FIELD WORK AUDIT PROGRAM AND RESULTS FILE 0207

Auditor: M. Krone
Date: 07/30/02

APPROVED: DATE:

OBJECTIVE D:

TO ENSURE COMPLIANCE ON THE LEASE AGREEMENTS BY AND BETWEEN THE CITY OF SAN JOSE AND HAYES RENAISSAINCE REGARDING THE HAYES MANSION.
(950 hours)

D-1 SUB-OBJECTIVE:

To determine that payments to the City of San Jose are timely, properly recorded, and accurately calculated.

D-1.1 Review the Hayes Mansion agreement to lease to identify the terms of payment to the City of San Jose. [T-1, T-4]

- Obtain and review the agreement to lease between the Hayes Mansion and the City of San Jose.
- Document payments regarding the Hayes Mansion Payments for Phases' I, II, and III, Schedule I Rental Payments, Grounds Rent, and Rent Percentage.
- Document the City of San Jose's process for reviewing gross revenues information on payment calculation documentation. [C-1, C-2, C-3]

D-1.2 Obtain Mansion's schedule showing Gross Revenue Payment calculations. [T-4]

- Document all Payments by category (Phases' I, II, and III, etc.) the Mansion made to the City of San Jose. Review Payment documentation and support. Verify amounts paid and date payment was received by the City of San Jose.
- Verify mathematical calculation of the Payment calculation for Gross Revenues.
- Document definition of Gross Revenue in lease agreement.

D-1.3 Verify deductions to Gross Revenues to ensure they are in compliance with the lease agreement as a deduction. [T-4]

Verify the deduction amount(s) of (Section 1.26. Gross Revenues):

- Transient Occupancy Tax (TOT) and Sales Tax to ensure it is accurately calculated.
- Accounts Receivable which have been determined to be uncollected for federal income tax purposes.
- Sums (including insurance proceeds) received in settlement of claims for loss or damage.
- Consideration for the sale of furniture, fixtures, and equipment) which have been determined to be uncollected for federal income tax purposes.

- Gratuties and Service Charges to ensure it is accurately calculated, are only charged on food and beverage, and to ensure they do not exceed 18%.

D-1.4 Verify if the Mansion is making all Payments to the City of San Jose in a timely manner. [T-1]

- Evaluate dates for compliance with Agreement terms.
- Review date of payments to ensure they were remitted timely. Interest shall accrue at the Interest Rate on any payment of Grounds Rent not timely remitted prrior to the occurrence of an Event of Default. (Section 3.2. D. Grounds Rent (3)). [C-2, C-3]

D-1.5 Verify the amount of Phase III Investment and Preferred Return for accuracy. [T-3, T-4]

- Obtain or reconstruct a schedule detailing the amounts of Initial Net Investment, and calculated Preferred Return.
- Compare Agreement definitions to the Haye's reported amounts.

D-1.6 Verify if Hayes Mansion has contracted with outside vendors to operate restaurants on the premises. [T-4]

- Obtain copies of the affiliate contracts including the current Operating Agreement, Asset Management Agreement, and Restaurant lease. Verify if the Beverage contract is with an affiliate.
- Obtain schedule of payments to and from affiliates and support for fees paid. Evaluate the contracts and identify payment terms that may impact Participation Payments.
- Verify that the City of San Jose approved the contracts per Agreement terms.
- Verify lease terms of the Restaurant lease.
- Obtain evidence on reasonable commissions and fees. Compare to industry standards.
- If an affiliate contract appears to contain unreasonable fees, document the financial impact to the City of San Jose's Gross Payment.

D-1.7 Review the gross revenues section of the external auditor financial statements.

- Review Hayes' general ledger details for support and documentation of gross revenues amount stated in the financial statements.

D-1.8 Review and evaluate Other Revenues to determine their sources and to ensure they are properly accounted for.

D-1.9 Review and evaluate Accounts Receivable that have been determined to be uncollected. [T-10, T-11, T-12]

- Review all Accounts Receivables that have been written off in the past three years.
- Review the policies and procedures that are in place for the write off. (C-17, C-18)
- Determine what efforts were made to collect the Accounts Receivables. (C-18)

- Prepare an aging schedule for the Accounts Receivables.

D-1.10 Summarize sub-objective results:

- Summarize any impacts found during the course of the audit that may adversely impact the Hayes' Contractual Payments.
- Audit issues and/or findings;
- If information comes to auditor's attention indicating that abuse or illegal acts may have occurred, the Auditor-in Charge will immediately notify the City Auditor and the Supervising Auditor. Audit steps will be extended as necessary and the auditor should determine the extent to which these acts significantly affect the audit results. *(Audit standards FWS 3A and 3B).*

D-2 SUB-OBJECTIVE:

To determine that all contracts for conference services are accurately recorded and accounted for. [T-8]

D-2.1 Gain an understanding of how conference contracts come into existence. Review the procedures in place to document contracts. (T-5)

- Select a sample of contracts to determine that contracts are recorded and documented. (C-4)
- Determine that there is a written contract for each of the contracts selected. (C-5)
- Determine whether a deposit or credit application was received prior to the holding of the event. (C-6)
- Determine whether there is an outstanding balance on the contract, and if so, if it has been billed. (C-7)
- Determine that any non payments from hotel guests for contracted services thru its company where billed to the company. (C-10)
- Determine thru a selected sample of contracts that charges are recorded in the CLS System. (C-11)
- Review the reconciliation process by the 'Day' and 'Night' Auditor for the controls in place to balance the CLS System. (C-12)
- Review the Daily Record and trace the total dollar amounts of certain charges into the "Summary of Transactions". (C-14)

D-2.2 Summarize sub-objective results:

- Overall assessment and conclusions;
- Audit issues and/or findings;

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determine the extent to which these acts significantly affect the audit results. *(Audit standards FWS 3A and 3B).*

D-3 SUB-OBJECTIVE:

To determine that all sources of revenues have been identified and are accounted for.

D-3.1 Determine that there is a reasonableness that all revenues are recorded and documented. (T-6, T-7)

- Select a sample of the contracts from D-2.1 and trace revenues thru the CLS System. Verify if the selected contracts were accurately recorded in the CLS System. (C-4).
- Verify that each of the selected contracts has a written contract. (C-5)
- Determine if the selected contracts have a balance, and if so, have they been billed. (C-7)
- Determine if the selected contracts if a credit appilication or a deposit was received prior to the event. (C-6)
- Determine months of high and low conference activities, (test of gross sales). Select one or two days from each and follow transaction for the day through the CLS and PeachTree systems.

    1. Select the months with the high and low volume of sales from the D Report for each period in the audit period.
    2. Verify the mathematical accuracy of the daily/weekly cash reports and trace them to the D Report.
    3. For each month selected, judgmentally select one-day's cash register tapes and agree the totals to the daily/weekly cash reports.
    4. Trace the day's sales to deposit in the bank.
    5. Recalculate deductions from gross sales, such as sales tax, and determine that any deductions are in accordance with contract.
    6. For each month selected, agree rent payable per the D Report to evidence of payment (e.g. check copies). Also, trace to the schedule of rent paid to the City's FMS system.
    7. Trace a number of cash sales transactions to the bank statement.

D-3.2 Summarize sub-objective results:

- Overall assessment and conclusions;
- Audit issues and/or findings;

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D-4 SUB-OBJECTIVE:

To determine whether the Hayes Mansion has made a good faith effort in full filling the contract allowing the City of San Jose and Community Groups to utilize the facilities.

D-4.1 Determine whether the City of San Jose have been able to utilize the facilities at Hayes Mansion. [T-14]

- Review contracts to determine how much time is being allocated to the City of San Jose for utilization of the Hayes facilities. (C-4)
- Contact the Park & Recreation Dept to review usage of the Hayes' facilities.(C-19)

D-4.2 Determine whether the Community Groups have been able to utilize the facilities at Hayes Mansion. [T-13]

- Review contracts to determine how much time is being allocated to the Community Groups for utilization of the Hayes facilities. (C-4)
- Contact the Park & Recreation Dept to review usage of the Hayes' facilities.(C-19)

D-4.3 Summarize sub-objective results:

- Overall assessment and conclusions;
- Audit issues and/or findings;

If information comes to auditor's attention indicating that abuse or illegal acts may have occurred, the Auditor-in Charge will immediately notify the City Auditor and the Supervising Auditor. Audit steps will be extended as necessary and the auditor should determine the extent to which these acts significantly affect the audit results. *(Audit standards FWS 3A and 3B).*

D-5 SUB-OBJECTIVE: SUMMARIZE RESULTS OF OBJECTIVE

D-5.1 Prepare preliminary Finding Development Sheets as appropriate. Submit all new or revised Finding Development Sheets to City Auditor with APR according to established bi-weekly schedule. Evaluate whether additional audit steps are required to develop the elements of a complete finding. At the next bi-weekly meeting, discuss the preliminary findings, or the lack thereof, with the City Auditor to assess whether to revise, expand or drop subsequent audit objectives and audit steps.

D-5.2 Prepare interim reports to auditee as necessary. (Audit Standard RS-2.2)

D-5.3 Complete numbering, labeling, and cross-indexing of workpapers, APR, workpaper index, and other audit documents. (Procedure 5-02)

D-5.4 In-charge Review of workpapers, APR files, and indexes prepared by others. Respond to reviewer's notes as necessary. *(File at A-12)*

D-5.5 Schedule Supervising Auditor review of workpapers and APR files. Respond to reviewer's notes as necessary. *(File at A-13)*

D-5.6 Schedule Second Audit Standards Review after final phase of fieldwork. *(Procedure 5-01, Section IV-3.2)* Respond to reviewer's notes as necessary. *(File at A-11)*