

MANAGEMENT AUDIT

OF

**THE ALBUQUERQUE CONVENTION AND VISITORS BUREAU (ACVB)
AGREEMENT**

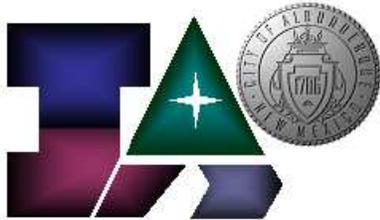
AND

**THE ALBUQUERQUE HISPANO CHAMBER OF COMMERCE (AHCC)
AGREEMENT**

REPORT NO. 04-110CITY



**CITY OF ALBUQUERQUE
OFFICE OF INTERNAL AUDIT AND INVESTIGATIONS**



City of Albuquerque
Office of Internal Audit and Investigations
P.O. BOX 1293 ALBUQUERQUE, NEW MEXICO 87103

January 25, 2006

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

Audit: Management of the Albuquerque Convention and Visitors Bureau Agreement and the
Albuquerque Hispano Chamber of Commerce Agreement
04-110

FINAL

INTRODUCTION

The Office of Internal Audit and Investigations (OIAI) reviewed the City management of, and vendor compliance with, the Albuquerque Convention and Visitors Bureau (ACVB) Agreement and the Albuquerque Hispano Chamber of Commerce (AHCC) agreement. The Chief Administrative Officer (CAO) Department, Office of Economic Development (OED) was the primary City office responsible for administering these two agreements. As of July 1, 2004, the Department of Finance and Administrative Services (DFAS) assumed responsibility for the administration of the two agreements. DFAS hired an employee whose job responsibilities included the contract administration of the two agreements.

The City of Albuquerque funding for the operations of ACVB is from Lodgers Tax revenues. In FY2003, the City provided \$3.7 million to ACVB under the second year of a three-year contract covering the period from April 1, 2002 to March 31, 2005. These monies represent 65 percent of ACVB's cash funding. In FY2004, the City provided \$3.8 million to the ACVB that represented 80 percent of ACVB's cash funding for FY2004. In FY2005, the City provided \$3.6 million to ACVB.

AHCC has two business segments: the Chamber of Commerce Department and the Albuquerque Hispano Chamber of Commerce Foundation. The City of Albuquerque provides some of the funding for the operations of the Chamber of Commerce Department, from Lodgers Tax revenues. In FY2003, the City provided \$512,000 to AHCC under the second year of a three-year contract covering the period from April 1, 2002 to March 31, 2005. These monies represent 21 percent of AHCC's

Chamber of Commerce Department funding for FY2003. In FY2004, the City provided \$502,000 to AHCC. The City and these two contractors entered into new contracts effective July 2005. ACVB and AHCC provide marketing services to the City to help achieve maximum use of the Convention Center. Both organizations also provide advertising, publicizing, and promoting of other tourist and convention facilities within the area.

AUDIT OBJECTIVES

The objectives of our audit were to determine:

- Is the City properly managing the agreements with ACVB and AHCC and ensuring that the objectives of the agreements are met and risks to the City are minimized?
- Are ACVB and AHCC complying with the terms of the agreements with the City?

SCOPE

Our audit did not include an examination of all the functions, transactions and activities related to the City's agreements with ACVB and AHCC. The audit covered the period from the inception of the agreements through June 2005 for ACVB and June 2004 for AHCC. The last day of fieldwork was August 1, 2005, for ACVB and October 1, 2004, for AHCC and this report does not reflect events or transactions after those dates.

The audit was conducted in accordance with Government Auditing Standards, except Standard 3.49, which requires an external quality review.

METHODOLOGY

We identified the obligations and performance requirements for ACVB and AHCC as specified in the agreements. We verified compliance through examination and analysis of available documents and interviews with key personnel at the City, ACVB and AHCC.

FINDINGS

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

Albuquerque Hispano Chamber of Commerce Agreement (AHCC)

1. DFAS SHOULD REQUIRE THAT AHCC MAINTAIN ADEQUATE DOCUMENTATION TO SUBSTANTIATE ITS REPORTED EVENT ATTENDANCE.

The 2002 contract required that AHCC report on performance measures. One of these measures was return on investment (ROI) which is calculated as total direct expenditures divided by Lodgers Tax revenues distributed to the contractor. The contractual ROI target is 15 to 1. Total direct expenditures are calculated by multiplying attendee days by the \$70 day rate contractually established in the 2002 contract. Attendee days are calculated by multiplying definite bookings by number of days each delegate attended the event. A definite booking is defined as when a “written confirmation is received from the client and written acceptance is sent by the Convention Center staff.”

AHCC reported the following total direct expenditures to the City of Albuquerque Office of Economic Development for the fiscal years 2003 and 2004. The total direct expenditures reported by AHCC include the Mariachi Spectacular, the Gathering of Nations Pow-wow as well as other events. AHCC was unable to provide documentation that supported the number of attendees reported for these two events. After OIAI discussed the reporting with AHCC personnel, AHCC submitted a revised annual report to the City for FY 2004. The revised report noted a difference in the amount of direct expenditures for the two major events.

Event	Originally Reported		Revised Report	
	Delegate bookings	Total Direct Expenditures	Delegate bookings	Total Direct Expenditures
Mariachi Spectacular 2003	20,000	\$7,000,000	2003 report was not revised.	
Gathering of the Nations Pow-wow 2003	Reported in 2002 Bookings			
Mariachi Spectacular 2004	20,000	\$7,000,000	2,600	910,000
Gathering of the Nations Pow-wow 2004	86,000	\$24,000,000	4,300	1,204,000

As the date of this audit report the AHCC FY2003 annual report has not been revised and resubmitted to the City.

The total direct expenditures are a part of the calculation of the ROI. The ROI figures for 2003 and 2004 using the figures originally reported and using the revised figures follows:

Fiscal Year	Total Direct Expenditures	Lodgers Tax Received	Calculated "ROI" By OIAI
2003	\$15,000,000	\$512,000	29
2004	\$57,000,000	\$502,000	113
2004 Revised	\$11,442,894	\$502,000	22

These reporting issues are relevant to the administration of the new contract with AHCC which was effective July 2005 as the new contract still requires AHCC to report on its annual Return on Investment. The City should request and review documentation supporting any figures reported by AHCC.

AHCC's Reporting of Event Attendees does not differentiate between Out-Of-Town Attendees and Local Attendees

The contract states that the purpose is “. . . to promote and encourage visitors to come to Albuquerque.” In its reporting of attendance at the two events described above, AHCC does not differentiate between out-of-town attendees and local attendees. Because the contract purpose is to promote out of town visitors, it would be reasonable for AHCC to only report to the City direct expenditures for monies spent by out-of-town attendees at events booked by the AHCC. Both the Gathering of Nations Pow-Wow and the Mariachi Spectacular appear to attract significant numbers of attendees who live in the Albuquerque metropolitan area. The spending at these two events by Albuquerque residents would not have the same level of economic value for Albuquerque as would spending by out-of-town attendees.

The revised FY2004 definite booking that AHCC reported to the City for the Gathering of Nations Pow-Wow indicated that AHCC estimated 4,300 attendees, but only 1,550 hotel room nights relating to this event. The revised FY2004 definite booking that AHCC reported to the City for the Mariachi Spectacular indicated that AHCC anticipated 2,600 attendees, but only 650 hotel room nights relating to this event. This ratio of hotel room nights to attendees indicates that these events attract large numbers of attendees who live in the Albuquerque metropolitan area or individuals that do not occupy hotel rooms.

RECOMMENDATION

DFAS should require that AHCC work more closely with event sponsors/organizers to obtain reasonable estimates of event attendance. DFAS should request that AHCC maintain adequate documentation to substantiate the estimates of attendance at events booked.

DFAS should request that AHCC ensure that the data it uses to compute “direct expenditures” reflects dollars spent by out-of-town attendees at events booked.

RESPONSE FROM DFAS

“DFAS agrees with the finding. We have received documentation from Albuquerque Hispano Chamber of Commerce to substantiate event attendance at Gathering of Nations for 2005. We will require documentation, no later than sixty days after each event concludes, supporting attendance for the two major events; Gathering of Nations and Mariachi Spectacular 2006. All documentation will be reviewed to ensure direct expenditure calculations are based on out-of-town attendees only.”

Albuquerque Convention and Visitors Bureau (ACVB)

2. DFAS SHOULD ASSESS THE REASONABLENESS OF ESTABLISHED ACVB GOALS.

The 2002 contract with ACVB had a performance measures for hotel “Room nights booked/center: Room-nights booked/Center is calculated by totaling the number of nights each room at all local lodging facilities is booked for a Convention Center Event, Non-Center activity or Sporting Event.” A ‘room-night’ is a booking of one room for one night at a local lodging facility which is subject to City of Albuquerque Lodgers Tax. The following is an analysis of targeted room nights versus actual:

Year	Targeted Goal Room-nights Booked Center	Actual Bookings Center	Variance Favorable (Unfavorable)
2005	90,000	*46,000	(44,000)
2004	90,000	46,066	(43,934)
2003	80,000	40,481	(39,519)

*projected by ACVB staff

Another performance measure is “Room nights booked/non-center” which refers to hotel room nights related to events booked by the ACVB at locations other than the City’s Convention Center. The contract states that the “Target” goal is “Determined by ACVB Marketing Plan.” The following is an analysis of targeted room nights versus actual:

Year	Targeted Goal Room-nights Booked Non-Center	Actual Bookings Non-Center	Variance Favorable (Unfavorable)
2005	125,000	*73,000	(52,000)
2004	125,000	101,000	(24,000)
2003	130,000	107,484	(22,516)

*projected by ACVB staff

The targeted room-nights should be established using historical data. ACVB should review the target established to determine if it is realistic, or the reasons for not achieving the target should be documented.

The 2005 contract requires that ACVB report the number of Convention Center and Non-center hotel room nights booked on a quarterly basis.

RECOMMENDATION

DFAS should assess the reasonableness of established ACVB goals and consider revising the goals.

DFAS should review with ACVB the reasons FY2005 goals were not met regarding convention center and non-convention center hotel room night bookings; and determine how ACVB and the City can improve progress towards accomplishing those goals.

RESPONSE FROM DFAS

“DFAS agrees with the finding. The reasonableness of established ACVB room night goals was discussed in the new contract negotiations (May 2005) and goals were revised in the FY06/FY07 contract.”

3. DFAS SHOULD REQUEST THAT ACVB REPORT ACTUAL ATTENDANCE DATA.

The 2002 contract defines ROI as total visitor direct spending divided by the City's investment in the contractor. The City's investment in the contractor is defined by the contract as ". . . the amount of Lodger's Tax Revenues paid to the Contractor for the applicable period."

The ACVB goal for return-on-investment is based in part upon hotel room night "definite bookings" and spending by attendees at events. ACVB personnel follow-up with the booking hotel(s), after an event is over, to determine if their estimates of the hotel room nights definitely booked for an event were accurate. The purpose of this process is for ACVB to determine the number of hotel room nights that were actually used by event attendees. ACVB refers to this as determining the actual "pick-up" of hotel room nights. The actual "pick-up" of room nights is currently obtained through written confirmation from the booking hotels.

ACVB personnel generated a "pick-up" report. Our review of this report noted for the period of March 2002 through April 2004 the actual "pick-up" of room nights was approximately 80% of the room night quantities that were claimed by ACVB as "definite bookings." ACVB is not contractually required to, and does not report the "pick-up" of room nights to the City. ACVB calculates its return-on-investment based in part upon hotel room night "definite bookings", not the actual number of room nights rented for an event. If the actual "pick-up" of hotel room nights is significantly different than what was originally reported to the City as a "definite booking", the reporting of ROI to the City may be inaccurate.

It may be appropriate for ACVB and the City to review additional methods to increase the accuracy of determining actual hotel room nights used by event attendees. The additional methods could include verifying actual "pick-up" data after the event or requesting from event organizers or the third party meeting planners information regarding event attendees and room nights used.

The current contract does not require that ACVB attempt to obtain information from the event organizers or the third party meeting planners regarding the actual number of event attendees and room nights used. If ACVB were to obtain information, regarding the actual number of event attendees, and report this to the City, it could aid the City in determining if ACVB is meeting or exceeding the expectations of the City Administration and City Council.

RECOMMENDATION

DFAS should request that ACVB attempt to obtain information from the event organizers or the third party meeting planners regarding the actual number of event attendees. DFCS should request that ACVB report actual event attendance and “pick-up” data to the DFAS Contract Administrator. The DFAS Contract Administrator should discuss with ACVB and document large variances between actual attendance, projected attendance; and actual “pick-up” of room nights versus reported definite bookings.

RESPONSE FROM DFAS

“DFAS will propose amendments to ACVB and AHCC Agreements to require actual attendance and “pick-up” data on all Convention Center meetings and conventions compared to estimated attendance and room nights. In addition, the City will propose amendments to ACVB and AHCC Agreements to require actual attendance and “pick-up” data on non Convention Center and Sporting events with estimated attendance exceeding 250 room nights. Proposed amendments will be completed by March 31, 2006. Large variances between actual attendance, projected attendance; and actual “pick-up” of room nights will be discussed and documented with ACVB and AHCC.”

4. DFAS SHOULD REQUEST THAT ACVB REPORT THE REASONS FOR THE CANCELLATION OF DEFINITE BOOKINGS.

In FY2004, there was \$2.3 million of ACVB definite bookings that were cancelled, which were reported as definite bookings in a fiscal year prior to FY2004. The reports that ACVB currently provides to the City disclose cancelled definite bookings which originated in a prior fiscal year. The reporting to the City on these cancelled definite bookings just states the number of room nights that were cancelled.

The reasons for the cancellation of definite bookings, nor the monetary value of the cancelled definite bookings are reported to the City. It would be beneficial for the City to know the reasons for the cancellations in order to determine if problem areas exist.

RECOMMENDATION

DFAS should request that ACVB report the reasons for the cancellation of definite bookings and the monetary value of the cancelled definite bookings.

RESPONSE FROM DFAS

“DFAS will propose amendments to the ACVB and AHCC Agreements requiring reporting of all cancellations of definite bookings, FY booked, FY impacted, corresponding estimated direct expenditures and reason for cancellation. ACVB and AHCC will be required to amend reporting of ROI when cancellations change an original report regardless of the fiscal year impacted. Proposed amendments will be completed by March 31, 2006.”

Albuquerque Hispano Chamber of Commerce (AHCC) and Albuquerque Convention and Visitors Bureau (ACVB)

5. DFAS SHOULD REQUEST THAT ACVB, AHCC AND SMG FINALIZE DEVELOPMENT OF POLICIES REGARDING COORDINATION OF EFFORTS.

The 2002 contracts with ACVB and Albuquerque Hispano Chamber of Commerce (AHCC) both require that “Annually on or before August 1, AHCC, ACVB and the Albuquerque Convention Center (ACC) will jointly prepare and submit to the City an updated plan for interorganizational coordination . . .” ACVB and the AHCC did not comply with this contractual requirement for FY2003 and FY2004. These organizations did not submit the required annual plans for interorganizational cooperation.

ACVB personnel informed the auditors that ACVB and AHCC prepared a 2004/2005 plan for interorganizational cooperation, and submitted it to the City in September 2004. One of the items included in the FY2005 interorganizational plan was that “The three contractors (ACVB, AHCC and SMG) will also develop mutually acceptable policy regarding booking windows and criteria for granting exceptions to the booking policy.” According to ACVB personnel, some discussions have been held among the parties relating to this issue, but a policy or agreement has not been finalized.

The “booking windows” issue refers to the instances whereby ACVB or AHCC has attempted to book a convention into a time slot at the City’s Convention Center. However, SMG the private operator of the Albuquerque Convention Center has already booked another event into the Convention Center, which then precludes ACVB or AHCC from booking the convention.

AHCC has been assigned the contractual responsibility to book events relating to Hispanic and Native American groups. The “booking policy” issue refers to the situations where a Hispanic or Native American group is considering booking an event in Albuquerque, but because of the size of the event, ACVB may be better equipped to handle the booking rather than AHCC.

The “booking windows” issue and the “booking policy” issue, which are mentioned in the FY2005 Interorganizational Plan should be resolved. The 2005 contracts still require both ACVB and AHCC to “. . . coordinate efforts with (each other) and SMG (the Convention Center operator) in order to best serve the public, attain the performance goals of all organizations and provide a cost-effective operation.”

RECOMMENDATION

DFAS should request that ACVB, AHCC and SMG finalize development of mutually acceptable policy regarding booking windows and criteria for granting exceptions to the booking policy.

RESPONSE FROM DFAS

“The new Agreements require inter-organizational coordination including, but not limited to, sharing of promotional materials, information and communication among the organizations. The new Agreement also requires ACVB, AHCC, SMG and appropriate staff to meet monthly for the purpose of inter-organizational coordination of conventions, meetings and events. The Director of the City’s Department of Finance and Administrative Services and/or the City’s Contract Manager shall be advised of and invited to the meetings. A copy of the minutes of the meeting shall be forwarded to the Director and the City’s Contract Manager. DFAS has received monthly meeting notices since July 2005 and has attended several meetings. Copies of the minutes of the meetings have been received and filed.”

6. DFAS SHOULD ENSURE THAT ACVB AND AHCC REPORT PERFORMANCE RESULTS.

The 2002 contracts with ACVB and AHCC both specified certain City contract responsibilities.

Compliance with Return-on-Investment Performance Measures

The 2002 contracts with both ACVB and AHCC stated “For purposes of compliance, the City will review the Annual Report no later than October 30th and determine compliance with the ROI. These findings will be reported to Contractor, City Council and the Lodgers’ Tax Advisory Board.”

In January 2003, the City’s Office of Economic Development sent a memorandum to the Mayor’s Office relating to the contractor’s FY2002 performance that stated:

We have completed an initial review of the contractor’s work funded through the Lodgers Tax. Below is a description of the Albuquerque Convention and Visitors Bureau. We are awaiting additional information from the Albuquerque Hispano Chamber of Commerce.

ACVB is required to submit a number of reports through the year ... All reports have been filed in a timely fashion and include all required information.

ACVB has met its accountability and performance requirements. It has met or exceeded most of its performance goals, even at a time of significant disruption in the hospitality industry.

ACVB had not complied with contractual requirements to submit annual “updated” plans to the City regarding interorganizational cooperation. We were unable to find documentation to determine if the OED reported on AHCC’s compliance with the accountability and performance requirements of its contracts. OED did not send the FY2003 report to the City Council by October 2003. The DFAS contract administrator stated that the ACVB and AHCC FY2004 performance report had not been submitted to the City Council by the deadline.

The 2005 contracts with ACVB and AHCC state, “Contractor shall report to the City its overall Return-on-Investment (“ROI”) on an annual basis. This report shall be submitted to the City’s Contract Manager”

Review by the City of the Contractors’ Annual Marketing/Operational Plans and Quarterly Performance and Accomplishments

The 2002 contracts with both the ACVB and the AHCC state:

A two (2) year marketing/operational plan with a proposed budget plan, submitted annually for review and approval by the City . . .

The City shall meet with the President of (the contractor) at least once a quarter to review the Contractor's performance and accomplishments.

OED did not provide us with documentation that supported the City review and approval of the contractors' annual marketing/operational plan or the City quarterly meetings with the contractors' Presidents to review the contractors' performance and accomplishments.

The 2005 contracts with ACVB and AHCC state, "Contractor shall provide to the City an annual marketing and operational plan with a proposed budget plan for marketing and booking the Albuquerque Convention Center and non-center conventions, meetings and events. This plan shall be submitted to the City's Contract Manager annually by August 1st of each year of this Agreement for review and approval by the City."

RECOMMENDATION

DFAS should ensure that ACVB and AHCC report performance results in a timely manner. DFAS should report these results to Contractor, City Council and the Lodgers' Tax Advisory Board.

DFAS should document its review and approval of the annual marketing plans as required by the contracts.

DFAS should ensure that ACVB and AHCC comply with the contract requirements for inter-organizational cooperation.

RESPONSE FROM DFAS

"The new Agreements require annual and quarterly reporting to the City on specified dates. DFAS received annual marketing and operational plans with proposed budgets by August 1, 2005 from both ACVB and AHCC. First quarter FY06 reports were received from both organizations by October 20, 2005 as required by the contract. We will monitor reporting and document any late or incomplete reports. The Lodgers' Tax Advisory Board has not had an official meeting since May, 2005; ROI for FY05 was not available at that time. ROI performance for ACVB and AHCC for FY05 will be reported to the Lodgers' Tax Advisory Board at the January 2006 scheduled meeting. The new contracts require ACVB and AHCC to

report, to the City, ROI on an annual basis no later than the 20th of July, 2006 and 2007.”

7. MISCELLANEOUS FINDING

The following finding does not require a response, but should be considered as an additional way to improve DFAS contract compliance.

The 2002 contract with ACVB required that it had sole responsibility for negotiating inducements with Convention Center clients for sponsored, city-wide convention events. The contract also stated that the President of ACVB was responsible for negotiating inducements with the concurrence of the Director of the Convention Center, confirmed in writing.

When the operations of the Convention Center were outsourced to a private corporation on February 1, 2004, there was no longer a City Convention Center Director from whom ACVB could obtain concurrence. Since then, ACVB has not obtained concurrence from the City for inducements relating to sponsored, citywide convention events. DFAS did not request that the contract be modified to address changes in City oversight of inducements.

DFAS should request amendments to contracts when requirements become unenforceable or invalid.

RESPONSE FROM DFAS:

“DFAS will monitor ACVB and AHCC Agreements and propose amendments when requirements become unenforceable or invalid.”

CONCLUSION

The City can improve its administration and monitoring of the agreements with ACVB and AHCC by ensuring that all required reports are submitted to the City when required. The City’s interests can be protected if vendor compliance with the agreements is thoroughly monitored. We appreciate the assistance and cooperation of City, ACVB and AHCC personnel during the audit.

Principal Auditor

Senior Auditor

REVIEWED

Principal Auditor

REVIEWED AND APPROVED:

Carmen L. Kavelman, CPA, CISA, CGAP
Acting Director

APPROVED FOR PUBLICATION:

Chairperson, Accountability in Government
Oversight Committee