CITY AUDITOR'S OFFICE

Scottsdale Convention & Visitors Bureau Agreement

April 28, 2009

AUDIT REPORT NO. 0909

CITY COUNCIL
Mayor W.J. "Jim" Lane
Vice Mayor Ron McCullagh
Lisa Borowsky
Wayne Ecton
Suzanne Klapp
Robert Littlefield
Tony Nelssen

CITY AUDITOR

April 28, 2009

Your Honor and Members of the City Council:

This is the report on the *Scottsdale Convention & Visitors Bureau Agreement*, Audit Report No. 0909.

Controls within the Economic Vitality Department and the Scottsdale Convention and Visitors Bureau provide reasonable assurance of contract compliance.

The City should consider extending the Contract term and should further develop written policies and procedures regarding the administration of the Contract.

We would like to thank Economic Vitality staff, particularly Kathy Carlisle O'Connor and Kathy Montalvo; and the Scottsdale Convention & Visitors Bureau staff for their cooperation and assistance during the audit.

The audit was conducted by Senior Auditor Leo Lew, under the direction of Assistant City Auditor Joyce Gilbride.

If you need additional information or have any questions, please contact me at (480) 312-7288.

Sincerely,

Brent Stockwell
Acting City Auditor

City of Scottsdale

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EXECUTIVE SUMMARY

An audit of the *Destination Marketing Services Agreement Between the City of Scottsdale and the Scottsdale Convention & Visitors Bureau* (SCVB*), Inc.* (Contract No. 2007-090-COS) was included on the City Council approved fiscal year 2008/09 Audit Plan. The overall purpose was to evaluate compliance and oversight of the Contract. The audit objectives were to:

- Confirm that the City received contracted services, particularly those outlined in Contract No. 2007-090-COS, Section 2 (see page 8).
- Confirm that funds disbursed were timely, properly authorized, and appropriately used.
- Confirm that the SCVB complies with reporting requirements, particularly those outlined in Contract No. 2007-090-COS, Section 4 (see page 9); and that the City periodically reviews and evaluates the SCVB's performance.
- Confirm that the Contract was administered in accordance with Administrative Regulation (AR) 215, *Contract Administration*; including but not limited to management controls, insurance requirements, and recordkeeping.

The scope of the audit was limited to the destination marketing services agreement with the SCVB for fiscal year 2007/08, including amendments and its directly related agreements.

We reviewed evidence of internal controls at both the City and the SCVB relevant to the audit objectives. Management controls were found to provide reasonable assurance that the destination marketing services agreement with the SCVB was administered appropriately, the SCVB was in compliance with the agreement, the City received the contracted services, and that City funds were used for their intended purpose. Insignificant items discovered during the audit were discussed with management. There were no significant issues of noncompliance with contract provisions, fraud, illegal activities, or abuse discovered during the audit.

We conclude that there is reasonable assurance that the four audit objectives were confirmed. However, we noted the following two areas for improvement, which are further discussed in the Findings and Analysis section.

- Internal controls could be enhanced by strengthening written policies and procedures (see page 17).
- Consider extending the period of the destination marketing services agreement with the SCVB (see page 19).

The SCVB response and Management's response and action plan are located at the end of this report.

BACKGROUND

Tourism is an important element in the City of Scottsdale's employment and tax base. As such, the City of Scottsdale imposes an additional privilege tax on transient lodging to support the tourism industry. There are three groups significantly involved with the expenditures of this tax revenue: 1) The Council appointed Tourism Development Commission (TDC) advises the City Council on the use of these funds, 2) The City's Economic Vitality Department manages the distribution of the funds, for which the majority is spent on promoting Scottsdale as a destination, and 3) The City contracts with the Scottsdale Convention & Visitors Bureau (SCVB) to provide destination marketing services.

Tourism

The importance of the tourism industry to the City of Scottsdale can be seen in the City Council's Mission statement:

> "The mission of the City of Scottsdale is to cultivate citizen trust by fostering and practicing open, accountable, and responsive government; providing quality core services; promoting long-term prosperity; planning and managing growth in harmony with the city's unique heritage and desert surroundings; **strengthening the city's standing as a preeminent destination for tourism;** and promoting livability by enhancing and protecting neighborhoods. Quality of life shall be the city's paramount consideration." (Emphasis added)

The Economic Vitality Department of the City of Scottsdale releases an annual publication on visitor statistics. The September 2008 report states that Scottsdale visitors had an estimated economic impact of $3.7 billion in 2007. In fiscal year 2007/08, visitors contributed an estimated $36.7 million in privilege tax revenue, approximately 20 percent of total privilege tax revenue. Of the $36.7 million, $9.7 million was transient lodging privilege tax, also known as bed tax.

Transient lodging privilege tax (bed tax)

In 1977, Scottsdale voters approved an additional tax on gross receipts generated from lodging activity when the person's stay is not more than 30 consecutive days. The City's current bed tax rate is 3 percent, of which 20 percent of the revenue goes to the City's general fund and 80 percent of the revenue is allocated for hospitality development.

Tourism Development Commission (TDC)

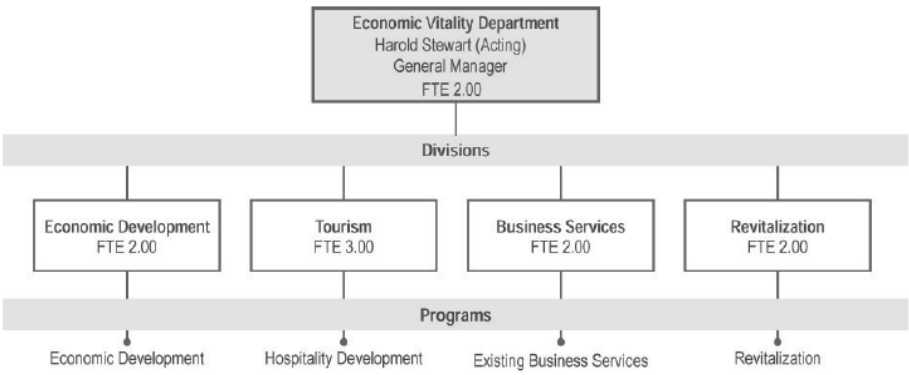
City Code Sections 2-285 through 2-289 dictate the purpose and composition of the TDC. The TDC is to advise the City Council on expenditures of the bed tax revenue designated for tourism development. TDC membership is to consist of a minimum of four Scottsdale hoteliers, one member of the SCVB, and the balance from the tourism industry. The City Council is to appoint members from nominations made by the Board of Directors of the SCVB and those submitted to the Office of the City Clerk.

City Code dictates that the tourism development funds be allocated among convention/tourism promotion, visitor research, and the balance to visitor related public capital projects. Convention/tourism promotion funds are to be allocated to projects that attract new visitors to Scottsdale (measured by room nights in Scottsdale lodging properties), attract visitors to Scottsdale year round, or meet TDC criteria consistent with these principles.

Economic Vitality Department

In fiscal year 2007/08, the Economic Vitality Department had an adopted budget of $9.2 million, consisting of 11 full time equivalent (FTE) positions. The department is divided into four program divisions: Economic Development, Tourism Development, Business Services, and Revitalization.

Chart 1. Organizational Chart



SOURCE: City of Scottsdale Adopted FY 2008/09 Budget, Volume Two.

The Tourism Development Program's Mission is as follows:

> "The Tourism Development Program contributes to the economic well-being and quality of life of the community and its residents by strengthening the local tourism industry through a comprehensive tourism development program of tourism research, marketing and promotion, support of major events, and the development of destination attractions and tourism infrastructure." (Adopted FY 2008/09 Budget Book)

In fiscal year 2007/08, the Tourism Development Program, which administers the destination marketing services agreement, had an adopted budget of $8.0 million and was supported by 3 FTEs: 1 Tourism Development Manager, 1 Tourism Development Coordinator, and 1 Economic Vitality Researcher. The adopted budget revenue sources for fiscal year 2007/08 consisted of $0.4 million from the general fund and $7.6 million from a special revenue fund (bed tax).[1]

[1] In January 2009, the City Council voted to shift Tourism Development Program staff funding from the general fund to the special revenue fund.

In fiscal year 2007/08, actual bed tax revenues were $9.6 million, of which 80 percent, or $7.7 million, was allocated for hospitality development and 20 percent, or $1.9 million, went to the general fund. Total bed tax expenditures were $8.5 million; the deficit funded by a carryover balance. Of the $8.5 million bed tax expenditures, $7.4 million were made to the SCVB.

Scottsdale Convention & Visitors Bureau (SCVB)

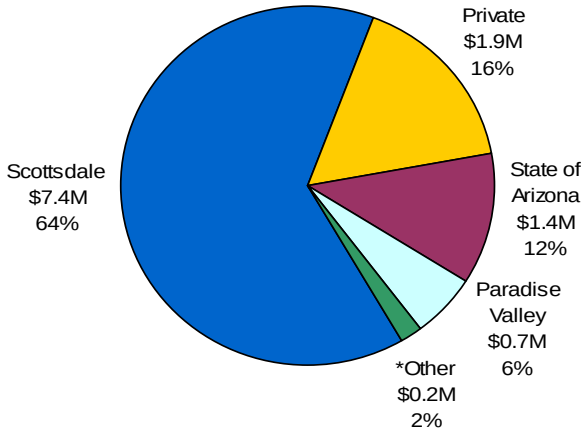
In 1977, the City began a public/private partnership agreement with the Convention/Tourism Division of the Scottsdale Chamber of Commerce for destination marketing services, which continued until 2001. In 2001, the Convention/Tourism division separated from the Scottsdale Chamber of Commerce and became the Scottsdale Convention and Visitors Bureau, Inc.; an independent, not for profit entity exempt under Section 501(c)(6) of the Internal Revenue Code. Although the legal entity changed, the essential operations and function remained. The City has continually contracted with the SCVB for destination marketing services under a sole source authorization.

The SCVB's vision is "to position Scottsdale as a world-class vacation, meetings and group travel destination by communicating an image that sells the uniqueness of the Scottsdale experience."

In fiscal year 2007/08, the SCVB received revenues from several sources. The City of Scottsdale was the largest funding source, providing 64 percent of the revenue. Funds were also received from the State of Arizona (via the Office of Tourism), the Town of Paradise Valley, the Fort McDowell Yavapai Nation, the Salt River Pima-Maricopa Indian Community, the Town of Fountain Hills, and private sources. Private sources include items such as membership dues, program participation, advertising, and sponsorships.

Chart 2 depicts the breakdown of fiscal year 2007/08 revenue sources:

Chart 2. SCVB FY 07/08 Revenue Sources

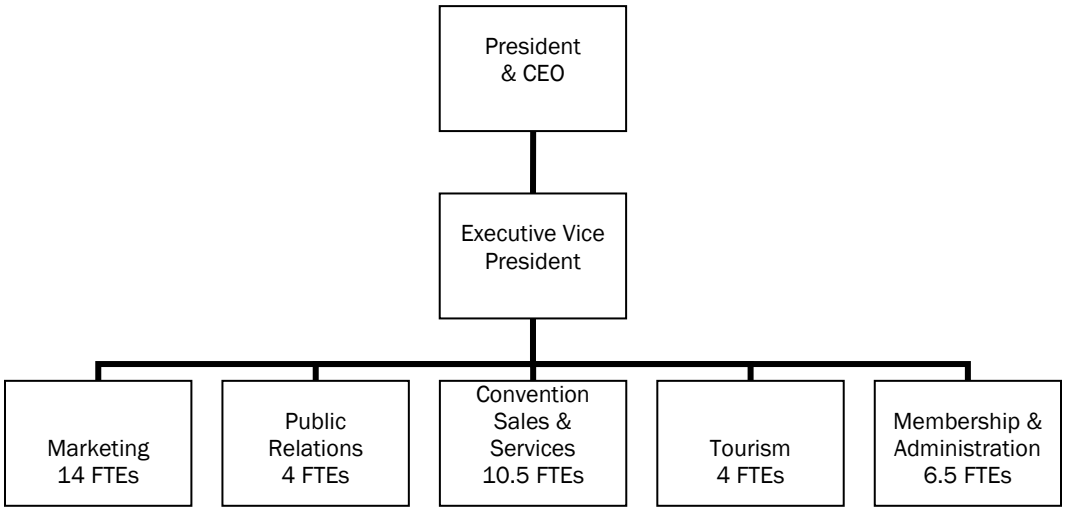


*Other includes Fort McDowell Yavapai Nation, Salt River Pima-Maricopa Indian Community, and the Town of Fountain Hills.

Source: SCVB financial statements provided to the Contract Administrator.

The SCVB accomplishes its mission through four main program categories: Marketing, Communications, Convention Sales and Services, and Tourism Sales. In fiscal year 2007/08, the SCVB employed 43 staff members (41 FTEs) and was guided by a Board of Directors of 28 members, consisting of public and industry representatives. Chart 3 shows the distribution of staff by activities.

Chart 3. Scottsdale Convention & Visitors Bureau



Source: Auditor analysis of SCVB staff listed in their 2007/08 Destination Marketing Guide.

The Marketing Program works to brand Scottsdale and communicate its offerings to target audiences. It employs various tactics, such as advertising, research, relationship marketing, publications, promotions (including event promotion), online marketing, and visitor services.

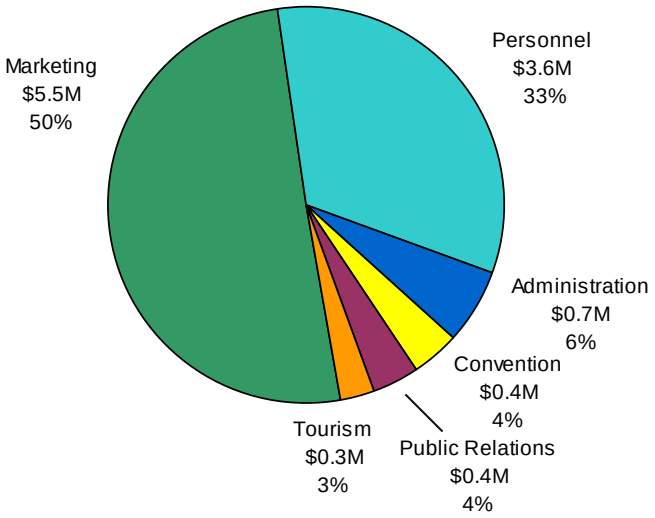
The Communications (Public Relations) Program works to obtain positive media press and educate business members, local government, and citizens of the benefits of the tourism industry. The SCVB meets with and educates the media through different venues, supplying them with resources about Scottsdale.

The Convention Sales and Services Program works to bring meetings to Scottsdale by educating meeting professionals and matching their needs to Scottsdale offerings. The SCVB generates leads and bookings through trade shows, familiarization tours, and client outreach. They provide convention services to link meeting planners' requests with available services.

The Tourism Sales Program works to increase leisure travel to Scottsdale by working with and supporting travel professionals to generate leads of both domestic and international travelers. The SCVB attends trade shows, performs sales missions, gives familiarization tours, provides product training, and participates in cooperative advertising and promoting.

Apart from personnel and administration, the SCVB spent 61 percent of total expenditures on destination marketing activities (see Chart 4). Data shows that in fiscal year 2007/08, the SCVB spent a lower percentage on personnel and administration costs than industry averages. As a result the SCVB was able to spend a higher percentage on marketing programs (see Table 1).

Chart 4. SCVB FY 07/08 Expenses



Source: SCVB financial statements provided to the Contract Administrator.

Table 1. SCVB FY 07/08 Expense Allocations vs. Destination Marketing Organizations with Budgets $10M and Over

	SCVB	**Industry*
Administration	6%	11%
Personnel	33%	37%
Marketing Activities	61%	52%

**Source:* Destination Marketing Association International via SCVB management.

SCVB audited financial statements prepared in accordance with generally accepted accounting principles present expenses allocated between program services and support services. Financial statements show that program expenses were approximately 90 percent and support services were approximately 10 percent of total expenses for fiscal year 2007/08.

Destination Marketing Services Agreement

The City contracts annually with the SCVB and works closely with them to develop, monitor, and support their activities. The Contract contains sections and exhibits that specifically detail the purpose, program of work, funding, reporting requirements, and legal provisions. Scottsdale's present Contract Administrator is the Tourism Development Manager. The fiscal year 2007/08 destination marketing Contract No. 2007-090-COS was recommended by City staff and the TDC, and was approved by the City Council.

Section 1 of the Contract outlined the SCVB's general responsibilities. It charged the SCVB to develop and execute an annual comprehensive tourism marketing plan called the Destination Marketing Guide (DMG). The SCVB was to make available destination marketing services to established business member categories for which they were authorized to charge membership dues. The SCVB was prohibited from spending City funds for political activities, lobbying, or election influence.

Section 2 of the Contract described the program of work, which was consistent with the SCVB's activities. The stated goals of the program were as follows:

> "The SCVB's mission in relation to this Agreement is to generate increased economic activity through effective marketing of the City as a tourist and meeting destination and includes the following goals:
>
> a) Increasing national and international exposure;
>
> b) Attracting new leisure business;
>
> c) Responding to consumer information requests;
>
> d) Increasing convention and meeting bookings through assistance to hoteliers;
>
> e) Increasing group and individual tour business through solicitation and service"

As a part of the marketing plan, the SCVB was required to implement multi-year promotional agreements with certain event producers. In fiscal year 2007/08, these events included the P.F. Chang's Rock 'n' Roll Marathon, the NFL Super Bowl, and the Fiesta Bowl.

In order to guide the SCVB's activities and ensure they meet City objectives, specific and quantifiable performance measures for each program category were built into the Contract. Performance measures included activity levels and effectiveness measures.

Section 3 of the Contract discussed City funding. $5.5 million was to be paid evenly over 12 months. Other specific marketing and event promotion funds had specific payment amounts and dates to coincide with the timing of the needs.

Authorized use of the funds was limited to the program of work in accordance with a detailed budget attached to the Contract. There was a limit on specified overhead expenses.

Section 4 of the Contract required the SCVB to submit financial and performance reports to the City. The SCVB was required to provide financial statements prepared in accordance with generally accepted accounting principles that were audited by an independent certified public accountant. They were required to provide quarterly performance reports on program progress and plans, including summaries of expenditures. A year-end performance report was required that included results of the contracted performance measures, analysis of effectiveness, and copies of materials produced.

Section 4 of the Contract also contained language allowing the City to inspect the SCVB's books and records and conduct a performance audit.

Section 5 of the Contract discussed various legal and administrative aspects of the Contract. It required the SCVB to carry specific insurance coverage. It required the SCVB to use a competitive procurement process acceptable to the Contract Administrator.

During fiscal year 2007/08 there were two amendments to the Contract: one to facilitate the transfer of destination marketing funds from the Fort McDowell Yavapai Nation and another to authorize and fund an additional international marketing program. Separate from Contract No. 2007-090-COS, the City, through its Government Relations and Community Services offices, administered the transfer of funds to the SCVB from the Salt River Pima Maricopa Indian Community for tourism promotion.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were as follows:

- Confirm that the City received contracted services, particularly those outlined in Contract No. 2007-090-COS, Section 2.
- Confirm that funds disbursed were timely, properly authorized, and appropriately used.
- Confirm that the SCVB complies with reporting requirements, particularly those outlined in Contract No. 2007-090-COS, Section 4; and that the City periodically reviews and evaluates the SCVB's performance.
- Confirm that the Contract was administered in accordance with Administrative Regulation (AR) 215, *Contract Administration*; including but not limited to management controls, insurance requirements, and recordkeeping.

The scope of the audit was limited to the destination marketing services agreement with the SCVB for fiscal year 2007/08, including amendments and its directly related agreements.

A variety of steps were taken to fulfill the audit objectives. To gain an understanding of the agreement, the City's administration and oversight, and the SCVB and their activities, we performed the following:

- Review of the following types of documents: City Code, Administrative Regulations, policies and procedures, Council Action Reports, contracts, meeting minutes, strategic plans, budgets, financial statements, program descriptions, job descriptions, organizational histories, prior audits and reviews, research reports, and industry publications.
- Interviews with City staff involved with contract administration, oversight, and procurement processes.
- Interviews with executive, administrative, and program staff at the SCVB.
- Attendance at Tourism Development Commission meetings, which involved City management and the SCVB.

To further determine control processes and their effectiveness, compliance with City regulations, and contract compliance, we obtained and reviewed documentary evidence and performed additional procedures:

- Review of the Contract Administrator's contract file for the fiscal year 2007/08 agreement with the SCVB for completeness and compliance with AR 215, *Contract Administration* - recordkeeping requirements.
- Review of financial statements and performance package reports to ensure that all contractually required reporting was adequate and timely, including reports on multi-year event promotion agreements.

- Review of documentation of the City's and the TDC's review and evaluation of reports.
- Review of evidence of the City's and the TDC's involvement and approval of the SCVB's contracted performance measures.
- Gain an understanding of how the SCVB collects and reports performance data.
- Review and testing of each of the 18 fiscal year 2007/08 contracted performance measures, tracing reported performance data to source documents for each measure.
- Review of the fiscal year 2007/08 contract and amendments payment requirements, reconciling them with all payments made to the SCVB in the fiscal year.
- Testing of City expenditures to the SCVB for timeliness, validity, appropriateness, authorization, and support. Of the approximately $7.5 million in total Contract No. 2007-090-COS payments, supporting invoices for three journal entries, consisting of five payments worth approximately $1.4 million were reviewed.
- Review of the SCVB's accounting system and financial records, evaluating them for contract compliance. Tracing four expenses, one from each quarter, to source documents to test for validity, appropriateness, authorization, and support.
- Review of the SCVB's procurement policies as noted in Section 5.7 of the Contract and testing one of their major contracts for procurement compliance.
- Review of evidence of the process of procuring Contract No. 2007-090-COS and subsequent amendments to determine compliance with Administrative Regulations: AR 214, *Purchasing Requirements, Methods, and Procedures*; AR 215, *Contract Administration*; and AR 216, *Contract Change Orders and Contract Modifications*, and the City's Procurement Code.
- Review of insurance certificates to determine compliance with contract requirements.

We conducted this performance audit in accordance with generally accepted government auditing standards as required by Article III, Scottsdale Revised Code, Section 2-117, *et seq.* Generally accepted government auditing 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 observations and conclusions based on our audit objectives. Audit work took place from October 2008 through March 2009, with Leo Lew conducting the work.

PRIOR AUDIT WORK AND REVIEW

There were two prior City internal audits that contained components relevant to this current audit:

- *Internal Controls Related to City Contracts with the Scottsdale Chamber of Commerce*, April 1998, Report No. 9650
- *Use of Additional Tax on Transient Lodging*, December 2005, Report No. 0501

Audit Report No. 9650 involved the examination of the controls related to contracts with the Scottsdale Chamber of Commerce, including the destination marketing services agreement with the Convention/Tourism Division. The audit concluded that the Chamber of Commerce had adequate internal controls over program expenditures and administration to reasonably assure that contract requirements were met; and that the Chamber of Commerce was providing services in compliance with all major contractual requirements.

However, the report did give recommendations for strengthening internal program controls, especially through contract development and monitoring. We evaluated and tested recommendations to determine if appropriate actions had been taken to address the recommendations relevant to the current audit's objectives. We found that management had generally taken appropriate actions. A current audit recommendation to strengthen internal controls is discussed in the Finding and Analysis section of this report (See page 17).

Audit Report No. 0501 involved determining if controls were in place to ensure that the bed tax was used in accordance with City Code. The audit specifically did not examine the SCVB agreement, because it was determined that expenditures related to that contract were in compliance with the required use of bed tax funds. Recommendations from the audit related to the TDC's process of approval for bed tax expenditures. We evaluated and tested recommendations to determine if appropriate actions had been taken to address the recommendations relevant to the current audit's objectives. We found that management had taken appropriate actions.

In 2005, the City hired The Radcliffe Company to evaluate the City's destination marketing services agreement with the SCVB against best practices. The evaluation included review of contracted performance measures. We evaluated and tested recommendations to determine if appropriate actions had been taken to address the recommendations relevant to the current audit's objectives. We found that management had generally taken appropriate actions. However, we noted one recommendation related to the Contract term not implemented that is discussed in the Findings and Analysis section of this report (see page 19).

EVALUATION OF MANAGEMENT CONTROLS

We reviewed evidence of internal controls at both the City and the SCVB relevant to the audit objectives. Management controls were found to provide reasonable assurance that the destination marketing services agreement with the SCVB was administered appropriately, the SCVB was in compliance with the agreement, the City received the contracted services, and that City funds were being used for their intended purpose.

A sufficient control structure should exist to provide reasonable assurance that risks are mitigated and assets are safeguarded. To be considered sufficient, the following elements should be present:

- *Control Environment* - Management is aware of the need for a control system and communicates this need with an attitude and awareness that sets the tone for the organization.
- *Risk Assessment* - Relevant risks that impact compliance are identified, evaluated, and used as the basis for determining how to manage risk.
- *Control Activities* - Policies and procedures are developed and documented.
- *Information and Communication* - Usable, relevant information is captured and exchanged in a form and time frame that allows employees to effectively carry out their duties.
- *Monitoring* - Periodic assessments of the control structure are undertaken to identify what is working and what needs to be improved or modified.

The City, the TDC, and the SCVB display an ethical tone, a commitment to competence, appropriate organizational structures, and a cooperative management/oversight style regarding the agreement. The SCVB bylaws and employee handbook give guidance on conduct, integrity, communication, authority, and responsibility. The City manages the agreement with appropriate staff, resources, and oversight.

Both the City and the SCVB perform comprehensive analyses of strengths, weaknesses, opportunities, and threats/challenges. Missions, goals, and objectives are well developed and documented. Strategic plans, tactics, and budgets are detailed and developed to meet objectives. The Economic Vitality Department published its 2008 Strategic Plan on the City Web site. The SCVB published its 2007/08 Destination Marketing Guide and included it in the agreement.

Between the SCVB and the City there was evidence of written policies and procedures, segregation of duties, contract development and review, development and monitoring of performance measures, review of performance indicators, research reports, statistical reports, financial reviews, and continuous communication. Both the City and the SCVB

prepare financial statements in accordance with generally accepted accounting principles that are audited by independent auditors.

The City performed two previous internal audits that had components relative to this agreement. The City's Economic Vitality Department had an external consultant review the agreement against best practices. As noted earlier in this report, there was evidence of management's actions to address recommendations.

Sufficient and appropriate evidence was reviewed to conclude that internal controls were in place to provide reasonable assurance to affirm the audit objectives. Insignificant items discovered during the audit were discussed with management. There were no significant issues of noncompliance with contract provisions, fraud, illegal activities, or abuse discovered during the audit.

However, we determined that internal controls could be strengthened regarding written policies and procedures at both the SCVB and the Economic Vitality Department.

Although the SCVB had thorough written policies and procedures for some areas, they did not have a comprehensive set of written policies and procedures for the collection and reporting of City performance data. This concept was discussed with the SCVB and the Contract Administrator.

Although the Contract Administrator had written policies and procedures for the approval process of the Contract, they could be further developed to include guidance on administration, monitoring, and evaluation. The process of developing the document would assist in internal risk assessment, succession planning, training, and accountability. This concept is further discussed in the following section, Findings and Analysis (see page 17).

FINDINGS AND ANALYSIS

We gathered and tested sufficient and appropriate evidence during the audit to reasonably draw the following conclusions regarding the audit objectives:

- The evidence reviewed supported that the City satisfactorily received contracted services from the SCVB, particularly those outlined in Section 2 of the Contract.
- Sample testing supported that City funds were disbursed timely, properly authorized, and used appropriately.
- Examination of reports and other records supported that the SCVB complied with reporting requirements as outlined in Section 4 of the Contract and the City periodically reviewed and evaluated their performance.
- Review of the Contract Administrator's contract file and supporting documents supported that the destination marketing services contract was administered in accordance with AR 215, *Contract Administration*.

Although the objectives were reasonably confirmed, we did note two areas for improvement. We found that the Economic Vitality Department could enhance internal controls regarding contract administration by strengthening their written policies and procedures. In addition, while evaluating an external consultant's best practices review, we found that the destination marketing services agreement may be enhanced by extending the term of the agreement.

1. Written policies and procedures for contract administration specific to the SCVB agreement could be further developed.

AR 215, *Contract Administration*, states that "Internal management controls should be developed by each Division Director/Department General Manager/Chief to ensure employee accountability to referenced procurement code, regulations, and procedures." A well-designed and properly maintained system of documented policies and procedures enhances accountability, consistency, and training.

The City's Contract Administrator has a document that outlines the SCVB marketing program and approval process. It was dated January 2006, but had not been updated. The guideline outlines objectives, bed tax funds allocation, contract process and timeline, and performance measures. Supporting documents related to these topics are retained. However, further written policies and procedures were not available to guide certain specific aspects of administering, monitoring, and evaluating the Contract.

Lack of written policies and procedures weakens accountability, consistency, clarity and training. It increases the potential for misunderstandings and program risk, especially during times of change or personnel turnover.

Examples where there were negative effects or increased risk for negative effects include:

Political Activities - There appears to be a level of uncertainty and differing perceptions regarding Section 1.7 of the Contract, dealing with the prohibition of the use of City funds for political activities. Written policies and procedures can help to clarify what activities are allowed and what activities are prohibited. They may also provide guidance for working with the City to support agreed upon issues that significantly affect the City.

Efficiency Evaluation - Section 3.1(f) of the Contract provided a ceiling for prescribed overhead expenses. This prescription was set up in response to a previous audit that occurred prior to the SCVB becoming a separate legal entity. The clause is now seen as irrelevant and inflexible. Written policies and procedures can address what types of financial analyses are meaningful for the City and the Contract Administrator. They may consider items such as efficiency metrics, industry comparisons, multi-year trends, and other financial ratios.

Insurance Requirements - The Contract Administrator provided insurance certificates to Risk Management for review. Insurance certificate requirements were substantially met; however, there were some smaller risk areas that were not addressed. Written policies and procedures giving guidance around checking insurance certificates against the specific contract clauses can assist to ensure all areas are covered.

Contract Procurement - The Contract is relatively unique in the City. Written policies and procedures giving guidance around the contract's procurement requirements and development can help to give clarification. Items such as sole source authorization, roles of the City Attorney's Office and Purchasing Department, and the scope of work request may be included.

Performance Data - There is an increased risk of misunderstandings of performance measurement data if there is no documentation of policies and procedures or criteria for collection and reporting of the data. Written guidance can include items such as definitions of terms, references to standards, and accepted methods of calculation. Guidance can be given for performance measurement development regarding reasoning for types and quantities.

Contract Oversight - There is an increased risk of adequate contract oversight during times of personnel change if specific policies and procedures are lacking. Written guidance could address monitoring and evaluation of performance, significance of desired reports, handling potential negative issues, financial reconciliations, and management oversight over the Contract Administrator.

The City's Economic Vitality Department should develop written policies and procedures to address specific items unique to the administration of the SCVB agreement, for which management will determine the form and sufficiency.

2. The annual fiscal year term of the destination marketing services agreement with the SCVB does not appear to be optimal and does not represent the SCVB's strategic partnership with the City.

The Radcliffe Company's Best Practices Review recommended extending the annual marketing plan with the SCVB to incorporate a longer range strategic approach. Currently, the City is contracting with the SCVB for destination marketing services on an annual basis. When developing the fiscal year 2003/04 destination marketing services agreement, previous City management made a policy decision to limit the term of the agreement to one year. It appears that efficiency and effectiveness could be gained from engaging in a multi-year contract.

The SCVB, the Tourism Development Manager, and the Purchasing Director have expressed advantages to having a multi-year agreement for this contract. A multi-year agreement could be favorable for planning, execution, administration, and sub-agreements. A multi-year agreement would be representative of the strategic partnership that the City has with the SCVB. Industry evidence shows that the majority of destination marketing organizations similar in size with the SCVB engage in multi-year contracts.

The City should consider developing a multi-year agreement, taking into consideration the five-year strategic tourism development marketing plan, the five-year sole source authorization for the SCVB, and the SCVB's marketing cycle. The Contract should be in compliance with the City Procurement Code multi-year contract guidelines and contain language that protects the City's interest. An annual budget would still be developed, reviewed, and approved.

SCOTTSDALE CONVENTION & VISITORS BUREAU RESPONSE

Scottsdale
Convention & Visitors Bureau

April 13, 2009

Mr. Brent Stockwell
Acting City Auditor
City Of Scottsdale
4021 N 75th Street, Suite 105
Scottsdale, AZ 85251

Dear Brent:

Thank you for the opportunity to respond to the City Auditor's report on the Scottsdale Convention & Visitors Bureau Agreement, Audit Report No. 0909.

We would like to recognize the smooth coordination of the audit with the Economic Vitality Department and the City Auditor, and appreciate the efforts of Senior Auditor Leo Lew to learn as much as possible about our operations and conduct testing in a manner that did not hinder the conduct of our business.

Also, we are gratified to see that our extensive array of written internal controls were acknowledged, as we strive to create clear directives for staff in all aspects of running our business and safeguarding assets.

We note and concur with the recommendation that the Scottsdale Convention & Visitors Bureau also create written policies surrounding the process of compiling and reporting monthly performance measure data sent to our Contract Administrator. This process has become a part of the organization's monthly routine and is currently a lengthy and painstaking process that includes a number of checks and balances to ensure accuracy; it has not yet, however, been memorialized in writing.

There are several databases we use to compile our performance measures. One is maintained by a third party vendor. Since we will be changing vendors in July 2009, we will draft written policies for our process of compiling and reporting performance measures in summer 2009 after the transition has occurred and procedures for inputting and retrieving information from this database can be articulated correctly and concisely.

Sincerely,

Rachel Sacco
President/CEO

cc: Kathy Carlisle O'Connor, Tourism Development Manager, City of Scottsdale
Leo Lew, Senior Auditor, City of Scottsdale

Galleria Corporate Centre 4343 N. Scottsdale Road, Ste. 170 Scottsdale, Arizona, 85251 USA
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MANAGEMENT RESPONSE

Economic Vitality Department
4021 N. 75th Street, Suite 102
Scottsdale, AZ 85251
480.312.7989
480.312.2672 fax
www.scottsdaleaz.gov

To: Brent Stockwell, Acting City Auditor

From: Harold Stewart, Acting Economic Vitality General Manager

Date: April 28, 2009

Subject: Response to Scottsdale Convention and Visitors Bureau Audit No. 0909

It was a pleasure working with the Audit Staff on the above-subject Audit, and we particularly appreciate Senior Auditor Leo Lew and Assistant City Auditor Joyce Gilbride's professional and constructive approach to this project.

Our written response is attached. We believe that the Findings, along with the implementation of the proposed Action Plan, will assist the City and the SCVB to strengthen both the administration of the contract, and the nature of this strategic partnership.

ACTION PLAN

1. **Written policies and procedures for contract administration specific to the SCVB agreement could be further developed.**

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:
Written policies and procedures for contract administration specific to the SCVB agreement will be updated and further developed. Tourism Development staff will work with the City's Financial Services, Purchasing, and Risk Management departments, along with the City Attorney's office to address the following areas specifically mentioned on page 18, Section 1 of the "Findings and Analysis".

- Political Activities
- Efficiency Evaluation
- Insurance Requirements
- Contract Procurement
- Performance Data
- Contract Oversight

RESPONSIBLE PARTY: Kathy O'Connor, Tourism Development Manager

COMPLETED BY: December 30, 2009

2. **The annual fiscal year term of the destination marketing services agreement with the SCVB does not appear to be optimal and does not represent of the SCVB's strategic partnership with the City.**

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: A review of best practices and possible alternatives to the current one-year term of the destination marketing services agreement with the SCVB will be undertaken in order to identify potential enhancements beginning with the FY2010/2011 agreement.

Considerations will include:

- Development of a multi-year agreement
- More effective alignment with the five-year tourism development and marketing strategic plan
- Five-year term of the "sole source" authorization
- Better support for the SCVB's multi-year marketing cycle planning
- Annual development, review and approval of the budget and amount of bed tax funds

RESPONSIBLE PARTY: Kathy O'Connor, Tourism Development Manager

COMPLETED BY: April 1, 2010

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