



MEMORANDUM

City of Fort Smith
Internal Audit

TO: Tim Seeberg, Convention Center General Manager

FROM: Tracey Shockley

DATE: June 6, 2016

SUBJECT: Incentive Pay

A comprehensive review was completed on Travel and Expense Reimbursement reports to determine whether the reimbursements complied with the City's policies. It was noted during the review that several of the reimbursements for the Convention Center included incentive pay with a spreadsheet attached.

Internal Audit (IA) spoke to the Finance Department regarding the history of the Convention Center incentive pay. It was stated that initially a Request for Pay (RFP) was completed and processed through the Account Payables (AP). Once it was questioned, the Finance Department notified the Convention Center that incentive pay is considered earned income and therefore has to be processed through the Payroll Department.

IA reached out to Tim Seeberg, General Manager, to understand the process and requirements for the incentive pay. It was relayed that in 2008 & 2009 the Convention Center Commission met to discuss paying sales commissions/incentive pay to the Sales Directors (two sales persons) on staff at that time. The methodology of sales incentive pay was that the Sales Director was to be paid 5% of the difference between one of their current year's quarter total event revenues to the same quarter of the previous year. Each Sales Director was responsible for their own set of clients/accounts each year, and therefore each Sales Director possessed their own sales incentive calculation based upon approximately 1/2 of the Convention Center revenue each. The measureable revenue increase between two quarters year over year was always net of any contracted labor charges revenues, or revenues collected to cover the cost of equipment that may have been rented for the event. Both of these revenue streams were removed from the calculation since these revenues were typically a recovery of costs passed onto the event client. The calculation also excludes catering commission revenues and food concessions commission revenues, yet included beverage revenues (alcohol sales).

Then in mid-2014, the Convention Center Sales and Event Coordinating functions were partly restructured. One of the two existing Sales Director positions was eliminated and replaced with

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a position that is a combination event sales/event coordinator role (Event Sales and Services Manager). This position reports to the now one Sales Director position. The sales incentive and its format/calculation methodology as outlined above remains in place, except that now the 5% of total net revenues quarterly incentive is split between the Sales Director and their reporting Event Sales and Services Manager (4% to Sales Director, 1% to Sales and Services Manager).

Upon review of the Commission Meeting Minutes from November 19, 2008 it was noted that the Commissioners discussed trying the 5% incentive plan on a trial basis for one year. Also, the commission would be paid in the month following the quarter starting in 2009. According to the minutes, this information was to be provided in the next Board packet.

IA inquired about the approval the following year for the incentive pay to continue since it was a trial basis for one year. Mr. Seeberg discussed the questioned incentive pay with Claude Legris, A&P Director because this was before his employment with the City. Mr. Legris provided Ordinance 74-08 from January 2009 that requested the salesperson receive a commission of 5% be paid to on all sales in excess of their gross sales (excluding contract labor fees) for the same quarter of the previous year.

IA then discussed the incentive pay with Jennifer Walker, Finance Director to determine what documentation should be presented with the incentive pay request in addition to the spreadsheet. It was agreed that the reports used to prepare the spreadsheets also be provided in order to validate incentive pay amounts. Additionally the IA and Finance Director decided that the Convention Center should continue to send the incentive pay requests to payroll for processing and not through the AP office. It has been noted that on several occasions the incentive pay request has been received in the AP office and not in the Payroll office.

IA discussed the recommendations with Mr. Seeberg and it was agreed that for future incentive pays all supporting reports/documentation will be attached for the amount that is requested to be paid. IA also advised Mr. Seeberg that after inquiring with the City Clerk, the enabling ordinance must be amended before making any changes to the original incentive pay structure. Therefore, Mr. Seeberg will need to go to the City Board to approve the changed incentive pay structure.