

August 14, 2007

Internal Audit Report 2007-9
Anchorage Convention and Visitors Bureau
Economic and Community Development

Introduction. In January 2006, the Municipality of Anchorage (Municipality) renewed the contract (Contract) with the Anchorage Convention and Visitors Bureau (ACVB). The scope of services requires ACVB to:

1. Provide professional services in the promotion of Anchorage as a travel and tourism destination with an expectation to increase the number of in state and out-of-state visitors to Anchorage through implementation of the services listed next in item 2.
2. Develop advertising and sales programs directed toward, but not limited to, increasing the number of conventions, tour groups, independent travelers, incentive tours, world congresses and off-season visitors to Anchorage in an effort to sustain and create additional local jobs, generate supplemental local tax revenues, and produce additional purchasing power for Anchorage businesses and residents.

ACVB has 41 employees, approximately 120 volunteers and registration assistants, and more than 1,200 members. ACVB is comprised of five departments: President's Office, Communications and Marketing Programs, Community Member and Visitor Relations, Convention and Meeting Sales and Service, and Tourism Development and Sales.

Anchorage Municipal Code (AMC) 12.20.020, *Levy, payment, collection and distribution of tax revenues*, levies a twelve percent (12%) tax on all room rents (bed tax) and designates one third (or 4%) of the total tax revenues received to promotion of the tourism industry. In 2006, ACVB's share of the bed tax revenue totaled \$6.3 million. The Municipality projected about \$6.5 million in bed tax revenue will be paid to ACVB in 2007. See Attachment A for ACVB's Income Statement detailing 2006 revenues and expenditures.

The Contract also provided working capital advances to ACVB of \$650,000 in 2006 and \$350,000 on February 15, 2007. The advances are interest-free and must be returned to the Municipality upon termination of the Contract.

Objective and Scope. The objective of this audit was to determine whether the ACVB was in compliance with the Contract requirements. Our audit included a review of 2006 and 2007 quarterly reports, financial statements and judgmentally selected expenditures. We also evaluated the performance measures contained in Appendix A of the Contract.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of April through May 2007. The audit was requested by the Administration.

ACVB 2006 Activities.

In 2006, ACVB received \$6.3 million to promote Anchorage as a travel and tourism destination. According to ACVB, expenses were incurred in 2006 for activities such as sales blitzes, bid presentations, and advertising. In addition, expenses were incurred for other activities such as:

- ***Familiarization Visits*** - ACVB hosted three familiarization visits for 62 meeting planners representing 42 groups. A familiarization visit consists of a small group of meeting planners who come to Anchorage for several days to familiarize themselves with hotels, transportation, and any available recreational activities in the Municipality. The itinerary for a familiarization visit may include site tours and lunches at various hotels, tour of the Anchorage Museum, a four-wheeling tour, kayaking tour, horseback riding tour, dinner aboard the Alaska Railroad train, reception at the Alyeska Resort, Portage Glacier cruise, and a flight seeing tour. According to ACVB, these familiarization visits resulted in 20 booked conventions.
- ***Site Inspections*** - ACVB hosted site inspections for 21 organizations. Site inspections were offered to meeting planners who could not attend the scheduled familiarization visits.
- ***Trade Shows*** - ACVB staff attended 53 trade shows, including trade shows in Seattle, San Francisco, Scottsdale, Orlando, Chicago, Boston, New York, Washington, D.C., Canada, China, Japan, and Taiwan.
- ***Travel Writers*** - ACVB met with 72 travel writers. Some of the writers were freelancers, and some were associated with the following publications: National Geographic Traveler, travelgirl, PINK, Travel Weekly, American Spa, Food & Wine, Travel Trade, Today's Black Woman, Family Circle, Forbes, and The New York Times.

Overall Evaluation. Overall, ACVB complied with the requirements of the Contract. There were, however, some areas that required improvement. Several questionable expenses were made with bed tax revenue. Also, reported performance measures did not comply with the Contract. For example, nearly half of the performance measures reported did not match the measures contained in the Contract. In addition, we found that the performance measures contained in the Contract could be improved. Finally, ACVB was not in compliance with the Contract's provision about subcontracts.

FINDINGS AND RECOMMENDATIONS

1. Questionable Expenditures With Bed Tax Revenue.

- a. **Finding.** While most of ACVB's expenditures complied with Contract requirements, our review revealed several questionable expenses, including donations and staff parties, paid for with bed tax revenue.

Questionable Donations - Donations were made to various organizations which were not in accordance with the intent of the Contract and appeared to be unrelated to the promotion of tourism. These items totaled \$11,850. For example, ACVB donated \$7,500 to the Central Middle School of Science, \$2,500 to the Anchorage Mayor's Charity Ball, \$1,000 to the Anchorage Cultural Council, and \$500 to the Special Olympics Alaska.

Questionable Expenses - Two charges totaling \$1,052 were for a holiday party and staff get-together. According to the Contract's Section 2(A)(3), funds "... shall not be used for employee picnics, banquets or luncheons."

- b. **Recommendation.** The contract administrator should ensure that expenditures of bed tax revenue are in compliance with the Contract.
- c. **Management Comments.** Management stated, "The contract administrator will ensure that expenditures of bed tax revenue are in compliance with the contract.

"ACVB regards three of the four donations listed (Central Middle School of Science, Anchorage Cultural Council, and the Special Olympics) as marketing costs and legitimate use of bed tax funds. The fourth donation, sponsorship of the Mayor's

Charity Ball, appears to be a matter of miscoding. It is agreed that this should have been expensed to a non-bed tax fund.

“ACVB also agrees with the findings that the holiday party and staff gathering expenses were incorrectly expensed to bed tax accounts. Both expenses were incurred late in the year and resulted from credit card purchases that were miscoded (old codes) by the employee who made the purchases. Upon discovery of the problem, these accounting codes have been deactivated so this error will not reoccur.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Reported Performance Measures Not in Compliance with the Contract.**

- a. **Finding.** Our review of the quarterly reports revealed the following deficiencies:
 - 1) Seventeen of the thirty-six performance measures reported by ACVB did not match the performance measures requested in the Contract. For example, the Contract specified one of the measures as the estimated total number of hotel guest nights for conventions occurring. However, ACVB actually reported the number of estimated peak room nights for conventions occurring. Similarly, ACVB reported amounts spent for national advertising, in state advertising, internet print co-op advertising, and internet pay-per-click. In contrast, the Contract required ACVB to report amounts spent to place advertisements in various media outlets such as Alaska newspapers, other domestic newspapers, domestic trade magazines, international trade magazines, internet websites of other organizations, television, and radio.

- 2) ACVB's quarterly reports contained statistics that either had insufficient supporting documentation or were inaccurate. ACVB could not provide detailed records to support several of the performance measures reported in the 2006 Quarterly Reports. Of the thirty-six measures we examined, five did not have sufficient supporting documentation. For example, ACVB reported that its staff participated in 37 domestic trade shows outside of Alaska in 2006, resulting in 1,070 leads. However, ACVB was unable to provide us with sales managers' reports to verify both numbers. In addition, some data provided in the quarterly reports was inaccurate. For example, the Contract required ACVB to report the number of actual convention attendees for year-to-date for 2006 compared to the prior five years which should have included 2001. However, 2001 was not included. We also noted a discrepancy in the total number of actual convention center attendees for 2006. In the 2006 4th Quarter report, ACVB reported 172,042 year-to-date convention center attendees while the 2007 1st Quarter report showed 322,652 attendees for the same period.
- 3) The data provided by ACVB in the quarterly performance reports for promotion activities could be misinterpreted. For example, according to ACVB, from 2006 through 2010, there were 37 confirmed bookings for the convention centers. However, many of these 37 confirmed bookings were made some time prior to 2006, and did not represent the 2006 work product. When we asked ACVB for the number of conventions that were booked in 2006, we were told this number was not readily available. We were also told that this information was provided to ACVB by the Egan Center and would take a lot of effort to produce.

- b. **Recommendation.** The contract administrator should ensure ACVB submits quarterly reports in compliance with the Contract with complete documentation to

support the statistics. In addition, the contract administrator should clarify the Contract's intent for the number of conventions booked.

- c. **Management Comments.** Management stated, "The contract administrator will ensure ACVB submits quarterly reports in compliance with the contract with complete documentation to support the statistics. In addition, the contract administrator will clarify the contract's intent for the number of conventions booked.

"In the past, when ACVB staff returned from sales trips or completed membership programs, the numbers and other pertinent contact information were recorded and then paper information was discarded. Staff has been instructed to retain paper documentation for future reporting purposes. All future reports will include a five-year history as required by contract.

"The explanation of the discrepancy noted in 2006 convention center attendees between the 4th Quarter 2006 and the 1st Quarter 2007 reported is being investigated but has not been resolved. Once the accurate number is determined, ACVB will report to the Office of Economic & Community Development.

"While 'confirmed bookings' appears to be a straightforward performance measure, ACVB agrees that this measurement is subject to interpretation. This concern of misinterpretation is a matter for further discussion and clarification with the Municipality."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. Contract Performance Measures Could be Improved.

- a. Finding.** Many of the performance measures contained in the Contract did not provide needed information to manage programs and resources. In addition to input, output, and outcome measures, there are three other common types of measures:

- Efficiency - the cost per unit of output or outcome.
- Effectiveness - the degree to which pre-defined goals and objectives are met.
- Quality - the level of customer satisfaction.

Although performance measures were recently added to the Contract, many of them only provided statistical information instead of information measuring efficiency, effectiveness, or quality. For example, the Contract required ACVB to report the number of meeting planners who attended ACVB-organized familiarization visits. While this data may be interesting, it provides little information to actually measure the success of the familiarization visits. Although ACVB tracks the number of meeting planners who later book a convention after attending a familiarization visit, the Contract does not require this information to be reported.

- b. Recommendation.** The contract administrator should consider revising the performance measures to measure efficiency, effectiveness, or quality of the services provided with bed tax revenue.
- c. Management Comments.** Management stated, “The contract administrator will consider revising the performance measures to measure efficiency, effectiveness, or quality of the services provided with bed tax revenue.

“ACVB agrees with the auditors’ assessment that in many cases there is a divergence in the language outlined in the contract and the measures recorded by ACVB. ACVB believes that there are more cost effective, yet still valuable methods to measure our media effectiveness and would like to engage with the MOA to find an agreeable substitute.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Non-Compliance With Subcontract Provision.**

- a. **Finding.** Subcontracts were not always submitted to the contract administrator for review and approval. Two vendors were hired to perform work that ACVB’s staff also performed. Yet, the contracts had not been submitted to the contract administrator for approval. For example, one of the vendors had a contract that expired in 1994, and ACVB could not provide a current contract. Since the beginning of 2006 through May 10, 2007, ACVB paid \$36,600 to this vendor. Section 18(B) of the Contract states, “Every subcontract . . . in an amount exceeding \$10,000, in which the Contractor delegates the provision of services, shall be subject to review and approval by the Administrator before it is executed by the Contractor.”
- b. **Recommendation.** The contract administrator should require ACVB to comply with the Contract’s provision regarding subcontracts.
- c. **Management Comments.** Management stated, “The contract administrator will require ACVB to comply with the contract’s provision regarding subcontracts.

“While ACVB does not consider the Hyland Group to be a subcontractor as defined by the contract, they are willing to provide a written agreement for the MOA for future work with the Hyland Group. ACVB agrees with the MOA’s overall assessment that they can improve their process for approval and maintenance of contracts. ACVB will include the MOA in the approval process for all applicable contracts.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on July 2, 2007.

Audit Staff:
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ACVB INCOME STATEMENT AS OF DECEMBER 31, 2006 (Unaudited)

OPERATING REVENUES	
MOA - ACVB	\$ 6,349,535.68
Members' Dues	\$ 399,145.45
Phone/Internet Revenue	\$ 47,813.25
TOTAL OPERATING REVENUES	\$ 6,796,494.38
OPERATING EXPENSES	
Personnel	\$ 2,832,217.06
Operations	\$ 289,296.76
Promotions and Memberships	
<i>Outsourcing</i>	\$ 13,461.96
<i>Office Lease/Maintenance</i>	\$ 65,919.93
<i>Equipment Lease/Maintenance</i>	\$ 141,844.70
<i>Office Supplies</i>	\$ 58,658.98
<i>Postage</i>	\$ 58,163.35
<i>Telecommunications</i>	\$ 36,985.17
<i>Professional Fees and Insurance</i>	\$ 61,853.34
<i>Community Relations</i>	\$ 243,665.29
<i>Promotion</i>	\$ 62,710.50
<i>Marketing Programs</i>	\$ 548,226.08
<i>Public Relations</i>	\$ 76,399.54
<i>Lead Development</i>	\$ 213,272.46
<i>Research</i>	\$ 30,219.07
<i>Direct Mail</i>	\$ 62,325.63
<i>Direct Sales</i>	\$ 995,033.99
<i>Media Relations</i>	\$ 47,096.43
<i>Visitor and Meeting Services</i>	\$ 270,731.35
<i>Local Industry Participation</i>	\$ 13,775.57
<i>Training and Education</i>	\$ 10,971.69
Total Promotions	\$ 3,011,315.03
TOTAL OPERATING EXPENSES	\$ 6,132,828.85
NET OPERATING PROFIT/(LOSS)	\$ 663,665.53
Other Income and Gains	
Visitors Guide 2006 Revenue	\$ 500,036.59
Interest Income	\$ 10,240.88
Other Income	\$ 1,139.12
Total Other Income and Gains	\$ 511,416.59
Other Expenses and Losses	
Visitors Guide 2006 Expense	\$ 535,852.83
Bad Debt Expense	\$ 734.50
Bank Fees and Credit Card Charges	\$ 2,867.68
Interest Expense	\$ 82,382.87
Lease Property Tax Expense	\$ 1,126.68
Other Expense (Note 1)	\$ 500,000.56
Total Other Expenses and Losses	\$ 1,122,965.12
TOTAL REVENUES	\$ 7,307,910.97
TOTAL EXPENSES	\$ 7,255,793.97
NET OPERATIONS & OTHER	\$ 52,117.00
MOA - Egan Center Income	\$ 193,046.42
Egan Center Expense	\$ (193,046.42)
Dena'ina Center Income	\$ 115,562.44
Dena'ina Center Expense	\$ (115,562.44)
Net Egan Center	\$ --
NET ALL	\$ 52,117.00

Note 1: MOA withheld \$500,000 to pay for bond debt retirement

Note 2: Income statement does not include the working capital advance to ACVB of \$650,000 in 2006.

Source: Based on data provided by ACVB