

VENDOR AUDIT REPORT

OF

ECONOMIC DEVELOPMENT DEPARTMENT
ALBUQUERQUE CONVENTION & VISITORS BUREAU

REPORT NO. 12-106



City of Albuquerque
Office of Internal Audit

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Executive Summary

The Office of Internal Audit (OIA) conducted a vendor audit of the contract between the Albuquerque Convention & Visitors Bureau (ACVB) and the City of Albuquerque (City) as overseen by the Economic Development Department (EDD). The audit was included in the fiscal year 2012 approved audit plan.

EDD works to create, diversify and enhance job growth and to promote business development and stability. Additionally, EDD supports business and the development community within city government and between city agencies.

ACVB is a non-profit 501(c)6 organization contracted with the City to “stimulate economic growth by marketing Albuquerque as a convention and visitor destination”. ACVB has been in charge of marketing Albuquerque for over 30 years. In 2004, the City Council mandated that the marketing contract be put out for competitive bid. Following the formal evaluation process, ACVB was selected by the City and was once again responsible for marketing Albuquerque as a destination. The initial contract following the bid, expired June 30, 2009. The current contract between the City and ACVB is for the period of July 1, 2010 through June 30, 2013 and includes two 1-year extensions.

Has ACVB complied with the current contract?

- The current contract contains elements which are unattainable, irrelevant, outdated and unsubstantiated.
- ACVB uses explanations to report various elements of the contract.
- ACVB did not provide written notification to the City of all subcontractors.

Has ACVB utilized the public funds in accordance with applicable statutes, ordinances, Administrative Instructions, and policies and procedures?

- Of a sample of 24 expenditures for which Lodger’s Tax was used, 2 items totaling \$5,082.36 were identified which do not fit the criteria as described in the Ordinance.

Were the Hospitality Fee reimbursements made to ACVB valid?

- Of a sample of 12 Hospitality Fee reimbursements selected, all had the necessary supporting documentation and consisted of valid expenditures.

Has the Economic Development Department properly managed the ACVB contract?

- ACVB's accreditation through the Destination Marketing Association International (DMAI) expired October 31, 2011 although is listed as active on the ACVB website.
- The current contract does not include language required by the Inspector General Ordinance.

Is the ACVB contract consistent with comparable organizations?

- The current contract does not include performance measures.

Recommendations and management responses are included in the audit report.



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P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103

December 12, 2012

Accountability in Government Oversight Committee
City of Albuquerque
Albuquerque, New Mexico

Audit: Vendor Audit
Albuquerque Convention & Visitors Bureau
Economic Development Department
Audit No. 12-106

FINAL



INTRODUCTION

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Tourism plays an important role for the City of Albuquerque. According to the most recent Request for Proposal, “Albuquerque’s great year-round climate, diverse cultures, historic appeal, and diverse cuisine make it a unique visitor destination”. In 1994, the City enacted a Lodger’s Tax Ordinance that imposed a five percent tax on the lodging businesses in Albuquerque

designated in part, for advertising, publicizing, and promoting tourist-related attractions, facilities and events. Additionally, in 2004, the City enacted a Hospitality Fee Ordinance. The one percent Hospitality Fee was, in part, designated for purchasing advertising that publicizes and promotes tourist-related attractions, facilities and events in the municipality.

The purpose of the contract between ACVB and the City is to “advertise, publicize, and promote the City of Albuquerque for tourism and conventions.” The City helps fund ACVB using a percentage of both Lodger’s Tax and Hospitality Fees. Public funds paid over the first two years of the contract are as follow:

Public Funds Paid to ACVB

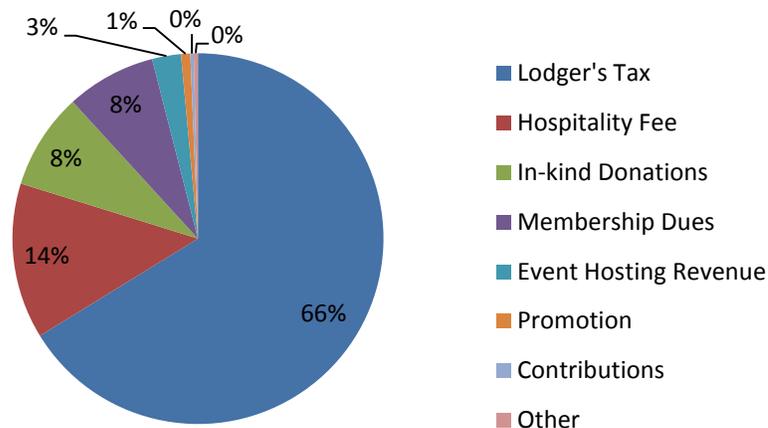
	FY 2011	FY 2012*
Lodger’s Tax	\$4,204,000	\$4,476,000
Hospitality Fee	\$862,000	\$942,000
Total Public Funds	\$5,066,000	\$5,418,000

Source: CABQ & ACVB records

*Unaudited amounts

In fiscal year 2011, ACVB received revenue from several sources. The City of Albuquerque was the largest funding source, providing 80 percent of its revenue. As reported in the company’s audited financial statements, ACVB received the following public support and revenue in fiscal year 2011:

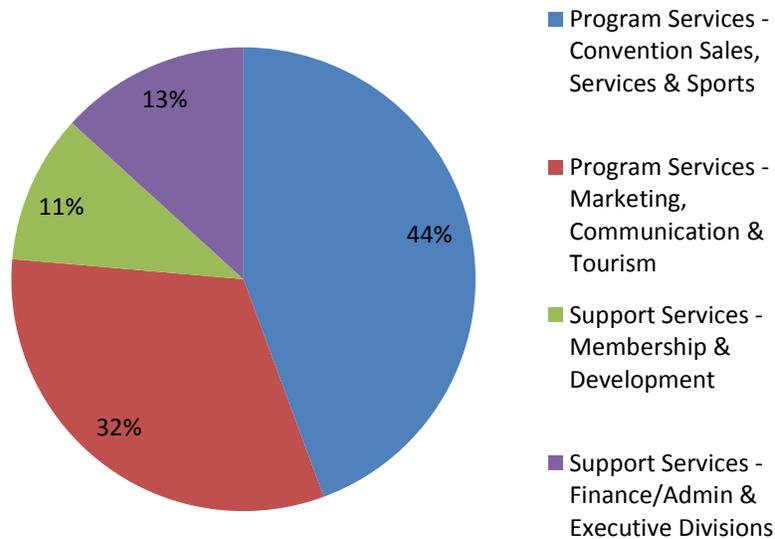
ACVB FY 2011 Revenue Sources



Note: „Other“ is made up of miscellaneous, interest income and merchandise sales.

ACVB's audited financial statements present expenses allocated between program services and support services. The financial statements show that program services were approximately 76 percent and support services were approximately 24 percent of total expenses for fiscal year 2011.

ACVB FY 2011 Expenses



As shown below, ACVB's funding and categorical expenses are in-line with industry standards.

**FY 2011 & 2012 –
 ACVB Expense Allocations vs. Destination Marketing Organizations with Budgets \$5M-\$9.9M**

	ACVB – FY 2011 ^A	ACVB – FY 2012 ^B	Industry Profile – 2011*
Percent of Public Funding	79.8%	80.8%	77.6%
Personnel (% of expenses)	39.2%	39.8%	41.4%
Direct Marketing (% of expenses)	49.2%	49.0%	46.4%
Support Costs (% of expenses)	9.8%	11.1%	12.2%

^A-Source: ACVB audited financial statements; ^B-Source: ACVB

*Source: Destination Marketing Association International via ACVB

AUDIT OBJECTIVES

The objectives of the audit were to determine:

- Has ACVB complied with the current contract?
- Has ACVB utilized the public funds in accordance with applicable statutes, ordinances, Administrative Instructions, and policies and procedures?
- Were the Hospitality Fee reimbursements made to ACVB valid?
- Has the Economic Development Department properly managed ACVB contract?
- Is the ACVB contract consistent with comparable organizations?

SCOPE

Our audit did not include an examination of all functions, transactions and activities related to the City's agreement with ACVB. Our scope focused mainly on ACVB's compliance with the contract.

This report and its conclusions are based on information taken from a sample of transactions and do not intend to represent an examination of all related transactions and activities. The audit report is based on our examination of ACVB's contract compliance through the completion of fieldwork, August 17, 2012, and does not reflect events or accounting entries after that date.

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.

METHODOLOGY

We utilized several methodologies to achieve the audit objectives. These evidence-gathering techniques included, but were not limited to:

- Interviewing key personnel at the City involved with contract administration and oversight;
- Interviewing key personnel at ACVB including executive and program staff;
- Obtaining copies of submitted reports;
- Reviewing report submissions;

- Testing ACVB expenditures utilizing Lodger's Tax;
- Testing City reimbursements of Hospitality Tax;
- Observing visitor center locations;
- Attending Lodger's Tax Advisory Board meetings which involved City management and ACVB staff; and
- Reviewing Government Finance Officers Association (GFOA) Best Practices.

FINDINGS

The following findings concern areas that we believe could be improved by the implementation of the related recommendations.

1. THE CAO SHOULD ENSURE THAT FUTURE CONTRACTS INCLUDE VALID PERFORMANCE MEASURES WHICH ARE DIRECTLY CONNECTED TO THE CONTRACT'S SCOPE OF SERVICES.

The contract between ACVB and the City of Albuquerque does not include performance measures or any metric to aid in measuring contract success. The sole metric included in the contract, Return on Investment (ROI), is disconnected and not tied into the Scope of Services. The Scope of Services detailed in the contract consists of three exhibits – Scope of Services (Exhibit C), Reports (Exhibit D), and Sales & Performance Measures (Exhibit E). Exhibit E does not list any performance measures. Additionally, the contract does not include a benchmark for the Return on Investment metric listed in Exhibit E.

Performance measures for the contract have not been effectively established. The contract does not include reporting measures reflecting the Scope of Services. According to ACVB, a benchmark for ROI was excluded from the current contract as, due to the various components, ROI is more informational and its value as a measure for contractual success is undetermined.

Disconnected performance measures create a contract environment that is ambiguous and may result in perceived mistrust between the parties and reactive and excessive control efforts. Inadequate contract performance measures hinder the ability of the City and ACVB to monitor the performance and success of the contract. Such obstacles prevent efficient operation and ultimately impede the promotion of Albuquerque as a destination.

In every industry, effective performance measures are necessary and attainable. The Government Finance Officers Association (GFOA) recognizes that performance

measures are an important component of decision-making and recommends that “at a minimum, performance measures:

- Be based on program goals and objectives that tie to a statement of program mission or purpose;
- Measure program results or accomplishments;
- Provide for comparisons over time;
- Measure efficiency and effectiveness;
- Be reliable, verifiable, and understandable;
- Be reported internally and externally;
- Be monitored and used in decision making processes; and
- Be limited to a number and degree of complexity that can provide an efficient and meaningful way to assess the effectiveness and efficiency of key programs.”

In an effort to assist the City and ACVB regarding performance measures, OIA conducted a survey of various Convention & Visitors Bureaus (CVBs). Of the 12 CVBs surveyed, four responded. These responses are attached for informational purposes as Appendix A of this audit report.

RECOMMENDATIONS:

The CAO should:

- Ensure that future contracts include measures which are directly connected to the contract’s Scope of Services.
- Develop clear, concise performance-based statements that will:
 - be tied to goals, objectives, and purpose of the work to be performed;
 - measure program results or accomplishments; and
 - be reliable, verifiable, and understandable.

RESPONSE FROM CAO

“The City will work with the contractor to incorporate performance measures acceptable to both parties into any subsequent contracts or contract extensions.”

ESTIMATED COMPLETION DATE

“June 30, 2013”

2. THE CAO AND ACVB SHOULD ENSURE THAT CONTRACT ELEMENTS ARE CLEAR, ATTAINABLE, AND BENEFICIAL PRIOR TO SIGNING THE CONTRACT.

Elements of the contract between ACVB and the City of Albuquerque have not been adequately reviewed as it contains elements which are unattainable, and no longer relevant. Additionally, various other elements within the contract appear to be outdated and unsubstantiated. These elements are described in detail as items A and B below.

The contract contained elements that remained unchanged from previous contracts, were unsubstantiated, unattainable, outdated, or required a disclaimer regarding the outcome.

Outdated and unsubstantiated data sources cause reportable contractual elements to be incorrect and misleading. Without accurate information, the City of Albuquerque is unable to document and illustrate the benefit, growth or success of the contractual elements. Moreover, the existence of outdated data sources in the contract (Item B below) demonstrates that neither party performed adequate contract review prior to entering into the new contract.

Unattainable or unnecessary contractual elements undermine the purpose of the contract. Contractual elements which require explanations or disclaimers may be an indication that the element requires clarification in the contract or that the contractor is non-compliant and unable to successfully perform the service.

The Office of Federal Procurement Policy's Guide to Best Practices for Contract Administration defines "Best Practices", in part, as a methodology agencies should employ to detect and avoid problems in the acquisition, management, and administration of contracts. Prior to entering into a contract, it is vital that both parties thoroughly read, understand, and discuss the terms of the contract and impart a clear understanding of the implementation of the terms to the agents or employees who will be administering the contract. Such review will provide each party a fundamental understanding of contract requirements and will help to identify and avoid future problems.

A. Unattainable & Irrelevant Elements:

These elements include:

- Requirements that ACVB "coordinate efforts with **all** [emphasis added] tourist organizations, businesses, convention and meeting facilities, lodging facilities

and the City to best service the public, attain the performance goals of **all** [emphasis added] organizations and provide a cost-effective operation.”

- Reporting the „Number of Estimated Impressions“ – ACVB includes an explanation on its report of estimated impressions which states ““Impressions“ is typically used for advertising and not measuring PR efforts. The circulation number is even more conservative than an impressions # would be. ACVB’s Media Clipping Service, Cision, indicated that, to them impressions was the equivalent of circulation.”
- Requirements that the ACVB website will be “registered with all of the most popular search engines”.
- Reporting „Actual Attendance and Pick-up Data“ – ACVB includes the following explanation “ACVB relies on meeting planners to provide attendance pickup and relies on hotels to provide RN [room nights] pickup information. ACVB has no control over the pickup numbers of any meeting or convention, since numerous external factors influence the overall performance of a meeting. When ACVB records a definite booking, estimates used for Room Nights and Attendance are based on historical performance and/or planners’ representations. These bookings are also subjected to audit by ACVB’s Board of Directors Finance & Audit Committee through the sales files process.”

B. Outdated & Unsubstantiated Elements:

Exhibit E – Sales & Performance Measures (Item #3, Spending Estimates) of the contract states “In reporting visitor impact for Albuquerque the following base formulas shall be utilized (all estimates as established by and based upon the 1998 IACVB Visitor Expenditure Impact Study for Medium Market Destination, unless otherwise indicated).” The International Association of Convention and Visitors Bureau (IACVB) changed its name in 2004 to the Destination Marketing Association International (DMAI). According to the Destination Marketing Association International, this 1998 study was replaced in 2007 with a more accurate „Event Impact Calculator“. The current contract between the City and ACVB was signed July 1, 2010.

Additionally, during the audit, OIA was unsuccessful in its attempts to obtain research and data sources specified in the contract as neither ACVB nor EDD could provide support for the following information:

- Exhibit E, Item #3, Spending Estimates:
 - (9) The Average Daily Rate for Event Attendees in Dorms: \$35/day*
* Based on data from the University of New Mexico
 - (10) The Average Daily Expenditure for Event Attendees in Dorms: \$50/day**
** Based on data from the Albuquerque Hispano Chamber of Commerce
 - (11) The Average Daily Rate for Group Tour Attendees: \$95/day ***
***Based on actual reports from participating Albuquerque hotels
 - (12) The Average Daily Expenditure for Group Tour Attendees: \$40/day****
****Based on data from the American Bus Association and utilized in past contracts with the City.

RECOMMENDATIONS:

The CAO should:

- Update the Scope of Services in future contracts to ensure that all elements of the contract are beneficial to the City and up-to-date.
- Ensure that all elements required in future contracts are, in fact, attainable, necessary and relevant.

ACVB & EDD should:

- Work together to clarify any contractual elements or terminology for the duration of the current contract or amend the contract if necessary.
- Work closely together during the contract negotiations to ensure that terminology is adequately defined and that all elements of the contract are clear, valid, necessary, updated, and beneficial to Albuquerque as a destination.

RESPONSE FROM CAO

“The City will work with the contractor to clarify contractual elements and terminology during the drafting of any subsequent contracts or contract extensions.”

ESTIMATED COMPLETION DATE

“June 30, 2013”

RESPONSE FROM ACVB

“ACVB is open to discussion with the City regarding clarifying contract elements.”

ESTIMATED COMPLETION DATE

“During next appropriate contract completion process.”

RESPONSE FROM EDD

“The City will work with the contractor to clarify contractual elements and terminology during the drafting of any subsequent contracts or contract extensions.”

ESTIMATED COMPLETION DATE

“June 30, 2013”

3. ACVB SHOULD ENSURE THAT PUBLIC FUNDS ARE USED IN ACCORDANCE WITH THE PURPOSE AND DEDICATIONS ESTABLISHED BY THE ORDINANCE.

Although ACVB maintains separate bank accounts to properly account for and utilize public and private funding, two exceptions were noted during the test of Lodger’s Tax transactions. These exceptions are summarized below.

- Out of 24 Lodger’s Tax transactions tested, two items were incorrectly paid using public funds.
 - Moving expenses totaling \$4,887.36 for an ACVB Vice-President
 - Credit card annual fee totaling \$195.00

Payments for these charges were made utilizing public funding from Lodger’s Tax rather than ACVB’s private funding.

Lodger’s Tax funding was used for a purpose that does not meet the spending requirements outlined by the Ordinance.

Section 5 Personnel, Paragraph A of the contract states: “The Contractor represents that it has, or will secure at its own expense, all personnel required in performing all of the Services required under this Agreement.”

Section 4-4-6 of the ordinance states, in part “occupancy tax shall be used for the purpose of advertising, publicizing and promoting tourist-related attractions, facilities and events.”

RECOMMENDATION:

ACVB should:

- Transfer \$5,082.36 from private funds back to the bank account designated for Lodger’s Tax expenditures so that the funds may be properly utilized to advertise, publicize and promote Albuquerque’s tourist-related attractions, facilities and events.
- Ensure that expenditures utilizing Lodger’s Tax are in accordance with the purpose and dedications outlined within Section 4-4-6 Imposition of Tax, Use of Proceeds.
- Ensure that its public funding is utilized as efficiently as possible to “advertise, publicize, and promote the City of Albuquerque for tourism and conventions” per the contract.

RESPONSE FROM ACVB

“All funds, \$4,887.36, identified by Internal Audit under this section as being incorrectly paid, have been transferred from the private fund account to the public fund account. Additionally, ACVB has implemented procedures to identify any future similar expenses that could be considered as “securing” personnel to be paid utilizing private funds.

“Additionally, the annual credit card fee of \$195 has been corrected by transfer of funds from the private account to the public funds account. Any future or similar fees will be paid from private funds as well.”

ESTIMATED COMPLETION DATE

“November 13, 2012”

4. ACVB SHOULD ENSURE THAT THE CITY RECEIVES WRITTEN NOTIFICATION OF ANY SUBCONTRACTOR USED TO PERFORM WORK OR SERVICES OF THE CONTRACT.

ACVB did not submit notice of all subcontracts to the City of Albuquerque as required by the contract. Though the contract between ACVB and the City does not define the term „subcontractor“, ACVB provided written notification of four subcontractors during the Request for Proposal (RFP) process.

Following the response to RFP in which ACVB identified four subcontractors, no additional subcontractors were submitted to the City of Albuquerque.

Without ACVB notifying the City of all subcontractors hired to perform various elements of the contract, the City is unable to distinguish what contract services ACVB provides and what services are provided by an alternate party.

According to Section 5 - Personnel, paragraph C of the contract:

The City shall receive written notification of all subcontracts for work or Services covered by this Agreement. Any work or Services subcontracted hereunder shall be specified by written contract or Agreement and shall be subject to each provision of this Agreement.

RECOMMENDATION:

ACVB should ensure that the City of Albuquerque receives notice of all subcontractors used to perform elements of the contract.

RESPONSE FROM ACVB

“ACVB will notify the City of all subcontracts for work or services covered by the agreement.”

ESTIMATED COMPLETION DATE

“December 31, 2012.”

5. ACVB SHOULD RENEW ITS ACCREDITATION THROUGH THE DESTINATION MARKETING ASSOCIATION INTERNATIONAL.

ACVB is not currently accredited through the Destination Marketing Association International (DMAI). According to the DMAI website, ACVB’s accreditation expired October 31, 2011 though the ACVB website indicates that the accreditation is current.

ACVB did not renew its DMAI accreditation in a timely manner to avoid expiration. The ACVB website contains inaccurate accreditation information. False or inaccurate statements on the ACVB website reflect poorly on both ACVB as well as the City of Albuquerque and may also negatively impact the City’s convention and tourism market.

Best practices for website maintenance recognize that the integrity of on-line information is critical and must be kept up-to-date in order to provide accurate and timely information and services to the public.

RECOMMENDATION:

ACVB should:

- Verify that all information on its website is true, accurate and up-to-date; and
- Correct any false or inaccurate statements immediately.

RESPONSE FROM ACVB

“ACVB is accredited and active. The DMAI-run approval process was

prolonged therefore delaying ACVB's receipt of a renewal certificate. ACVB applied for renewal before the expiration of our certificate. Please see the attached letter from DMAI affirming our active status. ACVB is still waiting for DMAI to hold a meeting to officially approve our accreditation renewal."

ESTIMATED COMPLETION DATE

"December 2012 – approval is expected from DMAI"

6. THE CAO SHOULD ENSURE THAT FUTURE CONTRACTS CONTAIN LANGUAGE REQUIRED BY THE INSPECTOR GENERAL ORDINANCE.

The ACVB contract does not include the Inspector General clause. The Albuquerque Code of Ordinances, Article 17: Inspector General was created after the ACVB contract was signed.

Without the necessary contractual clauses, the City of Albuquerque Office of Inspector General may be precluded from conducting an investigation should the need arise.

According to the Albuquerque Code of Ordinances, Chapter 2, Article 17: Inspector General, "Every city contract, bid, proposal, application or solicitation for a city contract and every application for certification of eligibility for a city contract or program shall contain a statement that the individual understands and will abide by all provisions of the Inspector General Ordinance."

RECOMMENDATION

The CAO should ensure that all future contracts with the ACVB include a statement regarding the provisions of the Inspector General Ordinance.

RESPONSE FROM CAO

"The City will work with the contractor to conform the language of any subsequent contracts or contract extensions to the Inspector General Ordinance."

ESTIMATED COMPLETION DATE

“June 30, 2013”

CONCLUSION

Based on the findings and recommendations in this report, OIA believes this audit will help the City of Albuquerque and the Albuquerque Convention & Visitors Bureau work together and improve the successful promotion of Albuquerque as a destination.

We appreciate the assistance and cooperation of the personnel at the Albuquerque Convention & Visitors Bureau, Economic Development Department, as well as others contacted throughout the audit.

Contract Auditor

REVIEWED and APPROVED:

APPROVED FOR PUBLICATION:

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