonymously report fraudulent activities. None of the 3 employees asked were aware of a fraud hotline.

We called the hotline number referred in the corporate policy as described above and noted that the number had been disconnected.

See finding and recommendation #9.

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#### **Standard #33**

Organizations should have written financial policies adequate for the size and complexity of their Organization governing: (a) investment of the assets of the Organization (b) internal control procedures, (c) purchasing practices, and (d) unrestricted current net assets.

#### **Procedures**

We performed the following procedures:

- Inquired with management about the different types of written financial policies that have been adopted by the SDCC as of June 30, 2008.
- Obtained and reviewed copies of written financial policies and note if there was such policies in existence for the following areas:
  - Investment of the assets of the SDCC
  - Internal control procedures
  - Purchasing practices
  - Unrestricted current net assets

#### **Results**

We inquired with the Vice President of Finance about financial policies that govern the operations of the finance department as of June 30, 2008. We obtained copies of the following policies and noted the date that they were approved by the Board of Directors.

- Investment Policy #107 approved on October 26, 2007
- Procurement Policy #301 approved on May 28, 2004
- Management of Capital Fixed Assets and Leasehold Improvements Policy # 109 approved on October 26, 2007
- Internal Accounting Controls #111 approved on April 25, 2008

See finding and recommendation #10.

#### **Standard #34**

Nonprofits must be aware of and comply with all applicable Federal, state and local laws. This may include, but is not limited to, the following: complying with laws and regulations related to fundraising, licensing, financial accountability, document retention and destruction, human resources, lobbying and political advocacy and taxation.

## SAN DIEGO CONVENTION CENTER

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#### Procedure

We inquired with management about the procedures in place to ensure the SDCC is complying with all applicable Federal, state and local laws.

#### Results

As of June 30, 2008 the Corporation employed a full-time General Counsel who was responsible for ensuring the SDCC complied with all necessary Federal, state and local laws. As a licensed attorney, the General Counsel has a background in non-profit and corporate law. In order to maintain her license, the General Counsel is responsible for taking continuing education classes annually, to stay current on any new legal issues that might affect the SDCC.

The General Counsel is responsible for reviewing all corporate policies to ensure that they comply with the law. Based on conversations with the General Counsel, all corporate policies are reviewed at least twice a year and recommendations are made to the Board about any changes that should be made. We reviewed the Board minutes for fiscal year 2008 and noted three different times where the General Counsel presented recommended changes to the corporate policies.

The General Counsel is consulted on all public records request to ensure the SDCC is complying with all of the appropriate legal issues that surround each request. The General Counsel is consulted on issues that arise from the union contracts. The General Counsel will advise the senior staff of any training (specific to their department) that may be beneficial.

No exceptions were noted as a result of our procedures performed.

#### **Standard #35**

Organizations should periodically assess the need for insurance coverage in light of the nature and extent of the Organization's activities and its financial capacity. A decision to forgo general liability insurance coverage of Directors and Officers liability insurance coverage shall only be made by the board of directors and shall be reflected in the minutes for the meetings at which the decision was made.

#### Procedures

We inquired with management about the different types of insurance coverage that covers the SDCC. In addition, we reviewed Board minutes to ensure that action was properly approved by the Board if the Corporation elected to forgo Directors and Officers liability insurance coverage.

## SAN DIEGO CONVENTION CENTER

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#### Results

We obtained copies of the Corporation's general liability insurance certificates that cover the period of 5/1/08-5/1/09. Based on our review of these certificates we noted that included in this policy are the following types of insurance:

- General liability coverage
- Automobile liability coverage
- Excess liability umbrella coverage
- Employer's liability coverage for executive officers

The Corporation's insurance coverage is renewed on an annual basis. At this time the Corporation's management will determine what types of coverage are necessary. The General Counsel is consulted during the process to ensure the Corporation is complying with all necessary legal issues.

No exceptions were noted as a result of our procedures performed.

#### Standard #36

Nonprofits should periodically conduct an internal review of the Organization's compliance with existing legal, regulatory and financial reporting requirements and should provide a summary of the results of the review to the members of the Board of Directors.

#### Procedures

We performed the following procedures:

- Inquired with the General Counsel about the procedures taken to ensure that the SDCC is in compliance with existing legal, regulatory and financial reporting requirements.
- Reviewed Board minutes for the 2008 fiscal year for evidence of the General Counsel's review of compliance with legal matters presented to the Board throughout the year.

#### Results

Based on discussion with the General Counsel, internal reviews of the SDCC's compliance with legal matters are continually being conducted. At least twice a year the General Counsel presents the results of her internal review to the Board. This typically occurs at the beginning

## SAN DIEGO CONVENTION CENTER

### Agreed-Upon Procedures Report Applied in Accordance with the Standards for Excellence

(Continued)

in the fiscal year in July and again in January at the beginning of the calendar year. The General Counsel attends all Board meetings and Executive Committee meetings.

These internal reviews typically are conducted over the Corporation's Corporate Policies. The General Counsel will review these policies to determine if any changes are necessary and if there is a need for any new policies. We reviewed the Board minutes for the meeting that occurred on September 28, 2007 and noted the following:

"General Counsel submitted a memorandum that stated a periodic review of existing policies had taken place and Administrative Policies had been identified that the board should consider amending, updating or adopting."

Based on further review of the minutes it was noted the General Counsel went on to explain the proposed changes and that all of the changes were unanimously approved by the Board. After reviewing all of the Board minutes for fiscal year 2008 it was noted that the General Counsel presented the results of her internal reviews a total of 3 times.

No exceptions were noted as a result of our procedures performed.

### FUNDRAISING

We inquired about the existence of any fundraising activities during the 2008 fiscal year. Based on discussions with management and review of the 2008 audited financial statements it was determined that the SDCC did not engage in any fundraising activities during the year. Therefore no additional testwork was performed under the standard of fundraising.

### OPENNESS

#### Standard #37

Nonprofits should prepare, and make available annually to the public, information about the Organization's mission, program activities and basic audited (if applicable) financial data. The report should also identify the names of the Organization's board of directors and management staff.

#### Procedures

We inquired with management about the types of documents that are made available to the public on an annual basis. In addition, we examined the Corporation's website for relevant financial information.

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#### Results

The Vice President of Public Affairs stated that members of the public can make formal written requests for documentation at the SDCC.

According to the Vice President of Finance, the only financial information available on the Corporation's website is its annual report. We obtained a copy of the Corporation's annual report for the fiscal year ended June 30, 2008 annual report for the Corporation from the Corporation's website at [www.visitsandiego.com](http://www.visitsandiego.com).

Per review of the annual report it was noted that the following information was included:

- Economic benefit to the City of San Diego
- Event highlights
- Tax revenues
- Top conventions
- Medical conventions summary
- Environmental efforts
- Statement of revenues & expenses
- Listing of Board of Directors

We agreed amounts reported in the annual report on the statement of revenues and expenses reported in the Corporation's audited financial statements for the fiscal year ended June 30, 2008.

In addition, we reviewed the Corporation's website and found that the website contains a list of the members of its Board of Directors and a summary of the history of the Corporation, however, the Corporation's mission statement is not published on the website.

See finding and recommendation #11.

#### **Standard #38**

Nonprofits should provide members of the public who express an interest in the affairs of the Organization with a meaningful opportunity to communicate with an appropriate representative of the Organization.

#### Procedure

We inquired with management about the procedures a member of the public would take if they desired to communicate with a representative of the SDCC concerning an interest in their affairs.

## SAN DIEGO CONVENTION CENTER

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(Continued)

#### Results

Based on discussions with the Vice President of Public Affairs there are several ways for a member of the public to get in contact with an appropriate representative of the SDCC.

One way to contact the SDCC is through their website at [www.visitsandiego.com](http://www.visitsandiego.com). There is a page on the website that provides various ways to get in contact with an employee at the SDCC. The user has the option to complete a form with their contact information and any questions or comments that they may have. This form is sent to the Public Affairs department who then distributes the comments to the appropriate departments.

The website also provides a listing of SDCC employee names, job titles, phone numbers and email addresses to facilitate direct contact with a specific employee or department.

When a member of the public calls the SDCC's mainline the call is sent to an operator, who is responsible for filtering the calls through to an appropriate representative.

We, along with the assistance of the Vice President of Public Affairs, placed a test call through to the operator to test how the general calls are filtered. Once the operator answered the phone, we asked to speak directly to the Vice President of Public Affairs. We were told that he was in a meeting and unavailable at the moment, but asked if we wanted to leave a message on his direct voicemail. When listening to the voicemail recording it was noted that the Vice President of Public Affairs provides his direct cell phone number in the message in case the matter is urgent and needs immediate attention.

No exceptions were noted as a result of our procedures performed.

#### **Standard #39**

Nonprofits should have at least one staff member who is responsible to ensure that the Organization is complying with both the letter and the spirit of the Federal and state laws that require disclosure of information to members of the public.

#### Procedure

We inquired with management about the procedures in place to monitor public document requests.

#### Results

We inquired about the procedures a SDCC employee would take when a public records request is received. Based on discussions with the President & CEO, public records requests are initially received by a variety of different departments. Any SDCC employee who receives

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a request is told to forward all requests to the Assistant to the President & CEO and General Counsel, who is responsible for monitoring all records requests.

Once a public records request has been received by the Assistant to the President & CEO and General Counsel, both the President & CEO and General Counsel will be notified. The General Counsel reviews the request for any legal issues to ensure the SDCC releases the proper documentation. The General Counsel is responsible for reviewing the requested documents to ensure the SDCC complies with the request, while also protecting the personal information of their employees. For example, they will ensure that the social security numbers of SDCC employees on any requested documents have been removed from the documents before they are provided to the public.

By law the SDCC has to reply to request within 10 days. They do not have to provide the documentation within the 10 day period, they simply have to respond to the request saying if they will be able to comply with the request or not.

Based on inquires with management, the SDCC typically receives only a few records requests each year.

No exceptions were noted as a result of our procedures performed.

### PUBLIC AFFAIRS AND PUBLIC POLICY

#### Standard #40

Nonprofits should have a written policy on advocacy defining the process by which the Organization determines positions on specific issues.

#### Procedures

We performed the following procedures:

- Inquired with management about the existence about a written policy on advocacy for SDCC.
- Obtained a copy of the Corporation's written policy for advocacy.
- Reviewed the policy for Board approval.
- Reviewed the policy to note if it addressed the process by which the Organization determines the positions on specific issues.



## SAN DIEGO CONVENTION CENTER

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(Continued)

#### Results

We inquired with management about the existence of a written policy on advocacy. Based on discussions with the Vice President of Public Affairs, we obtained policy # 515 entitled, "Corporate Endorsements" that was approved by the Board of Directors on June 27, 2008.

Due to the nature of the programs the SDCC performs, a policy on advocacy will appear different from other general non-profit organizations. The mission of the SDCC is to enhance the economic growth of the City of San Diego, therefore the community of San Diego and local businesses, are the groups in which the SDCC serves as an advocate to.

According to the policy, the Corporation has a strong belief in the democratic process and encourages its employees to take an active interest in fostering principles of good government in the communities in which they live in compliance with the law. However, the policy states that while it is lawful for employees to spend their own time and funds on political matters, it is unlawful for the Corporation to engage in such activities, as a non-profit, public benefit corporation.

According to the policy, no direct or indirect funds of the Corporation may be expended in connection with any election or political activity without the approval of the General Counsel.

No exceptions were noted as a result of our procedures performed.

#### **Standard #41**

Nonprofits should assure that any educational information provided to the media or distributed to the public is factually accurate and provides sufficient contextual information to be understood.

#### Procedures

We performed the following procedures:

- Inquired with management about the types of information provided to the media and distributed to the public.
- Inquired about the procedures in place to ensure that the information provided to the media and/or public is factually accurate and provides sufficient contextual information to be understood.

#### Results

We inquired with the Vice President of Public Affairs about the different types of information that is provided to the media and/or public by the SDCC and as to the different types of

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circumstances this information is provided. We were provided with the "San Diego Convention Center Corporation 2008 Press Kit". This 30 page packet provided information about the Corporation separated into the following areas:

- Regional benefits/building usage
- Ownership/management
- Marketing/service awards
- Building design/construction

According to the Vice President of Public Affairs this information is updated annually and is available to anyone in the press or public who expresses an interest in the operations for the SDCC.

We inquired with management about the procedures in place to ensure that the information presented to the press and/or public is factually accurate. According to the Vice President of Public Affairs under most circumstances press releases made by the Corporation are prepared within the communications department and then reviewed by the Vice President of Public Affairs. Once he has approved the statements, the documents are forwarded onto the President & CEO for final approval. All press releases are approved by the President & CEO prior to being released.

There is a section on the website entitled "Press Room" which is devoted to providing readers with the most up-to-date information about the SDCC. On this website the SDCC is able to release their own statements and also provide website links to other information that has been written about the SDCC on the internet.

No exceptions were noted as a result of our procedures performed.

#### **Standard #42**

Nonprofits engaged in promoting public participation in community affairs shall be diligent in assuring that the activities of the organization are strictly nonpartisan.

#### **Procedure**

We inquired with management about policies and procedures the SDCC has in place to assure that the activities of the SDCC are strictly nonpartisan.

#### **Results**

We inquired with management about the existence of any policies that address the SDCC's participation in community affairs and assuring that such activities are strictly nonpartisan. Based on discussions with the Vice President of Public Affairs, we obtained policy # 512

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### Agreed-Upon Procedures Report Applied in Accordance with the Standards for Excellence

(Continued)

entitled, "Political Activities and Contributions" that was approved by the Board of Directors on April 25, 2008.

According to the policy, the Corporation has a strong belief in the democratic process and encourages its employees to take an active interest in fostering principles of good government in the communities in which they live, in compliance with the law. However, the policy addresses the fact that while it is lawful for employees to spend their own time and funds on political matters, it is unlawful for the Corporation to engage in such activities, as a non-profit, public benefit corporation.

According to the policy, no direct or indirect funds of the Corporation may be expended in connection with any election or political activity without the approval of the General Counsel.

No exceptions were noted as a result of our procedures performed.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion, on the accounting records or the subject matter on this engagement. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the management of the City and SDCC and should not be used by anyone other than those specified parties.

*Mayor Holtzman Melana P.C.*

Irvine, California  
June 16, 2009

# SAN DIEGO CONVENTION CENTER

## Findings and Recommendations

Year Ended June 30, 2008

### **(1) Mission Statement**

The SDCC is currently operating under its original mission statement that was approved in 1985. The mission statement has not been reviewed by the Board of Directors since it was originally approved. The *Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector* ("*Standards for Excellence*") recommends that nonprofit organizations revisit their mission every 3 to 5 years to evaluate whether the mission needs to be modified to reflect societal changes or whether its current programs should be revised or discontinued, or new programs need to be developed.

#### Recommendation

We recommend the Board of Directors formally review the SDCC's mission statement at least every 5 years to evaluate whether it needs to be amended to reflect societal or program changes.

#### SDCC's Comments on Corrective Actions Planned

Agree with recommendation. SDCCC Board of Directors will review Corporation's mission statement at the February 2010 Strategic Planning Retreat.

### **(2) Review of Budget Allocations**

The *Standards for Excellence* suggest that the Board should review the percentages of the organization's resources spent on program, administration, and fundraising in order to evaluate whether the amounts allocated to each area appear reasonable. During our reading of the Board minutes, we found that the Board did not review these percentages when it approved the SDCC's budget for the fiscal year ended June 30, 2008.

#### Recommendation

We recommend that staff prepare an analysis of the percentages of the SDCC's resources that are spent on program and administration to the Board during the budget review process to ensure that the Board members are fully aware of how the resources of the SDCC are being allocated between these two areas.

#### SDCC's Comments on Corrective Actions Planned

Agree with recommendation. The Corporation will prepare and present an analysis of the resources spent in operations and general administration functions to the Board of Directors during the budget process.

# SAN DIEGO CONVENTION CENTER

## Findings and Recommendations

Year Ended June 30, 2008

(Continued)

### **(3) Term Limits for Board Members**

The Corporation's bylaws define the length of each term that a Board member may serve, but does not state the number of terms a member may serve. According to the Corporation's President & CEO, the members of the Board are subject to the City of San Diego's term limit policy because the City Council appoints the Corporation's Board members. The City of San Diego's policy dated in 1984 limits the terms a person can be appointed to the Board of a City agency to two terms.

#### Recommendation

We recommend the Corporation amend its bylaws to reflect the two-term limit for its Board members to be in consistent with the City of San Diego's policy.

#### SDCC's Comments on Corrective Actions Planned

Agree with recommendation. The Corporation will work with the San Diego City Council to make the Corporation's bylaws consist with City of San Diego policy.

### **(4) Ethics Training**

The SDCC's policy requires that Board members and employees in designated positions complete ethics training once every two years. As a result of our review, we noted that as of June 30, 2008 the Executive Vice President of Sales & Marketing (a designated position) had not completed the required ethics training because the individual was out of the office when the training was provided.

#### Recommendation

We recommend the SDCC closely monitor which positions are required to have ethics training and ensure that each of these employees are current on their training at all times. When a staff or board member must miss the training provided in-house, the SDCC should make other arrangements for that individual to acquire that training through other means such as a self-study.

#### SDCC's Comments on Corrective Actions Planned

Agree with recommendation. This recommendation has been implemented. All designated employees are current on required ethics training.

# SAN DIEGO CONVENTION CENTER

## Findings and Recommendations

Year Ended June 30, 2008

(Continued)

### **(5) Policy on Board Member Attendance, Participation and Expectations**

The *Standards for Excellence* recommend that the organization have written policies that address board attendance, participation of board members at board meetings and expectations of board members. In addition, the standards recommend the policies include a process to address noncompliance. Neither the Corporation's bylaws nor current policies address these issues. In addition, we reviewed each board member's attendance at board meetings held during fiscal year ended June 30, 2008 and found that three members were absent from at least 25% of the meetings held during the fiscal year.

#### Recommendation

We recommend the Corporation either amend its bylaws or develop a written policy that outlines the Corporation's expectations on attendance and participation at board meetings. The amended bylaws or policy should include a process to address noncompliance. In addition we recommend that management develop a policy of board member expectations to assist in the fulfillment of their responsibilities and duties.

#### SDCC's Comments on Corrective Actions Planned

Agree with recommendation. A written policy is being drafted for review and approval by the Corporation's Board of Directors.

### **(6) Written Minutes for Board Committee Meetings**

Written minutes are currently only being maintained for Board meetings, but not for Board Committee meetings.

#### Recommendation

We recommend that written minutes be prepared and maintained for all Board Committee meetings just as they are currently being prepared for Board minutes.

#### SDCC's Comments on Corrective Actions Planned

Agree with recommendation. This recommendation has been implemented.

# SAN DIEGO CONVENTION CENTER

## Findings and Recommendations

Year Ended June 30, 2008

(Continued)

### **(7) Approval of Personnel Policies**

Currently, the SDCC's personnel policies are reviewed and approved by the President & CEO. The *Standards for Excellence* suggest that the Board of Directors should review written personnel policies and procedures.

#### Recommendation

We recommend that the Board of Directors is provided with a copy of the current Employee Handbook to review and formally approve. In addition, any new or amended personnel policies should be submitted to the Board for approval prior to implementation.

#### SDCC's Comments on Corrective Actions Planned

Agree with recommendation. The Corporation's Board of Directors discussed the review of the Employee Handbook at the June 2009 Board Meeting. Outside counsel has been contracted to review prior to Board approval.

### **(8) Standards for Excellence**

The standards recommend that all new employees be provided with copies of the *Standards for Excellence* along with personnel polices as part of their orientation. Currently the SDCC is only providing new employees with a copy of the Corporation's employee handbook.

#### Recommendation

We recommend that as part of the new hire orientation the SDCC distribute copies of the *Standards for Excellence* to all employees to demonstrate the culture of excellence that the SDCC strives for. For all existing employees, we recommend that the *Standards for Excellence* be provided through email or printed copies. The standard suggests all employees should be required to complete a signed acknowledgement of their receipt of the *Standards for Excellence*; however we believe that issue is at the discretion of management.

#### SDCC's Comments on Corrective Actions Planned

Agree with recommendation. The Maryland Association of Nonprofit Organizations' "Standards for Excellence" materials are copyrighted. The Corporation has published an Internet link to the Standards for Excellence on its employee internet portal and will include discussion of the Maryland Association of Nonprofit Organizations website and the Standards for Excellence in ongoing training programs.

# SAN DIEGO CONVENTION CENTER

## Findings and Recommendations

Year Ended June 30, 2008

(Continued)

### **(9) Fraud Hotline**

The Corporation has a written policy that informs employees on how to communicate suspected fraudulent activities. According to the policy, staff is provided with a phone number they can call to make anonymous claims. Although the three employees we spoke to felt comfortable reporting fraudulent activities to their department's Vice President or the President & CEO, none of them were aware of the written fraud policy or the hotline. In addition, when we called the hotline the phone number provided in the personnel policy was disconnected.

#### Recommendations

We recommend the following:

- 1) The fraud policy should be provided to all employees on an annual basis. Each employee should sign a written statement acknowledging they have read and understand the Corporation's fraud policy. This will reaffirm to employees the importance the Corporation places on fraud and will serve to remind employees of the proper procedures to follow.
- 2) The Corporation should reactivate the anonymous fraud hotline.

#### SDCC's Comments on Corrective Actions Planned

Agree with recommendation. The anonymous fraud hotline is active, however, the prefix was incorrectly printed. The error has been corrected. Additionally, all employees will be provided with the Corporation's fraud policy and asked to sign a written statement acknowledging receipt.

### **(10) Policy for Unrestricted Net Assets**

The *Standards for Excellence* recommend organization's have a written financial policy governing unrestricted net assets. The SDCC's current financial policies do not include such a policy. An unrestricted net assets policy should include elements such as a designation for emergencies or contingencies such as an economic downturn and a minimum threshold the SDCC should maintain in unrestricted net assets to make available for programs

#### Recommendation

We recommend the SDCC document and implement a financial policy governing the use of the SDCC's unrestricted net assets. The policy should be approved by the SDCC's Board of Directors.



## SAN DIEGO CONVENTION CENTER

### Findings and Recommendations

Year Ended June 30, 2008

(Continued)

#### SDCC's Comments on Corrective Actions Planned

Agree with recommendation. The Finance Subcommittee of the Corporation's Board of Directors is currently reviewing a draft policy governing the use of the Corporation's unrestricted net assets.

#### **(11) Openness of Public Documents**

The *Standards for Excellence* recommend organizations make available to the public information about the organization's mission statement, program activities, and basic audited financial data. The SDCC's website includes a brief history of the SDCC, a list of the members of its Board of Directors, and its most recent annual report. Although members of the public can make formal written requests for any documentation, the SDCC's website does not contain its mission statement or audited financial statements.

#### Recommendation

We recommend that the SDCC make the following available on its website: mission statement, most recent audited financial statements, and its most recent approved budget.

#### SDCC's Comments on Corrective Actions Planned

Agree with recommendation. This recommendation has been implemented.