

FOLLOW-UP OF

**CITY MANAGEMENT OF THE ALBUQUERQUE CONVENTION AND
VISITORS BUREAU AGREEMENT AND THE ALBUQUERQUE
HISPANO CHAMBER OF COMMERCE AGREEMENT**

REPORT NO. 08-04-110F



**City of Albuquerque
Office of Internal Audit and Investigations**



City of Albuquerque
Office of Internal Audit and Investigations
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April 16, 2009

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

Follow-Up: City Management of the Albuquerque Convention and Visitors Bureau Agreement
and the Albuquerque Hispano Chamber of Commerce Agreement
08-04-110F

FINAL

INTRODUCTION

The Office of Internal Audit and Investigations (OIAI) performed a follow-up of Audit No. 04-110, City Management of the Albuquerque Convention and Visitors Bureau (ACVB) Agreement and the Albuquerque Hispano Chamber of Commerce (AHCC) Agreement, issued January 25, 2006. The purpose of our follow-up is to report on the progress made by the Department of Finance and Administrative Services (DFAS) management in addressing our findings and recommendations.

DFAS is responsible for the administration of the two agreements. The City of Albuquerque (City) funding for the operations of ACVB and AHCC is from the Lodgers Tax Fund and the Hospitality Tax Fund. The City and these two contractors entered into new two-year agreements effective July 2005. In July 2007, the ACVB and AHCC agreements were extended for an additional two-year period, through June 2009.

ACVB and AHCC provide marketing services to the City to help achieve maximum use of the Albuquerque Convention Center (Convention Center). Both organizations also provide advertising, publicizing, and promoting of other tourist and convention facilities within the area.

In Fiscal Year (FY) 08, the City provided the following funding to ACVB and AHCC:

	Lodgers Tax Fund	Hospitality Tax Fund	Total
ACVB	\$ 5,405,000	\$ 1,122,000	\$ 6,527,000
AHCC	\$ 717,000	\$ 153,000	\$ 870,000

SCOPE, OBJECTIVES, AND METHODOLOGY

Our follow-up procedures consist of interviews of City personnel and review and verification of applicable documentation to assess the status of our audit recommendations. Our follow-up is substantially less in scope than an audit. Our objective is to ensure management has taken meaningful and effective corrective action in regards to our findings and recommendations.

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.

The scope of the follow-up did not include an examination of all the functions and activities related to the DFAS management of the ACVB and the AHCC agreements. We limited our scope to actions taken to address our audit recommendations from the date of our final report, January 25, 2006 through December 30, 2008.

RECOMMENDATION NO. 1:

A. Return On Investment (ROI)

AHCC reported the following total direct expenditures to the City in FY03 and FY04 for its two major events; the Mariachi Spectacular and the Gathering of Nations Pow-Wow. During the audit, AHCC was unable to provide documentation to support the number of event attendees previously reported to the City. Subsequently, AHCC submitted a revised report to the City for FY04, which significantly reduced the number of event attendees and the amount of direct expenditures by event attendees.

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

The 2002 agreement required AHCC to report to the City on its accomplishment of performance measures. One of these performance measures was ROI. This was calculated as total direct expenditures by event attendees divided by the amount of Lodgers Tax revenues distributed by the City to AHCC. The agreement's ROI target was 15 to 1.

The ROI for FY03 and 04 using the figures originally reported and the AHCC revised figures follows:

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

B. Reporting Event Attendance

OIAI determined AHCC did not differentiate between out-of-town and local attendees in its FY04 reporting of attendance at the Mariachi Spectacular and the Gathering of Nations Pow-Wow.

The agreement stated the purpose was to promote and encourage visitors to come to Albuquerque. Because the agreement's purpose was to promote out of town visitors, it would have been 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 attracted significant numbers of attendees who lived in the Albuquerque metropolitan area. The spending at these two events by Albuquerque residents did not have the same level of economic value for Albuquerque as would spending by out-of-town attendees.

The audit recommended that DFAS:

- Require AHCC to work more closely with event sponsors/organizers to obtain reasonable estimates of event attendance.
- Request AHCC to maintain adequate documentation to substantiate the estimates of attendance at events booked.
- Request AHCC to ensure that the data it uses to compute direct expenditures reflects dollars spent by out-of-town attendees at events booked.

DFAS responded that it agreed with the finding and would:

- Require documentation, no later than sixty days after each event concluded, supporting attendance for the two major events; Gathering of Nations Pow-Wow and Mariachi Spectacular.
- Review all documentation to ensure direct expenditure calculations were based on out-of-town attendees only.

ACTION TAKEN

The audit recommendations have been partially implemented.

The DFAS Convention & Tourism Contracts Compliance Manager issued a directive to AHCC in February 2006 to provide documentation supporting attendance for Gathering of Nations Pow-Wow and Mariachi Spectacular no later than 60 days after the conclusion of these events.

AHCC provided the following information to the DFAS Convention & Tourism Contracts Compliance Manager:

- Estimates of total 2007 and 2008 event attendance, provided by event sponsors/organizers, for the Gathering of Nations Pow-Wow and the Mariachi Spectacular. These sponsor/organizer estimates did not differentiate between out-of-town attendees and attendance by Albuquerque residents.
- AHCC surveys of 550 of the people who attended the 2007 and 2008 Mariachi Spectaculars to substantiate its estimates of out-of-town attendance at this event.
- An AHCC survey of 1,120 of the people who attended the 2008 Gathering of Nations Pow-Wow to substantiate its estimates of out-of-town attendance at this event.

The surveys attempted to determine how many people were out-of-town attendees, and documented how AHCC determined the estimates of out-of-town attendance at these events. AHCC used the survey information to compute direct expenditures which reflected dollars spent by out-of-town attendees at events booked.

A. Survey Results – 2008 Gathering of Nations Pow-Wow

When AHCC provided its 1st Quarter FY09 Report to the City, AHCC reported that it had made 69,202 definite room night bookings in that quarter, including definite room night bookings of 52,386 for the 2010 Gathering of Nations Pow-Wow. AHCC's estimate for the room nights reported as booked for this event was based upon its survey of attendance for the Gathering of Nations Pow-Wow held in April 2008. When they analyzed their survey results, AHCC concluded that attendees at this event had used a peak number of room nights of 77,723 on the sixth day of the event, April 26, 2008. However, according to the ACVB website, there are only approximately 16,000 guest rooms available in Albuquerque. Assuming four attendees stayed in each available room, the number of room nights would be 64,000 which is still less than the 77,723 reported for April 26, 2008. The report was revised by AHCC after OIAI questioned its results.

Event	Original Report		Revised Report	
	Peak Daily Number of Room Nights used by Event Attendees	Number of rooms available in Albuquerque	Peak Daily Number of Room Nights used by Event Attendees	Number of rooms available in Albuquerque
2008 Gathering of Nations Pow-Wow	77,723 a	16,000	21,213	16,000

a This number is based on a survey of 1,120 people. It does not take into account multiple attendees staying in one room.

B. Room Night Bookings – All Events During 4th Quarter FY 08

AHCC reported in its 4th Quarter FY08 Report to the City that it had made 33,152 definite room night bookings in that quarter. OIAI noted that AHCC had included 31,221 rooms as an adjustment to the definite room night bookings. AHCC calculated its adjustment as the difference between the room nights originally reported as booked in December 2006, and the room night pick-ups that it claimed after events had occurred. The agreement does not allow AHCC to make adjustments to definite room nights previously reported as booked in a prior year, for room night pick-ups. AHCC revised its report, after OIAI informed DFAS in October 2008 that the original report contained adjustments to an event booked in a prior year.

Adjustments to definite room nights previously reported as booked in a prior year were also made in AHCC's 4th Quarter FY07 Report to the City; however, DFAS did not request AHCC to revise this report.

	Original Report	Revised Report
FY	Total Definite Room Night Bookings a	Total Definite Room Night Bookings
4 th Quarter 08	33,152 b	1,931
4 th Quarter 07	34,934 c	Not revised

- a** Definite room night bookings occurs when an event organizer commits in writing to hold an event in Albuquerque. They are internal estimates which include the number of room nights used by event attendees based on attendance at prior year events.
- b** This number includes adjustments of 31,221 room night bookings which were for events that were booked and reported in a prior year.
- c** This number includes adjustments of 33,388 room night bookings which were for events that were booked and reported in a prior year.

RECOMMENDATION

DFAS should:

- Ensure AHCC does not include adjustments from prior years bookings into the reporting of current year's bookings
- Review the results of future AHCC surveys to ensure their accuracy.

RESPONSE FROM DFAS

“DFAS agrees with recommendation. DFAS has advised AHCC that adjustments from prior year's bookings cannot be included in current year's bookings. AHCC has revised 4th quarter FY08 and 1st quarter FY09 reports, the revised reports have been accepted by DFAS. DFAS will review all future AHCC surveys to ensure accuracy.”

RECOMMENDATION NO. 2:

The 2002 agreement between the City and ACVB had performance measures for targeted hotel room nights booked for Convention Center and Non-Center events. OIAI compared targeted to actual room nights booked for both Convention Center and Non-Center events during FY03 through FY05:

Convention Center

Year	Targeted Room-nights Booked	Actual Bookings	Variance Favorable (Unfavorable)	Variance Percentage
FY05	90,000	46,000*	(44,000)	(49%)
FY04	90,000	46,066	(43,934)	(49%)
FY03	80,000	40,481	(39,519)	(49%)

*Projected by ACVB as the final actual data was not yet available.

Non-Center

Year	Targeted Room-nights Booked	Actual Bookings	Variance Favorable (Unfavorable)	Variance Percentage
FY05	125,000	73,000*	(52,000)	(42%)
FY04	125,000	101,000	(24,000)	(19%)
FY03	130,000	107,484	(22,516)	(17%)

*Projected by ACBV as the final actual data was not yet available.

The audit recommended DFAS:

- Assess the reasonableness of established ACVB performance measures and consider revising them.
- Review with ACVB the reasons the FY05 performance measures were not met and determine how to improve progress towards accomplishing them.

DFAS responded that it agreed with the finding. The reasonableness of established room night goals were discussed in the 2005 agreement negotiations with ACVB and the goals were revised in FY06.

ACTION TAKEN

The audit recommendations have been fully implemented.

DFAS met with ACVB and decided the 2005 performance measures were unrealistic and ACVB developed more realistic goals for 2006. DFAS meets annually with ACVB to discuss the room night goals and assess their reasonableness.

The 2005 agreement with ACVB does not specify the process by which the ACVB Convention Center and non-center room night performance measures will be established. According to DFAS, hotel room night goals are set by ACVB using a 3-year rolling average as a benchmark, and that unusual circumstances are also considered in establishing goals.

A comparison of targeted to actual room nights booked for both Convention Center and Non-Center events during FY06 through FY08 indicated:

Convention Center

Year	Targeted Room-nights Booked	Actual Bookings	Variance Favorable (Unfavorable)	Variance Percentage
FY08	53,000	57,837	4,837	9%
FY07	51,000	51,598	598	1%
FY06	45,000	60,598	15,598	35%

Non-Center

Year	Targeted Room-nights Booked	Actual Bookings	Variance Favorable (Unfavorable)	Variance Percentage
FY08	83,000	83,012	12	0%
FY07	86,000	91,533	5,533	6%
FY06	85,000	82,486	(2,514)	(3%)

RECOMMENDATION NO. 3:

ACVB personnel followed-up with the hotels, after the events were over, to determine if their estimate of hotel room nights booked was accurate. The purpose of this process was for ACVB to determine the number of hotel nights actually used by event attendees. ACVB referred to this as determining the pick-up of hotel room nights. ACVB was not required to, and did not report the actual hotel room nights used by event attendees to the City.

Using information provided by ACVB, OIAI determined the pick-up of hotel room nights used by event attendees, during the period of March 2002 through April 2004 was approximately 80% of the amount used by ACVB to calculate its ROI. ACVB based the amount of room nights used for the ROI calculation on definite bookings, which are an estimate based on past history.

The 2002 agreement between the City and ACVB included ROI as a performance measure to determine if ACVB was meeting or exceeding expectations of the City Administration and City Council. ROI was calculated by dividing Total Visitor Direct Spending by the City's investment in ACVB, which is the amount of Lodgers' Tax Revenues paid to ACVB for the applicable period. The hotel room nights used by event attendees is included in the calculation of Total Visitor Direct Spending.

If the actual hotel room nights were significantly different than the amount used to calculate the ROI, then the City might not be able to determine if ACVB was meeting expectations of the City Administration and City Council. This could impact the amount of Lodgers' Tax Revenues paid to ACVB in future agreements.

The audit recommended that DFAS request ACVB to:

- Attempt to obtain information from the event organizers or the third party meeting planners regarding the actual number of event attendees.
- Report actual event attendance and pick-up data to the DFAS Contract Administrator.
- Have the DFAS Contract Administrator discuss with ACVB and document large variances between actual attendance, projected attendance; and actual pick-up of room nights versus reported definite bookings.

DFAS responded that it would:

- Propose amendments to the ACVB Agreement to require actual attendance and pick-up data on all Convention Center meetings and conventions compared to estimated attendance and room nights.

- Propose amendments to ACVB Agreement to require actual attendance and pick-up data on non Convention Center and sporting events with estimated attendance exceeding 250 room nights.
- Discuss and document with ACVB large variances between actual attendance, projected attendance; and actual pick-up of room nights.

ACTION TAKEN

The audit recommendations have been partially implemented.

DFAS proposed an amendment to the 2005 agreement requiring ACVB to:

- Attempt to obtain actual attendance information for conferences, meetings and sporting events.
- Report to the DFAS Convention & Tourism Contracts Compliance Manager the actual event attendance and pick-up data.

The 2005 agreement was never amended to include this requirement because ACVB did not agree to the proposed amendment.

DFAS proposed discussions with ACVB on large variances between actual attendance, projected attendance, and actual pick-up of room nights versus reported definite bookings. However, ACVB has not provided this information to DFAS. Without this information, the DFAS Convention & Tourism Contracts Compliance Manager could not hold discussions with ACVB.

RECOMMENDATION

DFAS should consider including the above items in future agreements.

RESPONSE FROM DFAS

“DFAS agrees with recommendation. DFAS will negotiate language in future RFPs/Contracts for destination marketing services which will require contractor to attempt to obtain actual attendance information for conferences, meetings and sporting events. DFAS will also negotiate language which will require the marketing organization to report to DFAS Convention & Tourism Contracts Compliance Manager actual event attendance and pick-up data.”

RECOMMENDATION NO. 4:

OIAI determined \$2.3 million of ACVB definite bookings from a prior FY were cancelled in FY04. The report provided by ACVB only stated the number of room nights that were cancelled. Neither the reasons for the cancellation nor the monetary value of the definite bookings were reported to DFAS. It would have been beneficial for DFAS to know the reasons for the cancellations in order to determine if problem areas existed.

The audit recommended DFAS request ACVB to report the reasons for the cancellation and the monetary value of the definite bookings.

DFAS responded it would:

- Propose amendments to the ACVB Agreement requiring reporting of all cancellations of definite bookings, FY booked, FY impacted, corresponding estimated direct expenditures and reason for cancellation.
- Require ACVB to amend reporting of ROI when cancellations change an original report regardless of the FY impacted.

ACTION TAKEN

The audit recommendation has been fully implemented. ACVB reported to DFAS the reasons for cancellations and the monetary value of definite bookings for cancellations of business occurring in FY06, FY07 and FY08 (through the 3rd quarter).

RECOMMENDATION NO. 5:

OIAI determined ACVB and AHCC did not submit the annual plans for inter-organizational cooperation for FY03 and FY04. The 2002 agreements with ACVB and AHCC both required that AHCC, ACVB and the Convention Center to jointly prepare and submit an annual updated plan for inter-organizational coordination to the City.

ACVB and AHCC personnel prepared a 2004/2005 plan for inter-organizational cooperation, and submitted it to the City in September 2004 (FY05). One of the items included in this inter-organizational plan was that ACVB, AHCC and the operator of the Convention Center (SMG) would develop a mutually acceptable booking windows policy and criteria for granting exceptions to this policy. According to ACVB personnel, some discussions had been held among the parties relating to this issue, but a policy or agreement had not been finalized.

Booking windows referred to instances where ACVB or AHCC had attempted to book a convention into a time slot at the Convention Center. However, SMG had already booked another event into the Convention Center, which precluded ACVB or AHCC from booking the convention.

For example, AHCC had been assigned the responsibility to book events relating to Hispanic and Native American groups. The booking criteria referred to those situations where a Hispanic or Native American group was considering booking an event in Albuquerque, but because of the size of the event, ACVB may have been better equipped to handle the booking rather than AHCC.

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

DFAS responded that the new AHCC and ACVB agreements required:

- Inter-organizational coordination including sharing of promotional materials, information and communication among the organizations.
- ACVB, AHCC, and SMG to meet monthly for the purpose of inter-organizational coordination of conventions, meetings and events.
- The DFAS Director and/or Contract Manager to be advised of and invited to the meetings.

ACTION TAKEN

The audit recommendations have been fully implemented. The 2005 agreements with ACVB and AHCC include booking windows policy and criteria for granting exceptions to the booking policy.

OIAI reviewed meeting minutes for the period of March 2006 through April 2008 and noted that ACVB, AHCC, and SMG met monthly for the purpose of inter-organizational coordination. The meeting minutes indicated that the DFAS Convention & Tourism Contracts Compliance Manager represented the City at these meetings.

RECOMMENDATION NO. 6:

As of 2003, the City's Office of Economic Development (OED) was performing some administrative responsibilities relating to the ACVB and AHCC agreements. OED was unable to provide documentation of the required reports to the City Council and the Lodgers' Tax Advisory Board, regarding AHCC's compliance with the accountability and performance requirements of its

agreement. The DFAS contract administrator also informed OIAI that the ACVB and AHCC FY04 performance reports had not been submitted to the City Council by the deadline.

The 2002 agreements with ACVB and AHCC both specified certain City contract administration responsibilities. These agreements stated for purposes of compliance:

- The City would review the AHCC and ACVB Annual Reports no later than October 30th and determine compliance with the ROI.
- These findings would be reported to the contractors, City Council and the Lodgers' Tax Advisory Board.
- A two year marketing/operational plan, with a proposed budget plan, would be submitted annually for review and approval by the City.
- The City would meet with the President of ACVB and AHCC at least once a quarter to review the Contractor's performance and accomplishments.

OED could not provide documentation that it had reviewed and approved ACVB and AHCC's annual marketing/operational plan or had met with the contractors' presidents to review their performance accomplishments.

The audit recommended DFAS:

- Ensure ACVB and AHCC report performance results in a timely manner.
- Report its review of these results to the contractors, City Council and the Lodgers' Tax Advisory Board.
- Document its review and approval of the annual marketing plans as required by the agreements.
- Ensure that ACVB and AHCC comply with the agreement requirements for inter-organizational cooperation.

DFAS responded that:

- The new agreements required annual and quarterly reporting to the City on specified dates.
- It would monitor reporting and document any late or incomplete reports. The new agreements required ACVB and AHCC to report ROI to the City on an annual basis but no later than July 20th for the previous fiscal year.

ACTION TAKEN

The audit recommendations have been fully implemented or resolved.

OIAI verified that ACVB and AHCC had submitted the required annual reports for FY06 through FY08 to the City prior to the deadlines required by the agreements.

The administrative responsibilities requiring the City to review the AHCC and ACBV annual reports, determine compliance with the ROI, and report its findings to the contractors, City Council and the Lodgers' Tax Advisory Board were not included in the 2005 agreements with ACVB and AHCC. Although not required by the agreements, DFAS is reporting the performance results of ACVB and AHCC to the Lodgers Tax Board.

The 2005 agreements with ACVB and AHCC state that the contractor shall provide to the City an annual marketing and operational plan, which shall be submitted to the DFAS Convention & Tourism Contracts Compliance Manager annually by August 1st of each year for review and approval. The DFAS Convention & Tourism Contracts Compliance Manager reviews the annual ACVB and AHCC plans and informs the contractors of the City's approval after any concerns have been addressed.

The 2005 agreements with ACVB and AHCC require the two organizations meet monthly for the purpose of inter-organizational coordination of conventions, meetings and events. The required monthly meetings between ACVB and AHCC are being held. Each of the contractor's annual marketing and operational plans also include inter-organizational coordination.

CONCLUSION

Four of the six recommendations noted in the initial audit report have been fully implemented or resolved. Two of the recommendations have been partially implemented. DFAS should continue to work on implementing these recommendations to further strengthen its management of the ACVB and AHCC agreements.

We appreciate the assistance and cooperation of DFAS personnel during the audit.

Principal Auditor

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