



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.

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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.