



Office of the City Auditor

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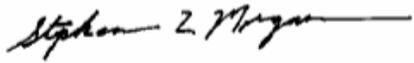
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Date: August 26, 2008

To: Mayor and Council Members

From: Stephen L. Morgan, City Auditor 

Subject: Assistance Project- Financial Assessment of Old Pecan Street Festival

In accordance with your request, we have completed our work on the Old Pecan Street Festival (OPSF) and made comments where appropriate. Our objective was to conduct a financial assessment of OPSF for the purposes of identifying potential fiscal inefficiencies and cost cutting measures.

The OPSF is a bi-annual public event held every spring and fall in the City of Austin. The event features arts and crafts exhibitors, musical bands, as well as multicultural performers. The Old Pecan Street Association (OPSA), a non profit organization, is the sole owner of the OPSF and has contracted RoLu LLC to manage this festival. In return, RoLu LLC pays a \$50,000 licensing fee to OPSA for each festival. Additionally the RoLu LLC and OPSA get 70% and 30% share of the profits, respectively, whenever the net profit for a particular festival is above \$50,000. According to OPSA management, proceeds from these festivals are used to contribute to projects and organizations that directly or indirectly benefit the Sixth Street area and downtown Austin.

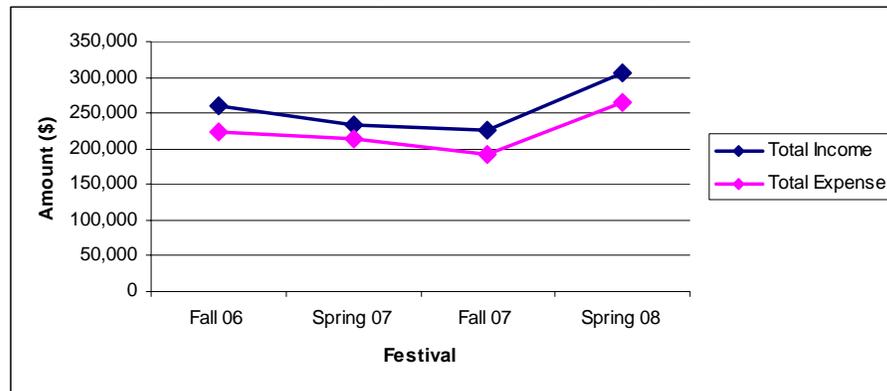
To accomplish the project objectives, we reviewed the financial statements of RoLu LLC for the period from 3/7/2006 to 6/1/2008. We also interviewed key personnel involved in providing resources or management for the festival.

This audit was conducted according to generally accepted government auditing standards, with the exception that we were not able to verify the organizational controls over the cash and inventory handling function. Those standards require that we plan and perform the audit 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 obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We were not able to verify controls over cash handling due to the fact that RoLu LLC does not have written cash handling policies or procedures, and the timing of our work did not allow us to observe the cash handling function during a festival. Therefore, our understanding of controls in this area is based on testimonial evidence only. We have also examined evidence of documents such as those describing the hand off of cash and inventory and reconciliation of the same.

We did not identify significant fiscal inefficiency related to the Old Pecan Street Festival. We noted that festival payments made by RoLu LLC management were in line with what we would expect to see for festival expenses both in character and price. For the scope period, revenues tended to increase and decrease proportionately with expenses. Exhibit 1 below shows the trend of income and expenditures for the scope period.

**EXHIBIT 1
OPSF Income and Expenditure (Fall 2006 – Spring 2008)**



Source: RoLu LLC Profit and Loss Statement

Net profits for individual festivals did not exceed \$50,000. Exhibit 2 below shows the net profits for the scope period.

**EXHIBIT 2
OPSF Revenue and Expenditure (Fall 2006 to Spring 2008)**

| | Fall 06 (\$) | Spring 07 (\$) | Fall 07 (\$) | Spring 08 (\$) |
|-------------------|------------------|------------------|------------------|------------------|
| Total Income | 260,934.41 | 233,882.74 | 228,077.00 | 305,373.91 |
| Total Expense | 224,320.11 | 214,744.49 | 191,781.00 | 263,792.57 |
| Net profit | 36,614.30 | 19,138.25 | 36,296.00 | 41,581.34 |

Source: RoLu LLC Profit and Loss Statement

For the Spring 07, Fall 07, and Spring 08 festivals the City waived a portion of the APD security costs on behalf of RoLu LLC. If the City had not waived these fees, total expenses would have risen by \$13,497 in the Spring of 07 and by \$18,000 in both Fall 07 and Spring 08. Net profits shared among RoLu LLC partners would have decreased by the same amount.

We did not identify ways through which RoLu LLC could achieve significant cost savings. As stated above, where costs were increasing there was generally a corresponding increase to revenues. However, we observed that contractual and security costs have increased without compensating revenue changes.

Contractual changes - Roadway Company, the former promoters of the festival, paid OPSA a licensing fee of \$45,000 annually. RoLu LLC management, according to the contract terms for the scope period, pays OPSA a licensing fee of \$50,000 per festival (\$100,000 annually) plus 30% of the profits above \$50,000 for any one festival.

Security costs - Prior to the Fall 06 festival the promoter for the OPSF was granted waivers on some of the City of Austin security requirements for street festivals. The festival promoter at the time was not required to have commissioned peace officers to perform all of the security work. However, beginning with the Spring 07 festival, the City required that RoLu LLC management comply with City Code 14-8-32, which requires organizers of events that involve road closures to employ commissioned peace officers for traffic control. The enforcement of this requirement resulted in an increase in security costs for the festival. Exhibit 4 below depicts security costs for the scope period.

EXHIBIT 3
Security Costs for the Old Pecan Street Festivals (Fall 06, Spring 07, Fall 07, and Spring 08)

| | Prior to the City enforcing the City Code sections 15-11-3 and 15-11-16 (c) | After the City management started enforcing City Code sections 15-11-3 and 15-11-16 (c) | | |
|--|---|---|------------------|------------------|
| Expense | Fall 06 | Spring 07 | Fall 07 | Spring 08 |
| Security costs paid by RoLu | \$ 10,892 | \$ 16,806 | \$ 18,013 | \$ 20,046 |
| Security costs waived per Council resolution | \$ - | \$ 13,497 | \$ 18,000 | \$ 18,000 |
| Total costs | \$ 10,892 | \$ 30,303 | \$ 36,013 | \$ 38,046 |

Source: RoLu LLC Profit and Loss Statement

For the fall 2006 festival, during show time hours the City of Austin management required RoLu LLC use commissioned peace officers including APD officers and constables to provide security. Private security at barricades was allowed during non-show times. According to RoLu LLC management, the cost for the constables, at the time, was \$20 to \$25 per hour. The cost for private security at barricades during non-show time hours was \$10 per hour. Currently, according to RoLu LLC management, the cost for hiring constables ranges from \$30 to \$35 per hour. APD security charges are \$45.70 for officers and \$65.10 for supervisors.

It was outside our scope to compare how the security fees waived for RoLu LLC compare with fees waived for other groups holding events on City of Austin streets. Therefore, we do not have a basis to compare the fees waived for RoLu LLC with fees waived for other groups. It was also outside our scope to examine the process by which the City waives fees.

We did not identify additional feasible areas where significant increases in revenue can be achieved. Apart from the current sources of revenue, we did not identify additional practicable areas where RoLu LLC could increase festival revenue earnings. We noted that some festivals in the State of Texas charge an entrance fee. However, the location of the OPSF would make it difficult to collect such a fee. Currently the festival is located along 6th street from Interstate 35 to Brazos and between 6th and 7th streets on Neches. In order to charge a fee for the festival, RoLu LLC management would need to fence in everything and have a limited number of entry points. Additionally, OPSA management believes that the association should keep the long-time festival tradition of allowing all people in Austin to have a free-entrance festival.

Currently the major sources of revenue for OPSF are booth rentals for artists and local businesses, food concession sales, water/soda/beer sales, sponsorships, and contributions. RoLu LLC has been working to maximize these revenue sources.

Inventory and Cash handling controls should be tightened if the City wishes to continue its partnership with the Old Pecan Street Festival. As a condition for the waiver of fees, Council may wish to require RoLu LLC management to document policies and procedures for handling festival cash and inventory. As stated earlier in this memo, the timing of our work did not allow us to verify RoLu LLC's controls over cash and inventory handling. In addition, RoLu LLC does not have documented cash and inventory handling policies or procedures. Such written policies and procedures can help provide assurance that RoLu LLC is correctly accounting for all cash and inventory during the festivals and is properly stating revenues and expenses.

The City could recover part of the security fees waived for RoLu LLC. As stated earlier, RoLu LLC and OPSA share any profits above \$50,000 per festival on a 70-30 basis. The City may wish to enter into an agreement whereby, in exchange for the fee waiver, some portion of that additional profit is returned to the City not to exceed the fees that are waived. Under this arrangement, the City would be entering into an ongoing partnership with festival organizers.

CITYWIDE ISSUES

Current fees for security may not be matching the cost of providing security. The Austin Police Department Special Events Unit charges \$45.70 per hour per officer for providing security during events held in the City. Council approved this rate for fiscal year 2004 and it has not changed since then. However, currently an APD officer's salary with overtime can be as high as \$58 per hour. Council should consider updating the fee charged for providing security in order to recover the full cost of the service and to reflect the true cost of any subsidy provided for festivals and events in the City.

We welcome the opportunity to provide information to you on this issue. If you have any questions about the information we have provided, please contact Assistant City Auditor Russ Needler at (512) 974-2836 or Auditor Henry Katumwa (512) 974-1335.

Cc: Marc A. Ott, City Manager