



CITY AUDITOR'S OFFICE

Bed Tax-Funded Special Event Contracts

October 7, 2015

AUDIT REPORT NO. 1603

CITY COUNCIL

Mayor W.J. "Jim" Lane
Suzanne Klapp
Virginia Korte
Kathy Littlefield
Linda Milhaven
Guy Phillips
Vice Mayor David N. Smith



October 7, 2015

Honorable Mayor and Members of the City Council:

Enclosed is the audit report for *Bed-Tax Funded Special Event Contracts*, which was included on the Council-approved FY 2015/16 Audit Plan. We evaluated compliance with terms and effectiveness of controls in the City's bed tax-funded special event contracts. This audit did not review the City's special event permitting processes, which are separate from the bed tax funding process.

During FY 2014/15, the City invested close to \$1.5 million from the Tourism Development Fund on special events to encourage tourism and provide citizens with cultural, recreational and western-themed activities. Our audit found that special event eligibility and evaluation criteria could be more effective, improved contract terms and contract administration can better assure return on the City's investment, and a few events were approved that did not meet current program guidelines.

We appreciate the cooperation and assistance of the Tourism and Events department during the course of this audit. 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

Audit Team:

Kyla Anderson, CIA, CLEA - Senior Auditor

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AUDIT HIGHLIGHTS

Bed Tax-Funded Special Event Contracts

October 7, 2015

Audit Report No. 1603

WHY WE DID THIS AUDIT

This audit was included on the Council-approved FY 2015/16 Audit Plan to evaluate compliance with terms and effectiveness of controls in City's bed tax-funded special event contracts.

This audit did not review the City's special event permitting processes, which are separate from the bed tax funding process.

BACKGROUND

During FY 2014/15, the City invested close to \$1.5 million on special events to encourage tourism and provide citizens with cultural and western-themed activities. Special Event programs are funded by the City's 5% Transient Occupancy tax, which is typically referred to as the Bed Tax. Expenditures on Special Events have increased from \$0.3 million in FY 2010/11 to \$1.5 million in FY 2014/15.

There are four different Special Event funding programs:

Community Event: Events that are primarily attended by residents but also attract tourists.

Event Venue Fee: Participant-driven events that use a City owned or operated venue.

Matching Event Advertising Funding (MEAF): Major events that promote Scottsdale as an upscale tourist and meeting destination to national and international markets.

Event Development: New events that increase national and international visibility and may become annual events.

City Auditor's Office

City Auditor 480 312-7867
Integrity Line 480 312-8348
www.Scottsdaleaz.gov

WHAT WE FOUND

1. **The eligibility and evaluation criteria for Special Event funding could be more effective.**

Multiple, better defined eligibility criteria would allow events to be evaluated more thoroughly for their potential and actual return on investment.

2. **Improved event contract terms and contract administration can better assure return on the City's investment.**

Including specific post-event documentation requirements, an audit clause and other terms and ensuring compliance with contract terms could better assure the value received by the City.

3. **Some events were approved that did not meet current program guidelines.**

Some funded events technically did not meet the defined program guidelines. Specifically:

- The event development program requires the City's bed-tax funds be used for marketing but a reviewed event had relatively minimal paid marketing. However, the event provided verified advertising value from national and international exposure.
- Two community events did not meet program required attendance and location specifications. However, these are long-standing events.

WHAT WE RECOMMEND

We recommend the Tourism and Events Department:

1. Develop additional criteria for measuring an event's potential return on investment and present the criteria to the Tourism Development Commission for advice and the City Council for approval.
2. Consult with the City Attorney's Office regarding addition of terms to contract template documents.
3. Ensure contract requirements are being fulfilled or if requirements are no longer necessary, they should no longer be included in contracts.
4. Consult with the Tourism Development Commission about updating the Event Development guidelines to clarify allowable uses of funding.
5. Submit events that are outside program guidelines for specific Council approval or update the program requirements so that they encompass the funded community events.

MANAGEMENT RESPONSE

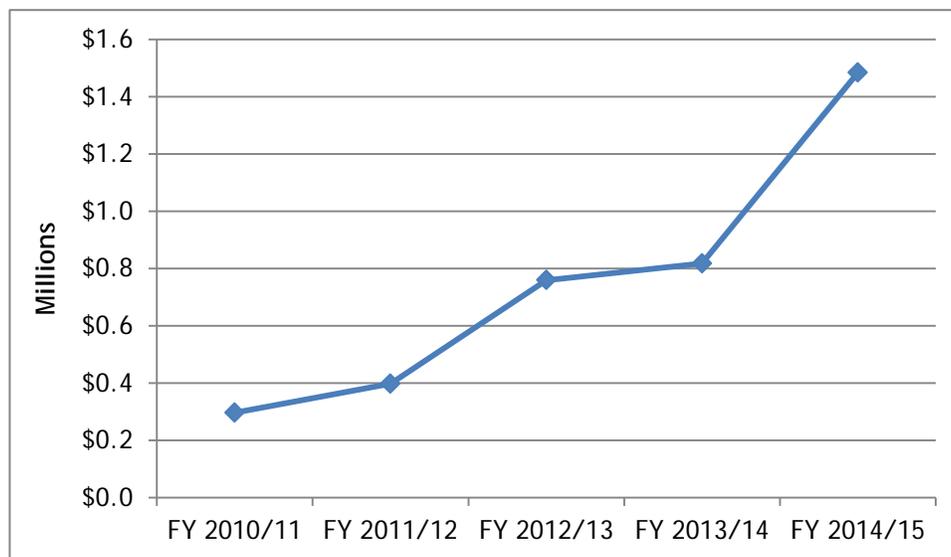
The Department agreed with the audit recommendations and expects to have all recommendations implemented by the end of the current fiscal year.

BACKGROUND

The City's Tourism and Events Department manages the Special Event funding contracts. Currently, the Acting Tourism and Events Director is responsible for program and contract administration along with the Tourism Assistant. The Director works with the Tourism Development Commission (TDC) to advise the City Council on matters concerning the tourism industry in Scottsdale. Effective July 2015, the Director reports to the Assistant City Manager.

These Special Event programs are funded by the City's 5% Transient Occupancy tax, which is typically referred to as the Bed Tax.¹ The City Council-adopted financial policies provide that \$1.2 million annually of Bed Tax revenue may be used for events and event development. In addition to unused carry over funds, an additional \$500,000 annually may be used for one-time commitments for events and event development. As shown in Figure 1, expenditures on Special Events have increased from \$0.3 million in FY 2010/11 to \$1.5 million in FY 2014/15, or approximately 400%.

Figure 1: Special Event Expenditures 5 Year Trend



SOURCE: Auditor analysis of accounting reports.

The City Council approved three different Special Event funding programs to operate during the last two years. These included the Community Event, Event Venue Fee and Matching Event Advertising Fund (previously Event Support) programs. In addition, Council individually considers Event Development proposals. To enhance return on investment from the Event

¹ The City's Privilege and Excise Taxes Code §447 requires an additional tax equal to 5% of the gross income from Scottsdale hotels in the business of charging for transient lodging. Fifty percent (50%) of the tax revenue shall be used for destination marketing to promote tourism and 50% for other tourism-related purposes, including tourism-related event support.

Venue Fee and Matching Event Advertising Fund programs, requirements stipulate the event producer is to project and then account for the actual number of hotel room nights resulting from the funded event. The minimum required hotel room nights is based on the City's funding for the event, the average daily hotel room rate and the City's tax rate.² For example, the required room nights are shown in Table 1 for the FY 2015/16 Special Event funding levels.

Table 1. FY 2015/16 Funding Levels and Room Night Requirements

Special Event Funding	Average Daily Room Rate	Scottsdale Sales and Bed Tax Rate	Required Room Nights
\$30,000	\$169.90	6.65%	2,656
\$15,000	\$169.90	6.65%	1,328
\$5,000	\$169.90	6.65%	443

SOURCE: FY 2015/16 Special Event programs information.

Starting in FY 2014/15 for the Matching Event Advertising Funding program and FY 2015/16 for the Event Venue Fee program, contracts include the provision that prorated funding will be paid if events achieve fewer actual room nights than required. Prior year contracts are silent on prorated funding.

The Event Development program's return on investment includes promotion of Scottsdale's attractiveness as a destination to target upscale leisure and meeting visitors and/or generation of room nights. However, each event is unique and therefore there is not a set return on investment requirement. Because of the nature of Community Events, generation of a return on investment is not required.

Program Goals, Funding Levels and Requirements

While having the same broad objective of generating events and related tourism, the Special Event programs have differing goals, funding levels and requirements. However, all funding contracts with the City require the event producers provide an event recap report before payment is made. The Tourism and Events department may also conduct marketing research for events and event proposals. For example, intercept surveys are conducted at some events to determine where attendees are from and if they are staying in area hotels.

Community Event
Events that are primarily attended by residents but also attract tourists

Event Venue Fee
Participant-driven events that use a city owned or operated venue

Matching Event Advertising Funding
Major events that promote Scottsdale as an upscale tourist and meeting destination to national and international markets

Event Development
New events that increase national and international visibility and may become annual events

Community Event Funding

The Community Event Funding program operates to support activities that are locally significant, may have historical value, and celebrate a community spirit and unique sense of place.

² Average daily room rate is determined by the Smith Travel Report for Scottsdale.

- These events are expected to be primarily attended by residents but also to attract tourists.
- The program may fund up to \$30,000 to reimburse operational and marketing expenses.
- Once approved, the Tourism and Events department pays the event producer 75% of the funding up front, and pays the remaining amount after a post-event report is submitted.
- FY 2014/15 Community Event Funding supported the Parada del Sol Parade and Rodeo and the Scottsdale International Film Festival, among others.

Starting in FY 2014/15, City Council approves the program structure and budget, then the Event Working Group evaluates individual funding applications. The Event Working Group is comprised of Tourism and Events Department staff, members of the Tourism Development Commission and marketing employees from the Scottsdale Convention and Visitors Bureau (SCVB). Previously, the City Council approved the Community Events contracts.

Event Venue Fee Funding

Started in FY 2013/14, the Event Venue Fee program is intended to help develop participant-driven events, such as sports tournaments, that use a city owned, operated or controlled event venue.

- The program may fund up to \$5,000 although starting in FY 2015/16, events using WestWorld facilities are eligible for up to \$25,000.
- The Tourism and Events department provides reimbursement when the post-event report is filed.
- FY 2014/15 events included the Adrenaline Lacrosse Tournament and the Sereno Soccer Showcase, both held at the Scottsdale Sports Complex.

The Acting Tourism and Events Director approved these events in previous years; however starting in FY 2015/16, the Event Working Group will evaluate the funding applications.

Matching Event Advertising Funding (MEAF)

Major events that promote Scottsdale as an upscale tourist and meeting destination and generate a minimum number of hotel room nights may be eligible for the MEAF program. To increase the likelihood of generating hotel room nights, this program provides a dollar-for-dollar match for costs of marketing the event outside Maricopa County.

- The MEAF program provides tiered support with proportionate room night requirements. The FY 2015/16 program is as follows:

Tier 1 Event - \$30,000 maximum. For consideration of this funding level, the event must provide extensive promotion of Scottsdale's image as a desirable tourist destination outside the local marketplace to national and international target markets. It must also generate at least 2,656 room nights during the event and the opportunity for "residual" demand year-round.

Tier 2 Event - \$15,000 maximum. At this level, the event must provide regional and/or limited national promotion of Scottsdale's image as a preferable tourism destination to target markets outside the local

marketplace. It must also generate at least 1,328 hotel room nights during the event.

Tier 3 Event - \$5,000 maximum. For this level, the event must provide marketing or promotion resulting in at least 443 hotel room nights during the event.

- Event contracts allow the City to conduct attendee and participant surveys, which can help substantiate attendance and room night data. For most MEAF events, the department hires an outside research firm to conduct the surveys and provide summary data reports; the events are required to pay half of the survey costs.
- The Tourism and Events department pays the approved amount when the post-event report is submitted.
- FY 2014/15 MEAF program events included the Barrett-Jackson Auto Auction, Celebration of Fine Arts and AZ Bike Week, among others.

As of FY 2014/15, the Event Working Group evaluates the applications and approves the events while City Council approves the program and annual budget. In prior years, the TDC reviewed the applications and recommended approval by City Council.

Event Development Funding

This program is intended to support the development of new major events that will increase national and international visibility for Scottsdale as a desirable tourist destination with the target upscale hotel and resort visitors.

- This program provides a dollar-for-dollar match for marketing expenses, and is available for a total of three years. To be eligible for consideration, the event producer must submit a comprehensive sponsorship proposal addressing how the sponsorship meets the City's tourism program objectives and how the event would ensure return on the City's investment.
- Generally event funding is up to \$75,000 but the City Council may approve higher amounts.
- Like the MEAF program, the Event Development contracts also allow the City to conduct attendance surveys.
- Once approved, the Tourism and Events department provides reimbursement after receiving the post-event report.
- FY 2014/15 Event Development Funding supported the Horses and Horsepower Polo Championship, the Charles Schwab Cup Championship, and the ESPN FanFest, among others.

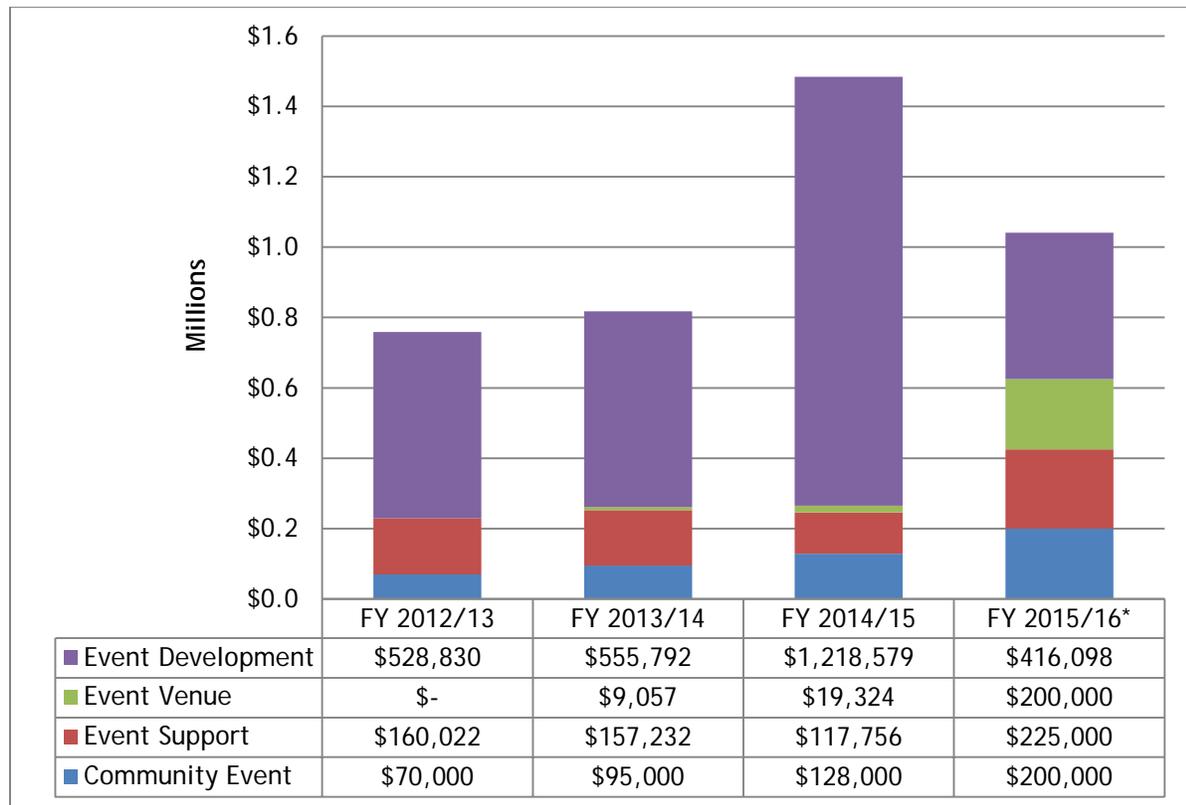
Most event proposals are analyzed by an outside marketing agency for viability and return on investment estimates. The Tourism Development Commission then evaluates the proposals and provides a recommendation to City Council on whether to approve the event. However, the City Council makes the final determination on these contracts.

Program Expenditures

As shown in Figure 2 on page 7, in FY 2014/15, the City more than doubled the amount spent in prior years on Event Development. Most of this increase (\$475,000) supported the ESPN

FanFest event for Super Bowl XLIX. Currently, the FY 2015/16 budgets for the other three categories have increased significantly, with the Event Venue Fee increasing 10-fold.

Figure 2: Special Event Expenditures by Program Type



*FY 2015/16 amounts are Budgeted expenditures; other years' amounts are Actual expenditures.

This figure does not include other activities of or the unbudgeted fund balance for the Tourism Development Fund.

SOURCE: Auditor analysis of Tourism and Events department's Bed Tax Proforma dated 8/18/2015 and general ledger data.

The report Appendix, on page 23, lists all events that received funding in FY 2013/14 and 2014/15.

OBJECTIVES, SCOPE, AND METHODOLOGY

An audit of *Bed Tax-Funded Special Event Contracts* was included on the City Council-approved fiscal year 2015/16 Audit Plan. The audit objective was to evaluate compliance with terms and effectiveness of controls in City's bed tax-funded special event contracts. This audit did not review the City's special event permitting processes, which are separate from the bed tax funding process.³

To gain an understanding of the four bed tax-funded special event programs, we interviewed the Acting Tourism and Events Director and the Tourism Assistant regarding the programs, records and processes. We also reviewed Ordinance Nos. 4018 and 4019, through which the Council established the Special Revenue Fund for Tourism Development and designated uses of the bed tax and related revenues.

As well, we reviewed the Council-adopted resolution and the funding application forms and other program information provided to event producers and available on the City's website. We analyzed related financial information, including the Tourism Program Proforma financial statement dated August 18, 2015.

In addition, we reviewed audits of similar programs by other audit agencies:

- *Audits of Major Contracts and Agreements of the Hawai'i Tourism Authority*, State of Hawai'i Auditor; December 2013
- *Internal Audit of Tourism Development Office*, prepared for the Internal Audit Committee of Brevard County, Florida; November 5, 2013
- *Audit of Tourism*, Atlantic Canada Opportunities Agency, September 16, 2008

To evaluate the programs and associated funding contracts, we selected a sample of events from each of the four funding programs for fiscal years 2013/14 and 2014/15 and:

- Compared approved events to the established program specifications and purpose to evaluate whether the events met the specifications for funding.
- Reviewed the contract files and City Council and Tourism Development Commission (TDC) meeting audio/video recordings or minutes to evaluate whether described event deliverables, budgets and specific goals or outcomes presented to the Council and the TDC were included in the event contract.
- Compared contract terms to determine if common program requirements are consistently applied across the different funding programs.
- Evaluated whether City staff ensured contract requirements were met timely and analyzed for completeness and accuracy.
- Compared funding payments to contract terms and the event's contract performance.

Our audit found that the funding eligibility criteria could be more effective, contract terms and contract administration can be improved and some approved events did not meet eligibility criteria.

³ The special event permitting processes regulate applications for temporary outdoor uses, such as art shows, parades and carnivals, that extend beyond the normal uses and standards allowed by the City's Zoning Ordinance. The City does not provide funding through this process.

We conducted this audit in accordance with generally accepted government auditing standards as required by Article III, Scottsdale Revised Code, §2-117 et seq. 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 2015 through September 2015.

FINDINGS AND ANALYSIS

1. The eligibility and evaluation criteria for Special Event funding could be more effective.

Generating Scottsdale hotel room nights is one of two eligibility criteria for the Matching Event Advertising Funding (MEAF) program, but appears to be the primary factor for funding eligibility.⁴ In addition, the Event Venue Fee program uses hotel room nights as the main criteria for eligibility.⁵ Therefore, an event that may increase tourism but not produce the minimum verifiable Scottsdale hotel room nights would not be eligible for these special event programs. For example, an event may attract tourists who choose lodging accommodations that do not pay the transient occupancy tax, such as staying with friends or family, or the event producer may find it difficult to verify hotel room nights.

Having multiple criteria in addition to or instead of hotel room nights would allow events to be evaluated more thoroughly for potential and actual return on investment, such as:

1. *Reach and the quality of proposed marketing.* Advertisement in national publications would be more valuable than smaller, regional publications. Further, direct mail to affluent zip codes would be more valuable than general email blasts.
2. *Time of the year.* Events that bring tourists to Scottsdale in the warmer off-season months would be of higher value than events occurring in the cooler winter months that are peak season. Off-season events could be considered for a higher level of funding.
3. *Producer's investment in the event.* Event producers that are more vested in their event, as demonstrated by its operating and marketing budget, have a greater chance of success.
4. *Number of tourism drivers supported.* The Tourism Development Commission (TDC) has established five tourism drivers: art and culture, culinary, golf, sports and recreation and western. An event directed at multiple tourism drivers, or target markets, may return a higher value.
5. *Total attendance and out-of-area attendance.* Tourism results could be better measured by event attendance rather than hotel room nights, and by the proportion that is from outside the Valley.
6. *Growth potential and approach.* Events where the producer has a specific plan to grow the event over a certain time could be more valuable than those not having a plan or experiencing attendance declines.

In addition, specific events may establish other expectations or represent other benefits that could be measured. The TDC, which serves in an advisory role to the Council, could help evaluate the potential criteria to be used.

⁴ Hotels are interpreted as any lodging that collects Scottsdale bed tax.

⁵ The Community Events program has a community focus and different criteria, such as whether the event producer is a nonprofit organization. Event Development program applications are evaluated on a case by case basis.

Recommendation:

The Tourism and Events Department should develop additional criteria for measuring an event's potential return on the Special Event funding investment. The criteria should then be presented for advice from the TDC and approval of the City Council.

2. Improved event contract terms and contract administration can better assure return on the City's investment.

During FY 2014/15, the City invested close to \$1.5 million on special events to encourage tourism and provide citizens with cultural and western-themed activities. Contracts that are both written and administered to maximize and protect the City's use of bed tax dollars help ensure the City's return on its investment.

- A. The contract terms used for the four types of Special Event programs vary but also have many similarities. Including certain contract terms, as summarized in Table 2 and further described below the table, could better assure the value received from these tax dollars.

Table 2. Recommended Terms for Special Event Contracts

	Community Event	Event Venue Fee	Match. Event Adv. Fund.	Event Development
1. Include an audit clause	♦	♦	♦	♦
2. Establish specific requirements for post-event documentation	♦	♦	♦	♦
3. Include room night or other eligibility expectations	-	♦	♦	-
4. Require certain deliverables rather than make them optional	♦	♦	♦	-

♦ applicable
- not applicable

SOURCE: Auditor analysis of contract files and Council Action Reports.

1. Adding an audit clause to the contracts would clarify the City's right to confirm information provided by event producers. The program contracts require a post-event report be prepared by the event producer. Deliverables within the report may include the producer's use of event funds, total attendance and other event sponsorships received.
2. The standard contract terms do not require the event producer to provide invoices and cancelled checks to document uses of the Community Event funds. Also, standard contract terms do not require event attendance or third-party hotel room night documentation when applicable. For example, a post-event report's attendance numbers could be supported by event registration or ticket sales documentation. Further, hotel room nights should be evidenced by documentation from Scottsdale hoteliers.

3. There are specific hotel room night expectations for Event Venue Fee and MEAF events which equate to 443 rooms for each \$5,000 in funding in FY 2015/16. However, these expectations are not reflected in the special event contracts. Because the contracts are silent on room night requirements, the City has reimbursed the full amount for events that did not meet room night thresholds. For example, in FY 2014/15, one event met 60% of the requirements, another met 54% and a third met 38%. Reimbursement reductions would have totaled approximately \$9,000 for those events.

As of FY 2015/16, the Event Venue Fee and MEAF standard terms now note that payment may be reduced for not meeting room night requirements. However, the terms still do not include the specific room night total required for full reimbursement.

4. Some contracts require the event producer to provide certain benefits to the City at no charge, but only if the City separately requests them. These include:
 - Publishing a City-provided advertisement in the event program.
 - Providing the City an exhibit space at the event.
 - Including a link on the official event website to the City's and the SCVB's websites.

These additional benefits help ensure the City receives a return on its investment, and should be required without the City providing a separate request.

- B. The Tourism and Events contract administrator can better ensure the City's return on investment through improved contract compliance. Summarized in Table 3 on page 14, areas for improvement in administering the four funding programs are described in more detail below the table.

(Continued on next page.)

Table 3. Contract Administration Exceptions

	Community Event	Event Venue Fee	Match. Event Adv. Fund.	Event Development
1. Event payments were not reduced for failure to meet requirements	-	-	♦	-
2. Original invoices were not requested	-	-	♦	-
3. Post-event reports were not signed and/or dated	♦	♦	♦	♦
4. Optional items were not requested	♦	♦	♦	-
5. Free exhibit space at events was not offered to other City departments	♦	♦	♦	-
6. Post-event report documentation was not sufficient to demonstrate compliance with the contracts	-	♦	♦	♦
7. Contract deliverables were not received timely	-	♦	-	♦
8. Program applications were not complete	-	-	♦	-
9. Some insurance certificates did not meet contract requirements.	♦	♦	♦	-
10. Pre-event meetings are not held.	-	-	♦	♦

♦ applicable
 - not applicable

SOURCE: Auditor analysis of FY 2013/14 and 2014/15 contract files.

1. For one MEAF contract, the contract administrator approved paying the full amount requested although contract terms were not met. For this contract, there appeared to be unallowable costs reimbursed totaling \$4,470 in FY 2013/14 and \$2,900 in FY 2014/15.
 - Actual line items reimbursed were not the same as were detailed in the contract and there was no approval from the contract administrator for the changes.
 - Some ads did not qualify for reimbursement based on the contract terms because the City’s logo was not included (see Figure 3 on page 15) or the ads were placed after the contracted event.

Figure 3. Example of Ad Paid With Special Event Funds



SOURCE: July/August 2014 publication used by the event producer

- Items presented for reimbursement appeared to be for use at the actual event. However, the program qualification criteria require all advertisements to be directed outside of the county, which encourages travel to Scottsdale.
2. For a MEAF funded event, the event producer provided a summary of advertising costs rather than original invoices provided by the publication. Further, the summary document did not list advertisement dates and publication page numbers, and canceled checks show the event producer paid for the advertisements as much as nine months after the ad ran. We found that the City has advertised in the same publication but at a lower advertising rate and the publication required payment when submitting the ad. When contacted, the publication's staff forwarded the inquiry back to the event producer who provided another copy of the same summary listing. City staff should not reimburse costs that are not supported with original documentation.
 3. The contract administrator did not require the post-event reports to be signed certifying that the information provided was correct. In addition, because dates are also not required, the post-event reports do not document whether they are provided timely.
 4. Some contracts include optional requirements, such as publishing a City ad in the event program. In four contracts reviewed, there was no evidence that the contract administrator asked for the optional items.
 5. All four Special Event programs require the event producer to provide the City with exhibit space at the event for use in promoting Scottsdale. The contract administrator offers the exhibit space to the SCVB and occasionally to the City's Economic Development department. However, space that will go unused does not get offered to other City departments. There may be events at which other City areas, such as Water Resources or Parks & Recreation, may want to use the exhibit space for customer or resident outreach.

6. For the reviewed Event Venue Fee post-event reports, some documentation was missing, such as:
 - Cancelled checks to document that the City venue fees were paid in full prior to the event.
 - Documentation from hoteliers that room night requirements were achieved.
 - Screen prints of the event website showing a link to the City's and SCVB's websites.
 - Copies of the event program documenting the required City ad.
 - Event publicity or advertising materials with the City logo to show the City supported the event.

The reviewed MEAF post-event reports were also missing documentation, such as:

- Little or no documentation for the published advertisement's content and distribution, including publication tear sheets evidencing ad placement.
- No documentation for distribution and content of email blasts to ensure marketing was directed at Scottsdale's target market.
- Evidence that posters and rack cards and their distribution were used to market the event outside of Maricopa County.
- Documentation from hoteliers that room night requirements were achieved.
- Supporting details were not provided for estimated attendance because the events were not ticketed. However, some verifiable information could have been included, such as total participants and exhibitors evidenced by registration documentation.

In addition, the reviewed Event Development post-event report was missing the contract-required documentation to support the final sponsorship amounts.

7. For a large Event Development event, the contract terms required the marketing plan and budget be agreed upon by July 1 and by September 1, respectively. However the final marketing plan was not provided until October 1, and the final budget was not provided until December 23. In addition, the post-event report and invoice for some Event Venue Fee events were not provided timely.
8. MEAF applications require a thorough description of the marketing plan and budget including demographic information, media plans, public relations, target markets, promotional activities, paid advertising and additional sponsors. For the applications reviewed, this information was not provided; however, the events were approved for funding.
9. Regardless of the funding program, many of the contract files we reviewed had inadequate insurance certificates. The contracts require specific insurance coverage to be provided to lessen the City's risk exposure. Insurance issues included missing automobile liability and workers compensation insurance certificates and incorrect limit amounts. In addition to being a contract requirement, City Administrative Regulation requires that contract administrators monitor and ensure all insurance certifications are correct and up to date at all times.

10. The contracts require the event producer to meet with the contract administrator and the SCVB 60 days prior to their event to obtain approval of how hotels used by the event attendees will be tracked. The contract administrator does not require these meetings and instead has discussions by email or phone, without the SCVB. Further, this meeting can also facilitate the contract administrator discussing with the event producer acceptable methods of tracking attendance, hotel room nights and other contract requirements.

Recommendation:

The Tourism and Events Director should:

- A. Consult with the City Attorney's Office regarding addition of the terms to contract template documents.
- B. Ensure contract requirements are being fulfilled or if requirements are no longer necessary, they should no longer be included in contracts.

3. Some events were approved that did not meet current program guidelines.

A few events that received bed tax support technically did not meet the defined program guidelines. However, the approved events complied with uses of bed tax monies stated in City Code and financial policy.

- A. The Event Development guidelines state that City bed tax funds must be used for marketing, both inside and outside of Maricopa County, to increase the likelihood that event attendees will stay in a Scottsdale hotel. Just as in the MEAF program, funding is based upon a dollar for dollar match; however, this criterion is not applied consistently. For example, one large event producer did relatively minimal paid marketing compared to the City's investment. However, based on advertising value gained, the City's national and international exposure was significantly more than the approved bed tax investment.

Updating Event Development guidelines to allow potential funding of production costs, such as infrastructure and security, may encourage development of additional new events. It also would help to further differentiate this program from the MEAF program.

- B. Community Event guidelines require that events occur within the corporate limits of the City of Scottsdale and have an expected attendance of more than 5,000 people. Two long-standing annual events do not meet these criteria, yet received a total of \$6,000 in FY 2013/14 and \$11,000 in FY 2014/15. While these events may provide a benefit to Scottsdale citizens and visitors, they do not meet the qualification criteria.

Recommendations:

The Tourism and Events Director should:

- A. Consult with the Tourism Development Commission about updating the Event Development guidelines to clarify allowable uses of funding.
- B. Submit events that are outside program guidelines for specific Council approval or update the program requirements so that they encompass the funded community events.

MANAGEMENT RESPONSE



Tourism & Events Department
7506 E Indian School Rd
Scottsdale, AZ 85251
480-312-7177
www.ScottsdaleAz.gov

To: Sharron E. Walker, City Auditor

From: Steve Geiogamah, Tourism Development Manager

Date: October 5, 2015

Subject: Bed Tax-Funded Special Event Contracts-Audit Report No. 1603

It was a pleasure working with the Audit Staff, in particularly Senior Auditor Kyla Anderson.

Our written response is attached. We believe that the Findings, along with the implementation of the proposed Action Plan, will assist the City strengthen both the administration of the contracts, and ensure a return on investment for the City.

MANAGEMENT ACTION PLAN

1. The eligibility and evaluation criteria for Special Event funding could be more effective.

Recommendation:

The Tourism and Events Department should develop additional criteria for measuring an event's potential return on the Special Event funding investment. The criteria should then be presented for advice from the TDC and approval of the City Council.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: Current and additional event funding program criteria will be evaluated and updated and presented to City Council for approval. Tourism and Events staff will work with the Tourism Development Commission, the City Attorney's office and the Scottsdale Convention and Visitor Bureau to address the following areas specifically mentioned on page 11, Section 1 of the "Findings and Analysis".

RESPONSIBLE PARTY: Steve Geiogamah, Tourism Development Manager

COMPLETED BY: 6/30/2016

2. Improved event contract terms and contract administration can better assure return on the City's investment.

Recommendations:

The Tourism and Events Director should:

- A. Consult with the City Attorney's Office regarding addition of the terms to contract template documents.
- B. Ensure contract requirements are being fulfilled or if requirements are no longer necessary, they should no longer be included in contracts.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: Tourism and Events staff and the City's Attorney's office will conduct a review of tourism program event funding contracts to improve standard terms and ensure contract requirements are either being met, or removed if no longer needed.

RESPONSIBLE PARTY: Steve Geiogamah, Tourism Development Manager

COMPLETED BY: 12/31/2015

3. Some events were approved that did not meet current program guidelines.

Recommendations:

The Tourism and Events Director should:

- A. Consult with the Tourism Development Commission about updating the Event Development guidelines to clarify allowable uses of funding.
- B. Submit events that are outside program guidelines for specific Council approval or update the program requirements so that they encompass the funded community events.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: Event development program funding guidelines will be evaluated for clarity. Tourism Development staff will work with the Tourism Development Commission, and City Attorney's office to address these areas.

RESPONSIBLE PARTY: Steve Geiogamah, Tourism Development Manager

COMPLETED BY: 4/30/2016

APPENDIX

Bed Tax Funded Special Events, FY 2013/14 and FY 2014/15

Special Event	FY 2013/14	FY 2014/15
<i>Community Event Funding</i>		
1 Cowboy Christmas	\$5,000	\$10,000
2 Scottsdale Culinary Festival	-	\$15,000
3 Fall for the Arts	\$9,000	-
4 Hashknife Pony Express	\$4,000	\$8,000
5 Jewish Film Festival	\$2,000	\$3,000
6 Scottsdale ArtWalk	\$10,000	\$17,000
7 Scottsdale Film Festival	\$10,000	\$15,000
8 Parada del Sol Parade	\$30,000	\$30,000
9 Parada del Sol Rodeo	\$25,000	\$20,000
10 Philharmonic Concert & Canvas	-	\$5,000
11 5 th Avenue Art Fest	-	\$5,000
<i>Event Venue Fee Funding</i>		
12 Adrenaline Lacrosse	-	\$4,817
13 Sereno Soccer	\$4,057	\$4,507
14 Triple Crown Sports	\$5,000	* \$10,000
<i>Matching Event Advertising Funding</i>		
15 Arabian National Breeders Finals	\$5,000	\$3,068
16 Arizona Bike Week	\$15,000	\$22,035
17 Arizona Fall Championship	\$4,654	\$2,653
18 Barrett-Jackson Car Auction	\$30,000	\$30,000
19 Celebration of Fine Art	\$15,000	\$15,000
20 Goodguys 16 th Southwest Nationals	\$5,000	-
21 Larsen Art Auction	\$5,000	-
22 Russo and Steele Car Auction	\$15,000	-
23 Scottsdale Arabian Horse Show	\$30,000	\$30,000
24 Scottsdale Culinary Festival	\$15,000	-
25 Sun Circuit Quarter Horse Show	\$12,578	\$15,000
26 Waterfront Fine Art & Wine Festival	\$5,000	-
<i>Event Development Funding</i>		
27 Arizona Super Bowl Host Committee	\$215,280	\$215,280
28 Baseball City	-	\$75,000
29 Charles Schwab Championship	-	\$75,000
30 ESPN FanFest	-	\$475,000
31 Horses and Horsepower Polo Championships	\$75,000	\$75,000
32 PRCA Rodeo Championship	\$75,000	\$75,000
33 Rock 'N' Roll Marathon	† \$115,512	† \$73,585
35 Rugby Bowl	-	\$65,000
36 Scottsdale Showdown	\$75,000	-
37 Taste of NFL	-	\$71,016
38 World Food Championship	-	\$18,698
Totals	\$817,081	\$1,483,659

*This amount is for two separate events

†These amounts include barricade costs, but do not include public safety or street maintenance costs

SOURCE: Auditor analysis of general ledger detail for the Tourism Development Fund - Bed Tax cost center

City Auditor's Office

7447 E. Indian School Rd., Suite 205
Scottsdale, Arizona 85251

OFFICE (480) 312-7756
INTEGRITY LINE (480) 312-8348

www.ScottsdaleAZ.gov/auditor

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