

Audit Report

Contract Audit: Visit Austin

June 2018



We did not find significant contract compliance issues by Visit Austin. However, the Austin Convention Center Department could enhance current practices for administering and monitoring the City contract with Visit Austin. Specifically, we noted a lack of coordination between the Convention Center divisions responsible for contract administration and monitoring and a lack of a comprehensive approach to verify the accuracy of contract deliverables. We also identified opportunities for improving contract performance measures. In addition, we noted that Austin is generally in alignment with peer cities as the City's overall relationship and oversight of Visit Austin is comparable to that of peer cities and their own visitors bureaus.

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Objectives

- To determine if the Visit Austin contract is administered and monitored by the City to ensure compliance with contract requirements.
- To determine how the City of Austin's relationship and oversight structure with Visit Austin compares to that of peer cities.

Background

Visit Austin was created in 1996 by the City Council as a non-profit organization and is contracted by the City "to market Austin nationally and internationally as a premiere convention and leisure destination." The most recent City contract with Visit Austin was awarded in 2016 and will expire in 2021. The contract sets the primary role of Visit Austin as "to market space in the Austin Convention Center and related City facilities with the intent to maximize hotel occupancy tax and use of the Austin Convention Center." The Austin Convention Center Department (the Convention Center) administers the contract. City Council approved \$14,995,700 for Visit Austin for fiscal year 2018. In addition to funding from the City contract, Visit Austin obtains revenue from private sources like retail revenue and partnerships.

What We Found

Summary

We did not find significant contract compliance issues by Visit Austin. However, the Austin Convention Center Department could enhance current practices for administering and monitoring the City contract with Visit Austin. Specifically, we noted a lack of coordination between the Convention Center divisions responsible for contract administration and monitoring and a lack of a comprehensive approach to verify the accuracy of contract deliverables. We also identified opportunities for improving contract performance measures. In addition, we noted that Austin is generally in alignment with peer cities as the City's overall relationship and oversight of Visit Austin is comparable to that of peer cities and their own visitors bureaus.

Finding 1

We did not find significant compliance issues; however, the Convention Center could enhance current practices for administering and monitoring the Visit Austin contract.

We did not find significant compliance issues.

Based on our limited testing on a sample of financial transactions (see Additional Observation 1), Visit Austin used City money for the established contract purposes. Visit Austin is required by the contract to keep City funds in an account separate from privately-sourced funds. We saw evidence that Visit Austin is in compliance with this requirement. We also saw evidence that Visit Austin is in compliance with fiscal reporting and performance reporting requirements. Although six performance measures required to be in the monthly reports were missing (see Exhibit 1), these were reported elsewhere.

Best practices for contract administration and monitoring¹ highlight the need for a formalized approach, including a contract monitoring plan, communication amongst staff, and verification of deliverables and invoices.

Based on review of the Convention Center contract administration and monitoring practices, we identified the following issues:

- Roles and responsibilities for contract administration and monitoring are not effectively coordinated for managing the contract with Visit Austin.
- Convention Center Contract Compliance staff do not verify the accuracy of the deliverables they collect.
- The Convention Center did not ensure that Visit Austin complied with contract terms to report some performance measures.
- There are opportunities to improve contract performance measures.

¹ We collected best practices from various state and federal government agencies.

Roles and responsibilities for contract administration and monitoring are not effectively coordinated for managing the contract.

The Convention Center is responsible for the administration of the Visit Austin contract on behalf of the City. Staff members from several Convention Center divisions complete administration and monitoring tasks for the Visit Austin contract. For example, Contract Compliance staff collect deliverables such as the monthly Industry Reports; Finance staff receive monthly invoices; and Sales staff books Convention Center space sold through Visit Austin. Also, the Director of the Convention Center and an Assistant City Manager are on Visit Austin's Board of Directors.

However, the divisions do not fully coordinate their tasks regarding the contract. For example, while Finance staff process invoices, they do not appear to check with Contract Compliance to see whether deliverables have been submitted on time prior to payment. The invoices are approved (signed and dated) by either the Convention Center Director or Deputy Director. The lack of a coordinated approach to administer and monitor the contract increases the risk that the City may not identify if Visit Austin does not continue to adhere to the terms of the contract.

Various Convention Center staff members stated that they review portions of Visit Austin's reported performance or that they are present at meetings with Visit Austin where performance is discussed; however, these staff reviews are informal and are not documented. Various Convention Center staff members also stated they have verbal communication with Visit Austin regarding performance, but do not document these communications. Executive management is present at Visit Austin Board of Directors meetings where performance is discussed.

Without coordinated roles and responsibilities for contract administration and monitoring, including ways of documenting and communicating the status of Visit Austin's performance, there is no assurance that performance issues are identified and that Visit Austin is making satisfactory progress towards meeting the requirements of the contract.

Prior to this audit, the Convention Center began an initiative to enhance contract management practices, which continued during the audit. As part of this initiative, the Convention Center:

- Developed a contract administration manual. This manual contains information such as: roles and responsibilities for contract administration and contract monitoring; guidance on conducting risk assessments on contracts; and procedures to perform desk reviews and on-site reviews.
- Asserted that they have assigned a staff member to serve as the dedicated contract manager to oversee activity related to the administration of the Visit Austin contract. The Convention Center indicated that this person is transitioning to the role and is scheduled to complete City contract management training.

The Convention Center has recently completed steps towards enhancing contract management practices.

Best practices state that a contract administration plan is a necessary component of successful contract monitoring.

- Recently completed a risk assessment for the Visit Austin contract. Contract Compliance staff asserted they are in the process of developing a contract administration plan for the Visit Austin contract.

Convention Center Contract Compliance staff do not verify the accuracy of the information contained in the deliverables they collect.

Visit Austin's goals for completing the scope of work in the contract are established annually in the marketing plan and budget, which are approved by City Council. The contract specifies certain performance measures which Visit Austin is required to report monthly in Industry Reports, which are publicly available on Visit Austin's website. Visit Austin also reports performance of some activities, both those required by the contract and "other industry standards" not required by the contract, at regular meetings, including the quarterly Board of Directors meetings. The contract requires that quarterly unaudited financial information be presented at pre-announced meetings. This information is currently being presented at the quarterly Board of Directors meetings, which are announced on Visit Austin's website.

The Convention Center's Director of Sales stated that she does review and verify the reported Convention Sales category performance measures in the Industry Report. However, Contract Compliance staff indicated that they do not verify deliverables from Visit Austin for accuracy, such as the monthly Industry Report and the Marketing Plan; instead, they simply upload the deliverables into an electronic file management system. Without a process to verify and document the accuracy of all of the deliverables, the Convention Center may not have assurance that Visit Austin's reported performance is accurate.

We compared the most recent Marketing Plan, which reported fiscal year 2017 performance measure totals, with monthly Industry Reports spanning the same period. We noted that the November 2016 Industry Report indicated the "Dollar value of media"² measure that month was over \$782 million and that this was a 6,115% increase over the same month in the prior year. Visit Austin stated that the figure was reported in error and that they self-identified and corrected the error 5 months later³, and that the yearly total as reported later in the Marketing Plan was correct. Had Convention Center staff been reviewing or attempting to verify Visit Austin's reported performance, this error would have likely been identified and corrected sooner.

To test whether Visit Austin's individual performance measures were reported accurately, we selected a sample of reported performance measures from two monthly Industry Reports and reviewed supporting documentation. Based on our review, we found that the reported

² This measure represents the value of the media placed.

³ The correct total was approximately \$49,171,000.

Best practices state that documented performance measure collection methodologies are necessary to ensure reliability.

performance for the months and measures sampled was accurate.⁴

Although the performance measures we sampled were accurately reported, one of the four categories we selected for review (Convention Services) did not have documented methodologies to compute reported performance measures to ensure consistency.

The Convention Center did not ensure that Visit Austin complied with contract terms to report some performance measures.

The contract specifies performance measures from six categories which Visit Austin is required to report in the monthly Industry Reports. We reviewed Industry Reports from October 2016 to December 2017 to see whether or not the measures required by the contract were included. Exhibit 1 shows the measures which were not included in the Industry Reports as required by the contract.

Exhibit 1: Were all performance measures required by the contract included in the Industry Reports?

CATEGORY	INCLUDED?	MEASURES MISSING
Convention Sales	N	Class B; Class C Rooms
Austin Sports Commission	N	Room nights; Event leads sent; Site visits; Media coverage/ Press communication
Tourism	Y	
Marketing Communications	Y	
Convention Services	Y	
Visitor Services	Y	

SOURCE: Industry Reports, October 2016 through December 2017

Some measures were not reported according to the terms of the contract, but are reported via other means including the Convention Calendar, presentations at the Visit Austin Board of Directors meetings, and in the annual Marketing Plan.

Visit Austin management stated that they are in the process of revising the monthly Industry Report so that it is organized to better reflect the contract reporting requirements.

⁴ During our scope period, Visit Austin used third parties to carry out activities which contributed to the "Housing Assigned" and "Dollar value of media" measures in the Industry Reports. We did not verify the reliability of the sources of these measures.

There are opportunities to improve contract performance measures.

Best practices state that performance measures should be relevant, and City of Austin guidance recommends yearly review of performance measures for relevancy.

Some of the performance measures specified in the contract may no longer be relevant. The City's "Managing for Results" business planning guide recommends that performance measures be reviewed each year to assess relevancy. Visit Austin staff stated that due to changes in the travel industry, some of the performance measures required by the contract may no longer be relevant, such as "Dollar impact of media"⁵ and "Online package development." Visit Austin staff explained that a publication's circulation may be more relevant than "Dollar impact of media." They also stated that "Online package development" does not reflect current consumer preferences for booking travel.

Finding 2

The City's oversight structure and relationship with Visit Austin is generally similar to peer cities and their respective visitors bureaus.

As noted in the background section, Visit Austin is a non-profit organization established by the City Council and is not considered a City department.

We contacted visitor bureau representatives in cities identified as "peer cities" by Convention Center and Visit Austin staff. These were: Dallas, Texas; San Antonio, Texas; Nashville, Tennessee; and Phoenix, Arizona. As shown in Exhibit 2, all of the peer cities reported that they operate a Convention Center as a City department and contract with a visitors bureau instead of operating it as a City department. In addition, all of the peer cities have City representation on the visitors bureau board of directors.

Three of the four peer cities reported having City Council presence on their visitors bureau board of directors. Two of the four peer cities reported having a separate board or commission in the City governance structure with responsibilities for "evaluating projects to enhance the tourism and hospitality industry" (Phoenix) and "promoting tourist, convention, and recreational activity" (Nashville). This is distinct from the visitors bureau board of directors, as detailed in Exhibit 2.

⁵ Reported in the Marketing Plan and Industry Reports we reviewed as "Dollar value of media."

Exhibit 2: Summary of Comparison with Peer Cities

	Austin, TX	Dallas, TX	San Antonio, TX	Phoenix, AZ	Nashville, TN
Is the convention center a City dept.?	Yes	Yes	Yes	Yes	Yes [§]
Is the visitors bureau a City dept.?	No	No	No	No	No
Is there a board or commission with tourism/convention oversight?	Yes*	No	No	Yes (see Appendix)	Yes (see Appendix)
What City representation is there on the visitors bureau Board of Directors?	City management; City department	City Council; City management; City department	City Council; City management; City department	City Council; City Management; City Department	City Management

[§] There are 2 convention centers in Nashville: one is staffed by City employees and one is privately-run. The visitors bureau supports both centers.

* On June 14, 2018, the Austin City Council approved an ordinance to establish a Tourism Commission.

SOURCE: Interviews with peer city visitors bureau staff; auditor research.

Additional Observation 1

The contract does not require Visit Austin to submit supporting documentation with invoices. For a sample of transactions verified by us, the charges appeared to be correct.

The City pays Visit Austin via reimbursements for expenses incurred for work under the contract. Best practices recommend that for cost-reimbursement contracts like the Visit Austin agreement, the City should require adequate documentation to support invoiced amounts, and appropriate personnel such as the contract administrator should review prior to payment. Invoices by themselves are not considered sufficient to indicate contractor activity. Although the contract requires Visit Austin to provide quarterly financial statements and an annual external financial audit to the Convention Center, without a review of a sample of supporting documentation or other mitigating controls, there is a risk that the City may not identify if Visit Austin charges for expenses unrelated to achieving the requirements of the contract.

The contract requires Visit Austin to retain supporting documentation for invoices to the City. The contract states that the City has a right to request additional information regarding invoices. We selected two monthly invoices from Visit Austin to the City. We selected a sample of transactions from the invoices and reviewed supporting documentation. We found the charges to be reasonably related to achieving the scope of work of the contract.

Additional Observation 2

While the contract with Visit Austin generally appears to protect the City's interests, it is missing certain clauses which are identified as "essential" in best practices.

In recent contract audits, we have compared the contract being reviewed to best practices in the State of Texas Contract Management Guide. While the City is not required to comply with the Guide, we noted the following "essential" clauses are missing from the Visit Austin contract:

- identifying the relevant Law and venue should legal disputes arise between the parties;
- clarifying the City's rights if the contractor defaults;
- clarifying that Visit Austin must comply with the Public Information Act;
- outlining a formal dispute resolution procedure;
- clarifying that neither party is liable for issues arising from "force majeure" events;
- clarifying ownership over intellectual property generated through the contract.

We consulted with the City's Law Department, who stated that despite these clauses being missing from the contract, the City's interests were still protected due to other contract clauses or typical legal practices which they considered to be mitigating, or because the scope of work makes them irrelevant.

Appendix - Peer Cities Commission Information

	Phoenix, AZ	Nashville, TN
Commission name	City Tourism and Hospitality Advisory Board	Tourism and Convention Commission
Function	Responsible for evaluating projects to enhance the tourism and hospitality industry in Phoenix, subject to fiscal constraints and criteria imposed by the City and recommending those projects to the City Council. Serves as a mechanism for evaluating projects to be funded for the hospitality industry's share of surplus Arena Tax Funds.	Promotes tourist, convention, and recreational activity.
Members	12 voting 2 non-voting	9
Members appointed by	City Council	Mayor
Membership composition	Hoteliers <ul style="list-style-type: none"> 8 members, each from hotels in different council districts Non-hotel sector of the hospitality industry <ul style="list-style-type: none"> 2 members City representatives <ul style="list-style-type: none"> 3 members (incl. 1 non-voting) Greater Phoenix Convention & Visitors Bureau <ul style="list-style-type: none"> 1 member (non-voting) 	Hoteliers <ul style="list-style-type: none"> 4 members (incl. 1 from a "large hotel") Tourist-related industries <ul style="list-style-type: none"> 4 members Chamber of Commerce <ul style="list-style-type: none"> 1 member
Sample of meeting agenda items	<ul style="list-style-type: none"> Phoenix Convention Center update Review of Convention & Visitors Bureau use of funds from prior fiscal years Convention and Visitors Bureau presentation Evaluation of funding proposals for fiscal year 2017-18 	<ul style="list-style-type: none"> Nashville Convention & Visitors Corporation financial report Nashville Convention & Visitors Corporation activity report

SOURCES: Interviews with peer city visitors bureau staff; auditor research.

Recommendations and Management Response

1

The Director of the Convention Center should strengthen existing contract administration and monitoring practices for the Visit Austin contract, which should include:

- having a trained contract manager to coordinate contract administration activities, and;
- enhancing existing practices for reporting and review of Visit Austin's performance under the contract.

Management Response: Agree.

Proposed Implementation Plan: See Austin Convention Center memo at page 12.

Proposed Implementation Date: December 31, 2018

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Management Response



MEMORANDUM

To: Corrie Stokes, City Auditor, Office of the City Auditor

From: Mark Tester, Director, Austin Convention Center Department (ACCD)

Date: June 21, 2018

Subject: ACCD Management Response to the report: Contract Audit: Visit Austin

Thank you for the opportunity to respond to your audit report, *Contract Audit: Visit Austin*. The recommendation for improvement within the report will be used to guide continuous improvement in Austin Convention Center Department's (ACCD) Contract Management and Monitoring activities. As requested, ACCD management's responses are included below:

Recommendation:

The Director of the Convention Center should strengthen existing contract administration and monitoring practices for the Visit Austin contract, which should include:

- having a trained contract manager to coordinate contract administration activities; and
- enhancing existing practices for reporting and review of Visit Austin's performance under the contract.

Management Response: Agree

Proposed Implementation Plan:

ACCD will implement these recommended items by:

1. A contract manager has been identified and will attend training as necessary. In addition to regular discussions with the ACCD Executive Management team, the contract manager will document quarterly meetings held with the ACCD Contract Compliance Supervisor (or above) and other relevant staff to discuss and coordinate any issues regarding this contract.
- 2.a. Currently, the contract specifies Visit Austin's reported performance measures. However, after ACCD, working with Visit Austin, completes an assessment to determine which measures should continue to be reported, we will consider an amendment to the contract to either revise the performance measures stated in the contract or indicate that the performance measures will be defined in the approved annual Marketing Plan. Then, annually, ACCD will work with Visit Austin to review



Management Response

the performance measures to determine if there are any necessary changes. Once the performance measures have been determined, we will also ensure that the calculation methodology has been documented. This is in line with the City of Austin's approach to performance measurement in its business planning process.

Visit Austin's Response: Visit Austin conducts individual staffing training on the systems used to compile these measures, has documented these procedures in order to enhance the individual training, and has provided Office of the City Auditor and to ACCD staff the documented procedures for the "Convention Services" performance measures.

- b. Visit Austin implemented a new performance measure report format, which facilitates reviewers in determining the contract performance measures' attainment of monthly and year-to-date goals. In addition, ACCD staff will document ACCD's review of Visit Austin's monthly performance measures report.
- c. Annually, either ACCD staff or a qualified independent third-party will conduct and document the evaluation of supporting documentation for selected performance measures.
- d. ACCD will document its current Visit Austin financial and performance review activities. We will assess the need for enhancement of our existing review process and ensure all reviews going forward are well documented.

Proposed Implementation Date: December 31, 2018



Scope

The audit scope included Convention Center contract administration and monitoring practices from October 2016 to December 2017 for the current City contract with Visit Austin.

Methodology

To accomplish our audit objectives, we performed the following steps:

- interviewed staff members from the Convention Center, Visit Austin, and the Law Department;
- analyzed the contract with Visit Austin;
- evaluated 15 months of Industry Reports and the fiscal year 2017 and 2018 Marketing Plans;
- selected a judgmental sample of invoices and Industry Reports, and from these:
 - selected a random sample of transactions from the selected invoices and reviewed supporting documentation;
 - selected a judgmental sample of reported performance measure categories and reviewed supporting documentation;
- researched best practices for contract monitoring and administration;
- interviewed individuals from peer cities visitors bureaus,
- evaluated the risk of fraud, waste, and abuse with regard to the Visit Austin contract, and;
- evaluated internal controls related to administering and monitoring the contract with Visit Austin.

Audit Standards

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.

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The Office of the City Auditor was created by the Austin City Charter as an independent office reporting to City Council to help establish accountability and improve City services. We conduct performance audits to review aspects of a City service or program and provide recommendations for improvement.

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