



CITY AUDITOR'S OFFICE

# Destination Marketing Contract

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January 4, 2022

AUDIT REPORT NO. 2206

**CITY COUNCIL**

Mayor David D. Ortega  
Vice Mayor Tammy Caputi  
Tom Durham  
Betty Janik  
Kathy Littlefield  
Linda Milhaven  
Solange Whitehead





January 4, 2022

Honorable Mayor and Members of the City Council:

Attached is the audit report for *Destination Marketing Contract*, which was included on the Council-approved FY 2021/22 Audit Plan. This audit was conducted to evaluate contract compliance, effectiveness and administration of the destination marketing contract.

The City is currently in the last year of a 5-year contract with Experience Scottsdale for destination marketing services. The destination marketing contract can be strengthened by addressing more operating risks, such as requiring a full accounting of City bed tax monies, including any unused monies remaining at year end, and establishing a fee method that is more closely aligned with the purchased services. As well, contract terms are not sufficient to limit administrative costs to maximize destination marketing programs, and performance monitoring activities can better ensure focus on the City's objectives and contract compliance.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

A handwritten signature in blue ink that reads "Sharron Walker".

Sharron E. Walker, CPA, CFE, CLEA  
City Auditor

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Kyla Anderson, CIA, CLEA – Sr. Auditor  
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# AUDIT HIGHLIGHTS

## Destination Marketing Contract

January 4, 2022

Audit Report No. 2206

### WHY WE DID THIS AUDIT

This *Destination Marketing Contract* audit was included on the City Council-approved fiscal year (FY) 2021/22 Audit Plan. The audit was conducted to evaluate contract compliance, effectiveness, and administration of the destination marketing contract.

### BACKGROUND

Since 2001, the City of Scottsdale has contracted with Experience Scottsdale, a 501(c)(6) nonprofit destination marketing organization (DMO) previously known as the Scottsdale Convention and Visitor's Bureau, for destination marketing services. The current 5-year contract became effective on July 1, 2017, and expires on June 30, 2022. The Tourism and Events Director, within the Community and Economic Development division, is assigned as the Contract Administrator.

### City Auditor's Office

City Auditor 480 312-7867  
Integrity Line 480 312-8348  
[www.ScottsdaleAZ.gov](http://www.ScottsdaleAZ.gov)

### WHAT WE FOUND

**The destination marketing contract can be strengthened by addressing more operating risks.**

Currently, the contract allows Experience Scottsdale to commingle accounting and reporting of its City funding. Specifically, we found:

- Experience Scottsdale's net assets increased by almost \$2.6 million in FY 2020/21 due to the pandemic-related decrease in program expenses.
- The current budget format does not provide data on actual revenues, expenses, and net assets.
- The City may want to consider a different fee mechanism, such as a sliding scale of bed tax revenues or a fixed contract amount.
- The contract does not address ownership of intellectual property.

**Contract terms are not sufficient to limit administrative costs and maximize the destination marketing programs.**

- Audited financial statements show the contractor's management and general expenses ranged from 15% to 21% of total expenses instead of the 7% administrative cost reported to the City. Employee compensation represents a substantial use of City bed tax monies.

**Performance monitoring activities can better ensure focus on the City's objectives and contract compliance.**

- Performance standards can be better focused on the City's objectives and the funding priorities.
- Marketing efforts have not been measured regularly for effectiveness, performance standards are not clearly defined, and leads are only forwarded to the organization's members.

### WHAT WE RECOMMEND

We recommend the Contract Administrator:

- Require a full accounting of City bed tax monies and consider a different fee approach.
- Strengthen fiscal monitoring over the use of City bed tax monies.
- Improve performance standards and evaluation of marketing programs.

### MANAGEMENT RESPONSE

The department agreed with the recommendations and estimated completing its action plan by June 30, 2022.





# BACKGROUND

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Since 2001, the City of Scottsdale has contracted with the Scottsdale Convention and Visitor’s Bureau, now known as Experience Scottsdale, for destination marketing services to promote Scottsdale as a luxury destination for meetings, events and leisure travel.

The Tourism and Events Director, within the Community and Economic Development division, is assigned as Contract Administrator with day-to-day oversight of these services.

The City’s 5% Transient Occupancy tax (bed tax) imposed on hotels and other lodging establishments, funds this contract. As approved by voters, 50% of the City’s bed taxes are allocated for destination marketing to promote tourism and the other half is divided among tourism-related event support, tourism research, tourism-related capital projects and other eligible uses as determined by city ordinance and state law. The City currently pays Experience Scottsdale the 50% of bed tax that is allocated for destination marketing, with payments for FY 2017/18 through FY 2020/21 ranging from \$9.1 million to \$11.4 million per fiscal year.

**Destination Marketing Organization**

An organization responsible for promoting a community as an attractive travel destination by enhancing its public image as a dynamic place to live and work.

Source: Destinations International

Experience Scottsdale, a 501(c)(6) membership-based nonprofit destination marketing organization (DMO), also receives funding from and promotes the Town of Paradise Valley, a Salt River Pima-Maricopa Indian Community program, and Experience Scottsdale’s membership.

## Destination Marketing Contract

Through the current 5-year contract, which expires on June 30, 2022, the City pursues eight marketing objectives:

1. Generate economic activity through the effective marketing of City as a tourist and meetings destination.
2. Generate national and international exposure to Scottsdale.
3. Attract leisure business that generates overnight visitation.
4. Respond to consumer information requests.
5. Generate meeting and event booking at area hotels.
6. Generate group and individual tour business through solicitation and servicing.
7. Support a climate within the City wherein tourism may flourish through the active participation and cooperation of government and private sectors.
8. Assist the City in its efforts to promote City-owned venues, including WestWorld and Scottsdale Stadium, and Downtown Scottsdale as key destinations within Scottsdale.

In addition to paying 50% of bed tax revenues to Experience Scottsdale annually, the destination marketing contract also commits the City to pay 50% of the funding for Experience Scottsdale’s

separate Fiesta Bowl contract.<sup>1</sup> In 2006, Experience Scottsdale and the Fiesta Bowl organization entered a 20-year contract that requires both Fiesta Bowl teams to stay at hotels that pay Scottsdale or Paradise Valley bed tax and to conduct the majority of team practices at facilities in or near Scottsdale. The Fiesta Bowl also agreed to provide certain promotional benefits, including sponsor recognition for the City and Experience Scottsdale. In return, over the contract term, Experience Scottsdale agreed to pay the Fiesta Bowl organization more than \$8 million and to ensure the City of Scottsdale provides in-kind police services.

### **Destination Marketing Program and Performance Measures**

The contract requires Experience Scottsdale to annually produce a Destination Marketing Guide (the Guide), performance standards and a contract budget for City Council approval.

- In the Guide, Experience Scottsdale provides a tourism industry outlook and the organization's current marketing programs and strategic initiatives. For example, FY 2021/22's strategic initiatives include carrying out strategies implemented at the outset of the COVID-19 pandemic with added traditional programs. These strategies focused on increasing awareness among regional and drive-distance markets through broadcast and streaming television and digital advertising in Dallas, Las Vegas, Los Angeles and San Diego.
- The performance standards establish the metrics for evaluating the contractor's annual performance. Figure 1, on page 5, recaps the contractually required marketing activities and performance standards adopted for FY 2021/22.
- No later than May 31 of each year, Experience Scottsdale provides a report with the current fiscal year's approved budget and the proposed contract budget for the upcoming fiscal year. Figure 3 on page 12 shows the most recently approved budget, which was submitted for FY 2021/22.

*(continued on next page)*

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<sup>1</sup> Under the prior destination marketing contract, the City paid the full amount of Experience Scottsdale's annual commitment to the Fiesta Bowl organization.

**Figure 1. Marketing Activities and Related Performance Measures for FY 2021/22**

 <p>Marketing</p>	<p>Position Scottsdale area as a world-class vacation, meetings and group travel destination through advertising, publications, online and email outreach, social media, event marketing and visitor services including a full-service visitor center.</p> <p><b>Performance Measure:</b></p> <ul style="list-style-type: none"> <li>• Generate 1.8M visitor sessions to the Experience Scottsdale website and all affiliate sites.</li> </ul>
<p>Garner positive publicity for Scottsdale as a premier travel and meetings destination in print, broadcast, online and social mediums through building relationships with media, pitching stories ideas, attending media missions and trade shows, hosting media familiarization tours, and offering photos and videos for media use.</p> <p><b>Performance Measure:</b></p> <ul style="list-style-type: none"> <li>• Generate 850 media hits about the Scottsdale market area.</li> </ul>	 <p>Communications</p>
 <p>Conventions Sales and Services</p>	<p>Provide destination education to meeting and event planners and assist with securing spaces and services for meeting and events through generating leads, building relationships with clients, attending trade shows and sales missions, hosting familiarization tours and site inspections, and providing materials and services to clients.</p> <p><b>Performance Measure:</b></p> <ul style="list-style-type: none"> <li>• Generate 1,080 convention sales leads for Scottsdale market area properties.</li> <li>• Confirm 324 convention bookings into Scottsdale market area properties for future dates.</li> </ul>
<p>Provide education to travel agents and tour operators to ensure that Scottsdale stands out as a unique destination in travel company product inventories throughout the world through generating leads, building relationships with clients, attending trade shows and sales missions, hosting familiarization tours and site inspections, conducting product training seminars, creating trade cooperative marketing campaigns, and providing materials and services to clients.</p> <p><b>Performance Measure:</b></p> <ul style="list-style-type: none"> <li>• Generate 1,400 domestic and international tour program leads and services.</li> </ul>	 <p>Tourism</p>

**SOURCE:** Auditor analysis of Contract No. 2017-079-COS and Experience Scottsdale 2021-2022 Performance Standards attached to City Council Report dated June 22, 2021, Item 33.



## OBJECTIVES, SCOPE, AND METHODOLOGY

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This *Destination Marketing Contract* audit was included on the City Council-approved fiscal year (FY) 2021/22 Audit Plan. The audit objective was to evaluate contract compliance, effectiveness and administration of the destination marketing contract.

To gain an understanding of the Destination Marketing contract, applicable business objectives, contract deliverables and marketing activities, we interviewed the Contract Administrator and executive leadership team of Experience Scottsdale. We also reviewed:

- Contract No. 2017-079-COS between the City and Scottsdale Convention and Visitor's Bureau, Inc. (also known as Experience Scottsdale).
- City Auditor's audit report, Audit No. 1705, *Destination Marketing Contract* and the associated follow-up reports. We also reviewed recent similar audits conducted by other city and state audit organizations.
- Publicly available information issued by Destinations International (formerly Destination Marketing Association International).
- City financial information related to the Destination Marketing contract, including Budget Book information and Smart Stream reports for FY 2017/18 through FY 2020/21.
- Applicable laws, regulations, and policies including:
  - Arizona Revised Statutes (ARS) Title 9 (Cities and Towns) Chapter 4, Article 8, §500.06 pertaining to *Hospitality Industry; use of tax proceeds*.
  - Scottsdale's Comprehensive Financial Policies and Governing Guidance, Operation Management Policy 21A.
  - Scottsdale Administrative Regulation 215, *Contract Administration*.

To evaluate contract compliance, effectiveness and administration of the contract, we:

- Reviewed adopted performance standards from FY 2017/18 through FY 2020/21.
- Reviewed the Contract Administrator file for evidence of monitoring contract requirements.
- Obtained performance standards data for FY 2020/21, performed data analytics, and selected non-statistical random samples of Tourism sales and publications.
- Reviewed Experience Scottsdale's publicly available Annual Reports from FY 2017/18 through FY 2020/21 in comparison to performance standards reported to the City.
- Reviewed 2018 IRS Form 990s, the most recent publicly available for approximately 40 other destination marketing organizations. From these, we identified 14 destination marketing organizations comparable to Experience Scottsdale, which we defined as:
  - Reported total revenues ranging from approximately \$13 million to \$20 million.
  - Had a similar range of responsibilities including marketing, tourism, and convention sales but not also operating a convention center or similar facility.
- Analyzed Experience Scottsdale's audited financial reports from FY 2017/18 through FY 2020/21, and general ledger data for FY 2019/20 and FY 2020/21. We tested a judgmental sample of 15 FY 2019/20 expenses from the general ledger to supporting documentation.

- Reviewed the City's other advertising and marketing payments made to Experience Scottsdale outside of the destination marketing contract from July 1, 2017, through September 13, 2021.

Our audit found the destination marketing contract can be strengthened by addressing more operating risks, contract terms are not sufficient to limit administrative costs and maximize the destination marketing programs, and performance monitoring activities can better ensure focus on the City's objectives and contract compliance.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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. Audit work took place from July to October 2021.

## FINDINGS AND ANALYSIS

### 1. The destination marketing contract can be strengthened by addressing more operating risks.

While the contract term requires the Scottsdale Convention and Visitor’s Bureau (SCVB), now known as Experience Scottsdale, to return “unexpended City funds” in the event of contract termination, it is not clear how the City’s monies would be identified. Currently, the contractor commingles accounting and reporting of City revenues and its share of expenses with other sources and uses. The City’s interests could be better protected through clearer requirements for accounting and reporting on the use of City bed tax monies and reserves.

- A. A significant decrease in FY 2020/21 program expenses, and particularly in Marketing, resulted in its net assets increasing by almost \$2.6 million as illustrated in Table 1.

#### Destination Marketing Contract

**\$4.5.5 City Funds Upon Termination.** Within fifteen (15) days after any expiration or other termination of this Agreement in any manner, SCVB shall return to City all unexpended City funds which SCVB is not contractually or legally obligated to pay consistent with this Agreement.

**Table 1. Experience Scottsdale Revenues and Expenses by Fiscal Year for the Contract Period**

	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	Change - 2 Recent FYs
City of Scottsdale	\$10,079,854	\$11,371,820	\$9,595,454	\$9,145,785	(\$449,669)
Other Governmental	3,357,212	3,740,154	4,104,584	2,586,309	(1,518,275)
Private	927,470	951,409	911,107	510,317	(400,790)
<b>Total Revenues</b>	<b>\$14,364,536</b>	<b>\$16,063,383</b>	<b>\$14,611,145</b>	<b>\$12,242,411</b>	<b>(\$2,368,734)</b>
Programs:					
Marketing	\$8,212,890	\$8,609,320	\$8,299,272	\$4,566,266	(\$3,733,006)
Convention Sales and Service	2,129,357	2,208,144	2,123,218	1,547,428	(575,790)
Communication	1,210,861	1,245,758	967,042	899,966	(67,076)
Tourism	862,196	867,012	783,756	631,949	(151,807)
<b>Total Programs</b>	<b>\$12,415,304</b>	<b>\$12,930,234</b>	<b>\$12,173,288</b>	<b>\$7,645,609</b>	<b>(\$4,527,679)</b>
Management and general	\$2,251,900	\$2,665,049	\$2,213,403	\$2,022,196	(191,207)
<b>Total Expenses</b>	<b>\$14,667,204</b>	<b>\$15,595,283</b>	<b>\$14,386,691</b>	<b>\$9,667,805</b>	<b>(\$4,718,886)</b>
Increase (Decrease) in Net Assets	(302,668)	468,100	224,454	2,574,606	
<b>Beginning Net Assets</b>	<b>\$3,229,474</b>	<b>\$2,926,806</b>	<b>\$3,394,906</b>	<b>\$3,619,360</b>	
<b>Accumulated Net Assets</b>	<b>\$2,926,806</b>	<b>\$3,394,906</b>	<b>\$3,619,360</b>	<b>\$6,193,966</b>	<b>\$2,574,606</b>

SOURCE: Auditor analysis of audited financial statements for FY 2017/18 through FY 2020/21.

Largely related to the COVID-19 pandemic's impact on the City's bed tax, Experience Scottsdale's total revenues decreased from approximately \$14.6 million to \$12.2 million from FY 2019/20 to FY 2020/21. When addressing the lower revenues, the organization reduced program expenses by approximately \$4.5 million, or 37%, with the greatest decline in its Marketing program. During this same period, management and general expenses decreased by about \$191,000, or about 9%.

Further, Experience Scottsdale's accumulated net assets almost doubled during this 4-year period of the contract, increasing by about \$3 million. This significant increase is largely attributable to leftover City funds, which is not reflected in Experience Scottsdale's budgets or other reports submitted to the City.

The two most significant "Other Governmental" revenue sources include the Town of Paradise Valley and Proposition 302 monies from the state of Arizona. While the Town's approximately \$1.4 million is available for operations, Prop 302 monies are restricted to only being used for advertising costs; administrative costs are not allowed. City of Scottsdale monies represent 82% of Experience Scottsdale's total revenue after the Prop 302 restricted purpose monies are deducted.<sup>2</sup> However, as all monies are commingled, the organization's accounting records and financial reports do not attribute a similar portion of its net assets as City monies.

As shown in Figure 2 on page 11, as of June 30, 2021, Experience Scottsdale's cash balance was approximately \$4.9 million. Based on funding source proportions, 82% or about \$4 million, would be City monies if expenses were proportionately allocated. However, because the required financial reports do not segregate City funds, there is limited accountability for the City's remaining bed tax monies.

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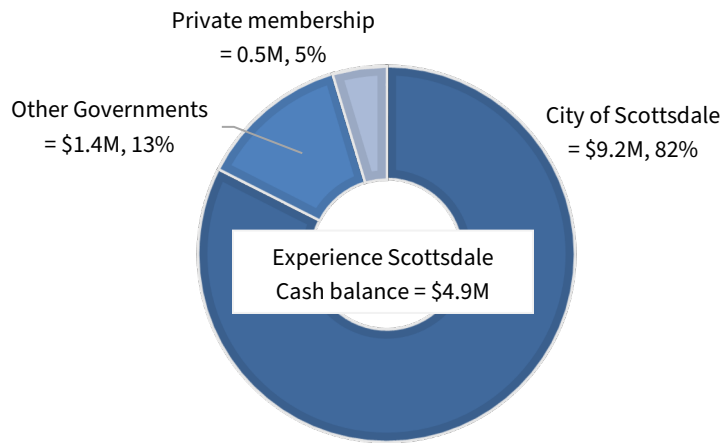
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<sup>2</sup> This analysis does not take into account the \$795,000 Paycheck Protection Program loan which was not reflected as revenue during FY 2020/21. Experience Scottsdale applied for loan forgiveness in June 2021. Because those monies were required to be spent before requesting loan forgiveness, they would not be part of the remaining cash balance.



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**Figure 2. Experience Scottsdale – FY 2020/21 Funding Sources and Cash Balance**



Note: *Other Governments* excludes Prop 302 restricted revenues totaling \$1.15 million.

**SOURCE:** Auditor analysis of Experience Scottsdale’s audited FY 2020/21 financial statements.

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Our previous audit of the destination marketing contract similarly noted that the majority of the organization’s reported reserves appeared to be funded by the City’s bed tax dollars. While contract terms were adjusted to require the return of any remaining City monies in the event of contract termination, City monies are not tracked in the accounting records and financial reports identifying the remaining amount.

- B. As shown in Figure 3 on page 12, the current budget format does not provide any actual data on revenues and expenses or any information on increase or decrease in net assets. Instead, only the current fiscal year’s approved and revised budgets and the proposed next fiscal year’s budget are presented and estimated remaining monies are labeled as contingencies for various purposes. As a result, the actual remaining monies are not reported to the City. Also, the submitted budgets underestimate sources other than City of Scottsdale revenues, thus do not reliably forecast the total revenues, expenses and any remaining monies. For example, while Table 1 reflects \$2.6 million in remaining FY 2020/21 monies, the proposed FY 2021/22 budget in Figure 3 reports a carryover of \$1.2 million in program funds.

Requiring at least one year of actual revenues, expenses and beginning and ending balances would provide a better context for evaluating the submitted budget. As well, requiring a revised budget after the prior fiscal year audit is completed and remaining carryover resources are verified can help ensure the City’s bed tax monies are fully applied to the next fiscal year’s programs.

**Figure 3. Experience Scottsdale FY 2021/22 Proposed Budget**

	Approved Budget FY 2020-2021	Reforecasted 2020-2021 Budget	Proposed Budget FY 2021-2022	Percentage Change over 2020-2021 Reforecasted Budget
<b>REVENUE</b>				
Contracts				
City of Scottsdale - Contract	7,510,187	7,423,604	10,818,615	46%
City of Scottsdale - Fiesta Bowl True-Up Payment*	181,826	163,643	189,100	16%
	-	-	1,179,464	
<b>Total City of Scottsdale Revenue</b>	<b>7,692,013</b>	<b>7,587,247</b>	<b>12,187,179</b>	<b>61%</b>
Town of Paradise Valley	900,000	900,000	900,000	0%
Salt River Pima	-	75,000	-	-100%
State of Arizona - Prop 302	1,100,000	1,273,587	1,227,203	-4%
<b>Total Contracts</b>	<b>9,692,013</b>	<b>9,835,834</b>	<b>14,314,382</b>	<b>46%</b>
PPP Loan		795,779		-100%
Carryover - Program funds	-	182,000	1,176,857	547%
Carryover - Technology Fund	-		100,000	
Carryover - Opportunity Funds		275,000		-100%
Prior Year's Contingency			500,000	
Private Sector Revenue	300,000	450,000	450,000	0%
<b>TOTAL ALL REVENUE</b>	<b>9,992,013</b>	<b>11,538,613</b>	<b>16,541,239</b>	<b>43%</b>
<b>EXPENSE</b>				
Personnel:				
Salaries	3,191,070	3,364,180	3,945,336	17% **
Taxes	230,954	240,000	263,016	10%
Benefits	680,000	678,000	685,000	1%
<b>TOTAL Personnel</b>	<b>4,102,024</b>	<b>4,282,180</b>	<b>4,893,352</b>	<b>14%</b>
Operating/Administration Expense	1,070,000	970,000	1,200,000	24%
Membership Development	20,000	20,000	20,000	0%
Marketing	2,232,337	3,117,290	5,876,591	89%
City of Scottsdale Pass Through - Fiesta Bowl	181,826	163,643	189,100	16%
Experience Scottsdale - Fiesta Bowl	181,826	163,643	189,100	16%
Communications	535,000	345,000	560,000	62%
Community & Government Affairs	108,000	108,000	235,000	118%
Convention Sales	800,000	525,000	925,636	76%
Tourism Sales	261,000	167,000	285,000	71%
Contingency	500,000	500,000	500,000	0%
Reserve (6% of municipal revenue)			703,117	
Move Office			500,000	
Additional Contingency for Marketing and/or Office Relocation			464,343	
<b>TOTAL ALL EXPENSE</b>	<b>9,992,013</b>	<b>10,361,756</b>	<b>16,541,239</b>	<b>60%</b>
Net	-	1,176,857	0	

\*City of Scottsdale Estimate at 2-1-2021.

\*\*Increase is due to:

Restoring all staff to full pay

Restoring sales incentives

Merit Pool of 3%

Market adjustments per our compensation policy and philosophy, as indicated by independent study

SOURCE: Attached to City Council Report dated June 22, 2021, Item 33. Shading and bold fonts in the original document.

- Experience Scottsdale explained that proposed budgets do not include the following funds that it has designated for a specific use:

<b>Designated Funds</b>	<b>FY 2019/20</b>	<b>FY 2020/21</b>
Reserve Fund: To assist with short-term cash flow shortfalls.	\$694,882	\$694,882
Segregated Funds: For designated Experience Scottsdale Board initiatives.	722,102	447,102
Technology Fund: For hardware purchases. FY 2021/22 budget includes \$100,000 from the fund.	116,578	116,578
<b>Total</b>	<b>\$1,533,562</b>	<b>\$1,258,562</b>

Experience Scottsdale stated the “Reserve Fund” is a private sector-funded reserve while the other designated monies represent a mix of funding sources, including Scottsdale and Paradise Valley bed tax monies and private membership dues.

- While noting that maintaining a reserve was reasonable, our previous audit also recommended establishing a guideline in the City contract for the amount that could be retained in reserves. While addressing many of the previously recommended reserve elements, the current contract does not establish a bed tax reserve goal or limit.

As illustrated below, the FY 2020/21 audited financial statements included a liquidity analysis showing that Experience Scottsdale had approximately \$5.6 million available as of June 30, 2021, to meet cash needs within the coming year.

<b>Line Item</b>	<b>FY2019/20</b>	<b>FY 2020/21</b>
Financial assets at year-end	\$3,425,055	\$6,864,317
Less unavailable within one year:		
Experience Scottsdale Board designations	(1,533,562)	(1,258,562)
Financial assets available to meet cash needs	\$1,891,493	\$5,605,755

In addition to having this liquidity, the proposed FY 2021/22 budgeted expenses identified setting aside 6% from City bed tax revenues, or \$703,117, plus more than \$1.4 million in other contingencies. However, given its available liquid assets of approximately 34% of budgeted expenses, it does not appear an additional City contingency is necessary. These large contingency reserves, as shown in Figure 3 on page 12, reduce the amount of bed tax revenues being spent for destination marketing purposes, as well as commingle City bed taxes with other monies in a way that they are no longer identified.

In contrast, a comparable DMO has a policy that dedicates 5% of the annual budget to a contingency fund for unanticipated or increased costs. After the fund reaches this amount, any additional monies go into supporting its programs. Another alternative for the City may be to require the annual excess monies over a specified amount be returned to the City to

be held as destination marketing reserves to level out funding fluctuations. Alternatively, the City could use the returned monies for other destination marketing programs or expenses.

- Although financial reporting standards now require expense categorization by function (such as marketing or administration), the submitted budget format continues to separate out all personnel costs and use inconsistent categorization for other expenses and the various contingencies. As well, budget categories are not consistent with the IRS Form 990. Together with the budget being prepared on a cash basis, these inconsistent categories make comparing budget forecasts to audited actual prior year results very difficult.
- C. Given the annual fluctuations in bed tax revenues and the level of marketing services, the City may want to consider establishing a different fee mechanism. The current contract requires the City to pay 50% of its bed tax monies collected each year to Experience Scottsdale. However, there is no assurance that this approach results in a price commensurate with the services provided.

Further, despite its submitted business plan including production of promotional materials, such as visitor guides and maps, from July 1, 2019, through September 13, 2021, Experience Scottsdale billed the City an additional \$51,269 for guide advertisements and printed pocket maps. While a relatively minor cost, the City paid Experience Scottsdale \$9 million to \$11 million in each of the last four fiscal years to provide destination marketing. Our previous audit reported a similar observation and recommended that City of Scottsdale advertisements be provided at no additional cost. Subsequently, the current contract incorporated a requirement for the City to receive four free half-page ads. However, Experience Scottsdale still bills the City for certain marketing products and advertisements, which should also be a consideration when negotiating the compensation terms.

Using a different fee approach, the Town of Paradise Valley has established a sliding payment scale based on its available bed tax revenues. Specifically, the Town's contract terms will pay Experience Scottsdale 45% of the first \$2 million in bed tax, 35% of the second \$2 million, and 25% above \$4 million.<sup>3</sup> This approach reduces the potential for exponential growth of destination marketing payments that may be out of proportion to the underlying program services. Another alternative may be to negotiate a fixed fee for each year's marketing services, with any additional destination marketing monies being retained in reserve at the City to level out bed tax revenue downturns or used to purchase additional destination marketing services.

- D. The contract does not currently establish ownership of the substantial amount of intellectual property and work products that result from various destination marketing activities. As a

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<sup>3</sup> Town of Paradise Valley contract approved June 25, 2020, and effective through June 30, 2023, with two additional optional one-year renewals. Further, the terms state this sliding scale applies while the Town's bed tax rate is 3.4%, with terms to be renegotiated if the tax rate changes.

result, should the contract not be renewed, the City would potentially lose the rights to all intellectual property or other work products created through the City's bed tax funding.

### Recommendations:

The Contract Administrator should address the following in the City's destination marketing contract:

- A. Require a full accounting of City bed tax monies, including any unused monies remaining at year end, through annual budgets and other required financial reports. One alternative for achieving this is to require City-funded revenues and expenses to be tracked separately, allocating to the City only a proportionate share of the destination marketing expenses that are not funded by other restricted revenues.
- B. Establish a City contingency or reserve funding limit and either require excess funds be specifically reallocated to program expenses or returned to the City to be held in reserve for destination marketing purposes. Also, develop or require budget forms that are consistent with the categories used in the audited annual financial statements and include at least one prior year's actual results, along with the applicable beginning and ending balances.
- C. Establish a fee method that is more closely aligned with the purchased destination marketing services, such as using a sliding scale of bed tax revenues or a fixed contract amount. In addition, require the contractor to provide advertising services and marketing materials at no additional cost to the relevant City departments.
- D. Add a contract term to establish ownership of intellectual property and work products funded with City bed tax.

## 2. **Contract terms are not sufficient to limit administrative costs and maximize the destination marketing programs.**

After the previous audit, the contract required Experience Scottsdale to report on its non-program and program expenses based on the performance benchmark established by a destination marketing organization. The contract also requires Experience Scottsdale to provide a proposed annual budget, quarterly and annual financial reports, audited financial statements, and the annual IRS Form 990. These requirements are not specific enough to provide adequate oversight of the organization's administrative costs.

- A. The Contract Administrator did not obtain supporting documentation for the contractor's non-program cost comparisons with peers. In February 2020, Experience Scottsdale submitted a written comparison of their non-program costs with those of its peers, as required by contract. The Contract Administrator does not have access to the Destinations International survey data and did not request Experience Scottsdale to provide the underlying comparison data. During this audit, Experience Scottsdale was unable to provide the underlying data because the

database is dynamic, and the organization did not retain a copy of the data used when creating the report. Further, the database instructions request the DMOs to submit budget data, rather than actual expenses. As a result, the comparison may or may not reflect the organization’s performance in comparison to its selected peers.

Due to an updated accounting and financial reporting standard that is applicable to Experience Scottsdale, more specific information is now available regarding its actual administrative overhead costs.<sup>4</sup> Previously its audited financial statements as well as budgets and other reports segregated all personnel costs and did not assign them to the related functional area, such as marketing or administration.

Because the contractual requirement was established before the new financial reporting standard, the organization continues to report based on the Destination International benchmark standard. As a result, while Experience Scottsdale reported to the City administrative costs of 7%, according to the newly available information in its audited financial statements, its management and general expenses range from 15% to 21% of total expenses.

Expense Type	FY 2019/20	FY 2019/20	FY 2020/21	FY 2020/21
	Reported	Actual	Reported	Actual
Personnel	34%		34%	
Operations and Administration / Management and General <sup>1</sup>	7%	15.4%	7%	20.9%
Programs	59%	84.6%	59%	79.1%
Total Expense	100%	100%	100%	100%

1 - Labeled “Operations & Administration” in the FY 2019/20 and FY 2020/21 Annual Reports but “Management and General” in the audited financial statements.

Further, in Experience Scottsdale’s proposed budgets and quarterly financial reports given to the City, personnel costs are still reported as a single expense line item rather than in their related functional categories. This presentation has the effect of masking the amount of administrative and general expenses paid by the City’s bed tax monies.

- B. The organization’s employee compensation represents a substantial use of City bed tax monies, and it has been significantly higher than other destination marketing organizations’

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<sup>4</sup> The Financial Accounting Standards Board (FASB) accounting standards update (ASU 2016-14) requires non-profit organizations to include an analysis of expenses by function. The standard includes clarifying guidance on the definition of management, general activities, and supporting activities.

personnel costs. We analyzed the 2018 IRS Form 990s, the most recent available for Experience Scottsdale and the 14 comparable destination marketing organizations (DMOs).<sup>5</sup>

As summarized in Table 2 on page 18, although having fewer employees, Experience Scottsdale averaged higher per-staff position salaries than the comparable DMOs (peers).

- Experience Scottsdale reported having 50 employees while the 14 peer DMOs reported a range of 74 to 141 employees. On average, the peers' staffing level of approximately 98 employees nearly doubled that of Experience Scottsdale.
- Experience Scottsdale averaged \$91,920 in per-staff position salary cost while the peer DMOs averaged per-staff salary costs ranging from \$36,440 to \$82,622. Overall, the peers' per-staff salary cost averaged \$52,774, or 43% lower.
- Experience Scottsdale's compensation is heavily weighted toward its 10 key employees, which include the CEO and six vice presidents. While Experience Scottsdale reported paying 44% of its salary and wages to key employees, the 14 comparable DMOs reported key employee compensation ranging from 8% to 28% of their totals.<sup>6</sup>

*(continued on next page)*

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<sup>5</sup> Using the IRS Form 990s, we identified the comparable organizations based on reported revenues and range of responsibilities, excluding any that also operate a convention center or similar facility.

<sup>6</sup> Part VII of the IRS Form 990 lists the organization's key employees.

**Table 2. Comparison of Employee Compensation with Similar Organizations**

Organization	Total Revenue	Salary and Wages	Total Employees	Average Salary and Wages	Key Employee Compensation - % of Compensation
Scottsdale	\$16,063,383	\$4,596,017	50	\$91,920	44%
Philadelphia	\$20,555,890	\$6,940,278	84	\$82,622	17%
Anaheim	\$18,731,656	\$6,657,310	84	\$79,254	25%
Indianapolis	\$16,139,161	\$6,358,799	85	\$74,809	17%
Detroit	\$19,892,198	\$4,711,737	74	\$63,672	Not reported
Oklahoma City	\$17,214,525	\$5,758,031	96	\$59,979	19%
Austin	\$14,422,102	\$4,950,068	84	\$58,929	26%
Boston	\$14,038,008	\$6,651,987	113	\$58,867	17%
Tampa	\$16,376,685	\$3,946,963	89	\$44,348	13%
Phoenix	\$16,954,027	\$5,220,981	119	\$43,874	17%
Baltimore	\$16,694,132	\$5,681,769	136	\$41,778	14%
Charleston	\$19,736,343	\$3,736,081	95	\$39,327	12%
Columbus	\$15,379,056	\$5,466,714	141	\$38,771	28%
Columbia	\$14,276,938	\$2,871,703	75	\$38,289	8%
Salt Lake City	\$15,035,783	\$3,716,853	102	\$36,440	10%
<b>Peer Average<sup>1</sup></b>	<b>\$16,817,607</b>	<b>\$5,190,662</b>	<b>98</b>	<b>\$52,774</b>	

<sup>1</sup>Peer average calculations exclude Experience Scottsdale.

Note: Using the IRS Form 990s and the organizations’ websites, we identified the comparable organizations based on reported revenues and range of responsibilities, excluding any that also operate a convention center or similar facility.

**SOURCE:** Auditor analysis of 2018 IRS Form 990s, Schedules I and IX.

Further, based on the 2018 IRS Form 990s, Experience Scottsdale’s executive compensation, an administrative expense, is also significant when compared to these comparable DMOs. As summarized in Table 3 on page 19, the Experience Scottsdale CEO’s compensation, at \$559,698, was the second highest executive salary compensation. The peer average CEO salary was substantially lower at \$391,014.



**Table 3. Comparison of Executive Compensation with Similar Organizations**

Organization	CEO Salary	Total Revenue	# of Employees
Indianapolis	\$708,375	\$16,139,161	85
Scottsdale	\$559,698	\$16,063,383	50
Oklahoma City	\$539,225	\$17,214,525	96
Phoenix	\$510,579	\$16,954,027	119
Philadelphia	\$428,323	\$20,555,890	84
Anaheim	\$423,793	\$18,731,656	84
Austin	\$421,876	\$14,422,102	84
Detroit	\$414,576	\$19,892,198	74
Columbus	\$364,861	\$15,379,056	141
Tampa	\$354,220	\$16,376,685	89
Salt Lake City	\$329,585	\$15,035,783	102
Baltimore	\$319,175	\$16,694,132	136
Boston	\$220,394	\$14,038,008	113
Charleston	\$220,001	\$19,736,343	95
Columbia	\$219,217	\$14,276,938	75
<b>Peer Average<sup>1</sup></b>	<b>\$391,014</b>	<b>\$16,817,607</b>	<b>98</b>

<sup>1</sup> Peer average calculations exclude Experience Scottsdale.

**SOURCE:** Auditor analysis of 2018 IRS Form 990s, Schedules I and IX.

While Experience Scottsdale’s total revenues are comparable to the 14 DMOs selected for analysis, the CEO’s salary is more aligned with those having a much larger revenue base, as shown below:

Organization	Total Revenue	CEO Salary
Nashville	\$38,443,378	\$1,093,410
Los Angeles	58,707,062	780,947
Scottsdale	16,063,383	559,698
San Diego	47,548,642	554,972
New Orleans	37,554,458	505,545
Miami	36,056,115	398,925

As of June 30, 2021, after its pandemic layoffs, Experience Scottsdale had 33 employees, or 34% fewer than the 2018 IRS Form 990. When comparing the same years, its personnel costs for key employees were about 14% lower. Experience Scottsdale stated that it restored employees to the previous compensation levels in January 2021.

Higher executive compensation has the effect of using more of the City's destination marketing monies for general administrative costs rather than for marketing activities.

### Recommendations:

The Contract Administrator should strengthen fiscal monitoring over the use of City bed tax monies by:

- A. Adjusting the non-program expense reporting requirement to be calculated based on audited financial statement functional expense categories.
- B. Adopting a performance standard and/or contract requirement to monitor the effect of executive compensation and limit administrative costs paid by the City's bed tax monies.

### 3. Performance monitoring activities can better ensure focus on the City's objectives and contract compliance.

Performance monitoring can be improved by strengthening adopted performance standards, evaluating marketing programs, and ensuring that all Scottsdale businesses are promoted.

- A. The Contract Administrator did not ensure performance standards were relevant based on the City's objectives, funding priorities and the organization's historical performance. Figure 4 on page 21 summarizes the adopted FY 2021/22 performance standards and the organization's reported performance results over this contract's first four years.
  1. The adopted performance standards can be better aligned with the contract's stated objectives and the funding priorities. For example, while the marketing program represented the largest FY 2019/20 expenditure, there were only two related performance measures as summarized in Figure 4. Similarly, although the FY 2021/22 marketing budget increased by 89% there is now only one adopted marketing performance standard, counting visitors to the Experience Scottsdale website. This will not measure the impact of efforts to continue increasing brand awareness among regional and drive markets, which were to include broadcast and streaming TV and digital advertising.

Overall, Experience Scottsdale only proposed four or five performance standards for the last two fiscal years. Also, as previously noted in Audit No. 1705, adopted goals for the current year are lower than its actual performance results for the prior year.

**Figure 4. Experience Scottsdale – Analysis of Performance Standards**

Performance Standard	Goal	Reported Performance			
	2021/22	2020/21	2019/20	2018/19	2017/18
<b>Marketing</b>					
Generate brand engagements through visitor guide distribution, collateral downloads, email opens and social media followers	NA	NA	4,050,296	963,460	824,446
Generate visitor sessions to the Experience Scottsdale website and all affiliate sites	1,800,000	1,994,354	1,940,130	2,121,891	2,147,296
<b>Convention Sales and Services</b>					
Generate convention sales leads for Scottsdale market area properties	1,080	1,234	1,870	1,903	1,779
Conduct customer site inspections for Scottsdale market area properties	NA	NA	184	266	230
Confirm convention bookings into Scottsdale market area properties for future dates	324	NA	565	625	589
Confirm convention bookings into Scottsdale market area properties for future dates resulting in room nights	NA	NA	197,015	202,892	193,041
Generate service leads and hotel leads for 10 rooms or fewer for Scottsdale market area properties/businesses	NA	NA	293	378	388
<b>Communications</b>					
Generate media hits about the Scottsdale market area	850	818	3,189	1,157	1,078
<b>Tourism</b>					
Generate domestic and international tour program leads and services for Scottsdale market area properties/businesses	1,400	1,751	1,861	2,121	1,921
Promote the Scottsdale market area as one of the world's top leisure destinations to targeted clients	NA	NA	2,623	3,730	3,682
Generate travel agent impressions via destination product offering in tour operator brochures	NA	NA	NA	NA	3,815,000

Note: Some performance standards were discontinued, as indicated by “NA” (Not Applicable).

**SOURCE:** Auditor analysis of 2017/18 - 2021/22 adopted performance standards.

Further, while Destinations International, the DMO trade group to which Experience Scottsdale belongs, recommends several performance measures for DMO programs, few have been incorporated in the adopted performance standards. For example, Table 4 illustrates recommended Convention Sales and Services performance measures and whether they were adopted.

**Table 4. Destinations International – Convention Sales Performance Measures**

Description	Adopted FY 2021-22 measure?
1. Leads. <ul style="list-style-type: none"> <li>a. Number of leads.</li> <li>b. Lead room nights.</li> </ul>	Partially adopted
2. Bookings. Hotel or Convention center events. <ul style="list-style-type: none"> <li>a. Number of bookings (actual, confirmed, contracted)</li> <li>b. Booked room nights (estimate)</li> <li>c. Booked attendance (estimate)</li> <li>d. Attendee spending (estimate)</li> </ul>	Partially adopted
3. Lost Opportunities. <ul style="list-style-type: none"> <li>a. Number of lost opportunities</li> <li>b. Reason for lost opportunity</li> <li>c. Lost room nights (estimate)</li> <li>d. Lost attendance (estimate)</li> <li>e. Lost attendance spending (estimate)</li> </ul>	Not adopted
4. Cancellations. <ul style="list-style-type: none"> <li>a. Number of cancellations</li> <li>b. Reason for cancellation</li> <li>c. Cancelled room nights (estimate)</li> <li>d. Cancelled attendance (estimate)</li> <li>e. Cancelled attendance spending (estimate)</li> </ul>	Not adopted
5. Number of leads per tradeshow attended/exhibited by DMO sales staff	Not adopted
6. By-year production. <ul style="list-style-type: none"> <li>a. Number of bookings</li> <li>b. Number of booked room nights (estimate)</li> <li>c. Number of booked attendance (estimate)</li> <li>d. Booked attendance spending (estimate)</li> </ul>	Not adopted
7. Post-event measures. <ul style="list-style-type: none"> <li>a. Room night pick-up (estimate)</li> <li>b. Total attendance</li> </ul>	Not adopted

**SOURCE:** Auditor analysis of 2021/22 adopted performance standards and Destinations International *Standard DMO Performance Reporting* handbook.

2. The contract currently allows performance standards to report on the “Scottsdale market area,” meaning Experience Scottsdale’s member organizations, including those outside the Scottsdale city limits. As an example of the effect of this definition, Experience Scottsdale reported 818 generated media hits about the Scottsdale market area. However, when we excluded articles that did not mention at least one Scottsdale business, there were only 586 relevant media hits.

In its most recent destination marketing contract with the Town of Paradise Valley, Experience Scottsdale is required to report Town-specific data. Our previous destination marketing contract audit recommended this kind of requirement be added to Scottsdale’s contract.

- B. Destinations International recommends that an organization spending a significant amount of its budget on marketing should invest in research to measure the effectiveness of those marketing efforts accurately and credibly. Further, Destinations International states that traditional advertising campaigns are typically assessed through advertising effectiveness studies, which can be used to measure key performance including advertising awareness, changes in brand image among target audiences, and intent to travel. However, neither the City nor Experience Scottsdale have obtained such studies since 2018.

**Marketing Effectiveness Studies - Caution**

Destination marketing organizations are cautioned against using total number of visitors as a measure since it is unlikely the organization generated every visitor to the destination.

**Source:** Destinations International

The 2018 study concluded that Scottsdale’s tourism advertising boosted the City’s image in six areas tested: a good place to live, a good place to start a career, a good place to start a business, a good place to attend college, a good place to purchase a vacation home, and a good place to retire. However, the study did not specifically address whether the advertising increased tourism and convention interest.

- C. The Contract Administrator has not ensured there are standard definitions for the adopted performance standards, which allows different interpretations and varying data being included.

*(continued on next page)*

1. Experience Scottsdale reported 1,234 convention sales leads in FY 2020/21. While the contract does not include a specific written definition, Experience Scottsdale indicated this measure includes their customized responses to meeting planners' requests for accommodations and meeting spaces with leads to Scottsdale market-area properties that best meet the planner's needs.

Based on the underlying convention sales lead data, nearly all the convention sales leads contacted the hotels directly, typically through convention planner or luxury-hotel association websites.<sup>7</sup> However, Experience Scottsdale counts these as its leads even when customers submit requests directly to hotels. Experience Scottsdale stated that in some cases they had spoken to the customer prior to the customer's direct submission. The available data indicated this occurred in 588 of the 1,234 inquiries, mainly by Experience Scottsdale recommending additional hotels not automatically generated by the websites. There was no evidence of contact with the other 646. Further, the available lead information did not indicate the number of rooms sought or meeting space required so it is unclear whether any of them met the definition of providing a customized response to a request.

2. For FY 2020/21, Experience Scottsdale reported 1,751 tourism leads and service requests, including 329 tourism leads and 1,422 service requests. Experience Scottsdale's materials state that "tour program leads and service requests include inquiries from travel advisors, tour operators, airline vacation divisions, receptive operators, wholesale operators, online travel agencies, etc." Our review of the 329 tourism leads found that only 267 met Experience Scottsdale's definition of a lead, while just 92 met the Destinations International definition, provided in the textbox.

Also, some Tourism leads are sent to a single business but counted as multiple leads. Experience Scottsdale uses twelve different categories for Tourism leads, including accommodations, activities, art and culture, dining, golf, transportation, and visitor services. When a lead is sent to a business, the lead may be counted multiple times based on the number of categories. The following illustrates two leads that were each counted multiple times, one was counted twice and the other counted six times.

#### **Destinations International Definitions**

*Convention Lead* - A request for a minimum of 10 sleeping rooms per night (peak rooms) over a specific date or range of dates forward by the DMO sales staff. A lead is more formalized than exchanging business cards.

*Tourism Lead* - An inquiry from travel trade that includes a request over a specific set or range of dates forwarded by the organization sales staff to hotels/businesses that meet a specific request criteria.

**Source:** Destinations International

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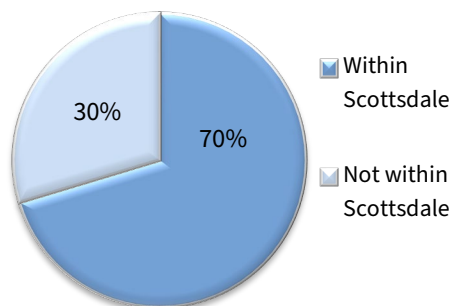
<sup>7</sup> These included [www.cvent.com](http://www.cvent.com), a website used by convention planners to find venues and services, and Associated Luxury Hotels International, [www.alhi.com](http://www.alhi.com), which provides sales and support to its member luxury hotels and resorts, including three in Scottsdale.

Lead ID	Lead Description	Recipient	Lead Type
11176	"Girls Trip", requesting rates and information	Andaz Scottsdale Resort & Bungalows	Accommodations
11176		Andaz Scottsdale Resort & Bungalows	Spas + Wellness
11361	Client would like to add Scottsdale to portfolio, request to review a brochure and contact the client if interested	iFLY Phoenix	Activities
11361		iFLY Phoenix	Art + Culture
11361		iFLY Phoenix	Golf
11361		iFLY Phoenix	Outdoor Adventure
11361		iFLY Phoenix	Shopping
11361		iFLY Phoenix	Spas + Wellness

Further, Experience Scottsdale counts as tourism services various types of activities, such as follow up email communication, that are not inquiries from travel advisors or operators. Three of the ten services tested were follow-up emails supplying resources to individuals who attended a tradeshow. Another three were a request to confirm hotel contact information, a request for images, and a follow-up email to an individual who completed a survey.

D. Despite the City providing 75% of Experience Scottsdale’s total annual revenue, tourism and convention leads and sales leads are only forwarded to the organization’s membership, not to other non-member hotels or businesses within the City that may be relevant.

**Figure 5. Experience Scottsdale Membership by Location**



**SOURCE:** Auditor analysis of Experience Scottsdale membership list as of September 1, 2021.

As illustrated in Figure 5, as of September 1, 2021, 70% of Experience Scottsdale’s corporate members are located within the City of Scottsdale, while 30% are in Paradise Valley and other communities.

Among the members located outside of the immediate Scottsdale area are resorts and attractions in Sedona and Williams, Arizona; a Western venue in Laveen; and golf clubs in Wickenburg and on the Ak-Chin Indian Community. However, the stated objective of the City-funded destination marketing contract is to promote Scottsdale businesses not just those that choose to join Experience Scottsdale.

Further, while testing expenses, we noted that Experience Scottsdale’s Summer Meetings Rebate program pays a rebate to its member hotels that book a meeting during the summer months. The program’s tiered rebate payment is based on the number of rooms that are booked for the meeting, with rebates up to \$5,000 if more than 251 rooms are booked. Through this program, Experience Scottsdale also pays rebates to its

member hotels that are not located in Scottsdale or Paradise Valley and, therefore, have not paid bed tax to either one.

**Recommendations:**

The Contract Administrator should improve performance standards and evaluation of marketing programs by:

- A. Requiring destination marketing performance standards based on the City's contract objectives, marketing priorities and historical performance
- B. Requiring or regularly obtaining advertising effectiveness studies.
- C. Ensuring the contractor adopts relevant performance standards and definitions from the Destinations International *Standard DMO Performance Reporting* handbook.
- D. Requiring leads be forwarded to all applicable hotels and businesses within the City, rather than just Experience Scottsdale members and prohibiting Scottsdale bed tax monies from being rebated to hotels or businesses that do not pay the City bed tax.



## MANAGEMENT ACTION PLAN

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### 1. The destination marketing contract can be strengthened by addressing more operating risks.

#### Recommendations:

The Contract Administrator should address the following in the City's destination marketing contract:

- A. Require a full accounting of City bed tax monies, including any unused monies remaining at year end, through annual budgets and other required financial reports. One alternative for achieving this is to require City-funded revenues and expenses to be tracked separately, allocating to the City only a proportionate share of the destination marketing expenses that are not funded by other restricted revenues.
- B. Establish a City contingency or reserve funding limit and either require excess funds be specifically reallocated to program expenses or returned to the City to be held in reserve for destination marketing purposes. Also, develop or require budget forms that are consistent with the categories used in the audited annual financial statements and include at least one prior year's actual results, along with the applicable beginning and ending balances.
- C. Establish a fee method that is more closely aligned with the purchased destination marketing services, such as using a sliding scale of bed tax revenues or a fixed contract amount. In addition, require the contractor to provide advertising services and marketing materials at no additional cost to the relevant City departments.
- D. Add a contract term to establish ownership of intellectual property and work products funded with City bed tax.

**MANAGEMENT RESPONSE:** Agree

#### PROPOSED RESOLUTION:

The Contract Administrator will negotiate and/or establish in the new destination marketing contract a process in which the city's funds will be accounted for separate from other revenue funds; a city contingency or reserve funding limit and process/utilization of any excess funds; develop or require budget forms that are consistent with the audited annual financial statements using at least one prior year's actual results, along with the applicable beginning and ending balances; seek Council direction on the compensation method for a future agreement and require the contractor to provide advertising services and marketing materials at no additional cost to city departments; and work with City Attorney's office on establishing ownership of intellectual property and work products funded with City bed tax.

**RESPONSIBLE PARTY:** Karen Churchard, Tourism & Events Director

**COMPLETED BY:** 6/30/2022

**2. Contract terms are not sufficient to limit administrative costs and maximize the destination marketing programs.**

**Recommendations:**

The Contract Administrator should strengthen fiscal monitoring over the use of City bed tax monies by:

- A. Adjusting the non-program expense reporting requirement to be calculated based on audited financial statement functional expense categories.
- B. Adopting a performance standard and/or contract requirement to monitor the effect of executive compensation and limit administrative costs paid by the City's bed tax monies.

**MANAGEMENT RESPONSE:** Agree

**PROPOSED RESOLUTION:**

The Contract Administrator will seek Council direction on preference for non-program expense reporting stating Destination International as current reporting and audited financial statement functional expense categories as the recommended reporting. Additionally, the Contract Administrator will include a contract requirement that monitors the effect of compensation and administrative costs paid by the city's bed tax funds.

**RESPONSIBLE PARTY:** Karen Churchard, Tourism & Events Director

**COMPLETED BY:** 6/30/2022

**3. Performance monitoring activities can better ensure focus on the City's objectives and contract compliance.**

**Recommendations:**

The Contract Administrator should strengthen fiscal monitoring over the use of City bed tax monies by:

- A. Requiring destination marketing performance standards based on the City's contract objectives, marketing priorities and historical performance
- B. Requiring or regularly obtaining advertising effectiveness studies.
- C. Ensuring the contractor adopts relevant performance standards and definitions from the Destinations International *Standard DMO Performance Reporting* handbook.
- D. Requiring leads be forwarded to all applicable hotels and businesses within the City, rather than just Experience Scottsdale members and prohibiting Scottsdale bed tax monies from being rebated to hotels or businesses that do not pay the City bed tax.

**MANAGEMENT RESPONSE:** Agree

**PROPOSED RESOLUTION:**

The Contract Administrator will develop relevant annual performance standards and create definitions using Destinations International Standard DMO Performance Reporting handbook that are based on the city's contract objectives, marketing priorities and historical performance. Contract Administrator will also determine an ongoing timeframe for annual advertising effectiveness studies, likely biannual, and will review the promotions of hotels and businesses including rebate programs.

**RESPONSIBLE PARTY:** Karen Churchard, Tourism & Events Director

**COMPLETED BY:** 6/30/2022

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