

VENDOR AUDIT REPORT

OF

THE ALBUQUERQUE CONVENTION AND VISITORS BUREAU (ACVB)
AGREEMENT

REPORT NO. 04-110ACVB



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: Vendor Audit of the Albuquerque Convention and Visitors Bureau Agreement
04-110ACVB

FINAL

INTRODUCTION

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

ACVB provides marketing services to the City to help achieve maximum use of the Convention Center. ACVB also provides advertising, publicizing, and promoting of other tourist and convention facilities within the area.

The City of Albuquerque funding for the operations of the ACVB is from Lodgers Tax revenues. In FY2003, the City provided \$3.7 million to the 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 the ACVB.

The City entered into a new contract with ACVB effective July 2005.

AUDIT OBJECTIVES

The objectives of our audit were to determine:

- Did ACVB comply with the terms of the agreement with the City?
- What changes could be implemented to improve the agreement?

SCOPE

Our audit did not include an examination of all the functions, transactions and activities related to the City's agreement with ACVB. The audit report is based on our examination of ACVB contract compliance and covers the period from the inception of the agreement through June 2005. The last day of fieldwork was August 1, 2005, and this report does not reflect events or transactions after that date.

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

METHODOLOGY

We identified the risks to the City associated with the agreement with ACVB. We identified the obligations and performance requirements for ACVB as specified in the agreement. We verified compliance through examination and analysis of available documents and interviews with key personnel at the City and ACVB.

FINDINGS

The following finding concerns areas that we believe ACVB could comply with the requirements of the agreement by the implementation of the related recommendations.

1. ACVB SHOULD ASSESS THE REASONABLENESS OF ESTABLISHED 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. ACVB should document the reasons for not achieving the target.

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

RECOMMENDATION

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

ACVB should review 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 ACVB

“Other than the first finding, the balance of the audit addresses reporting and communication between ACVB and the City through its DFAS Contract Administrator, rather than specific contract compliance issues. Since the development of the current contract and its reporting requirements was a facilitated effort between the City (including representation from the Office of Internal Audit and Investigations) and ACVB, management does not believe the specific requirements for additional reporting is applicable for the current contract. If recommendations arising from an audit result in additional reporting or performance requirements, the audit function essentially becomes a unilateral contract amendment process. And, although we understand that from time to time it may be necessary for the City Audit Department to initiate significant changes to existing contracts, we believe that since we are only six months in to a contract that was diligently and vigorously constructed, that the additional suggestions for improvement has been thoroughly discussed during the negotiation process and had been excluded by consensus.

“ACVB will continue to work with the City to improve communication by providing management reports and analysis to enable both entities to accomplish growth in the economic impact of the tourism industry.

“We would like to acknowledge the professional courtesy shown by the city’s audit team throughout this process.”

“Recommendation 1: ACVB agrees with the findings that actual room night goal production fell short of the targeted goals for the period under review.

“Plan

“ACVB appreciates the fact that in this report the City recognizes the importance of establishing realistic goals. During the development of the current contract (Beginning July 2005), the City engaged the services of an industry expert to assist in discussions regarding room-night goals. The contract negotiation team (comprised of city staff, ACVB staff and the consultant) reached consensus that the target for room-night goals would be

based on a 3-year rolling average. Using a historical rolling average helps smooth anomalies that might create ‘spikes’ or ‘dips’ in any given year.

“Timetable

“This recommendation was implemented with the signing of the current contract effective July 1, 2005. Current goals for FY06 are based on the rolling average of the prior 3 years actual bookings.

“Recommendation 2: Plan

“ACVB has been tracking and reporting Reasons for Lost Business for both center and non-center business for several years. Information gathered from the Lost Business report guides marketing strategies for both short and long term efforts. One of the most frequently noted reasons for lost business is “not enough hotel rooms” or “not enough rooms under one roof”. This point has been discussed at length with city officials and staff and has led to several initiatives by the City (including the feasibility study of building a downtown headquarter hotel). With other destinations – especially Southwest destinations – in an aggressive development mode (new or expanded convention centers, convention-style hotels), Albuquerque has been steadily losing ground for the mid to large size groups.

“While the City has been reviewing various options with the hotel product, ACVB has redirected its focus to the mid-size (400 to 500 peak room) groups.

“Perhaps the most significant effort that ACVB and the City are engaged in at the moment is the development of a Destination Master Plan. The development of this plan was included in the RFP process that led to ACVB’s current contract. ACVB recognizes its role as the city’s destination marketing organization and, with the leadership of its Board of Directors has embarked on a 6 to 8-month long process to develop a plan that will address numerous aspects of Albuquerque’s appeal to both convention and leisure markets. This process is designed to assess current infrastructure as well as ACVB’s marketing strategies with the intent of strengthening the economic impact of the \$1.7B tourism industry has on the city. City officials and city staff are an integral part of this process, along with representatives from attractions, merchant associations (Old Town, Nob Hill, Downtown) and other economic development entities.

“Timetable

“The review and discussion of reasons that booking goals were not met has been in place for several years and is ongoing. The results from the Destination Master Plan will be rolled out at a Tourism Summit.”

The following findings concern areas that we believe ACVB could improve the agreement by the implementation of the related recommendations:

2. ACVB SHOULD REPORT ACTUAL ATTENDANCE DATA TO THE CITY.

The 2002 contract defines ROI as total visitor direct spending divided by City’s investment in the contractor. The City’s investment in 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. ACVB should also consider coordinating with the event organizers or the third party meeting planners to obtain 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. However, 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

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

RESPONSE FROM ACVB

“Although ACVB is always willing to discuss various aspects of industry performance with the city, management does agree with this recommendation.

“During the negotiation of ACVB’s current contract, this issue was discussed at length. ACVB and the industry consultant hired by the City explained in great detail the challenges facing the industry in obtaining pick-up information from meeting planners – and the possibility of inaccurate conclusions based on data that might be obtained. During discussions with the audit team, ACVB management reiterated these challenges.

“ACVB is willing to discuss and, in fact, has been in conversation with the DFAS Contract Administrator, the former Director of Finance and Administrative Services and the former CAO about these challenges and current industry trends in data-gathering strategies.

“ACVB can provide numerous articles illustrating the industry’s current research and conversation on this topic. ACVB’s CEO is a member of several national organizations currently addressing the challenge of obtaining verifiable data regarding actual economic impact of convention and meeting business.

“The DFAS Contract Administrator attended an industry seminar in Chicago, IL where many of these issues were discussed. In addition, the

DFAS Contract Administrator as well as the Director of Finance and Administrative Services regularly attend ACVB Board of Director meetings and are exposed to these discussions on a broad level.

“Plan

“ACVB (as well as the broader hospitality industry) recognizes and shares the City’s interest in ensuring transparent, accurate calculating and reporting of direct spending. As has been stated in previous documents, ACVB’s methodology for reporting room nights and direct spending is one of the strictest in the industry. ACVB’s external financial auditors, City audit staff as well as the DFAS Contract Administrator have observed and participated in quarterly sales file audits. The audits are conducted under the auspices of the Finance and Administration Division of ACVB and are comprised of members of ACVB’s Board of Directors Audit Committee.

“ACVB’s policy that governs the number of room nights claimed, combined with the stringent and independent audit process should provide the City with assurance that room nights and the related direct spending are being reported at the most accurate levels possible. As mentioned, many factors influence the ability to obtain accurate attendance and room night consumption.

“Management believes the process by which the current contract was developed with the City (facilitated by an industry expert contracted by the City) thoroughly reviewed and discussed issues related to attendance and pick-up reporting. Consensus was reached that because of the challenges in obtaining accurate information that the current contract would not include such post-convention reporting requirements. ACVB will continue to communicate with the City about broad issues facing the industry, however, management does not believe that this recommendation is in keeping with the substantive and good faith efforts involved in the development of this contract.

“Timetable

“Participation in industry research regarding data-gathering methodologies has been underway for several years and is ongoing. The attempt to obtain attendance information from meeting planners has also been underway for several years.

3. ACVB SHOULD 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

ACVB should report the reasons for the cancellation of definite bookings and the monetary value of the cancelled definite bookings to the City.

RESPONSE FROM ACVB

“Management recognizes that, as with #2 above, this is not a matter of compliance with the existing contract, but a recommendation to amend the agreement. Although ACVB is always willing to answer questions and enter into discussions regarding aspects of the industry, management does not believe that it would be necessary to position this request as a recommended amendment to the agreement.

“A review of cancelled bookings over the period under audit indicated for the most part a negligible economic impact (i.e., direct spending from canceled meetings did not change the reported ROI). ACVB understands the City’s interest in analyzing reasons groups cancel. Because of the significant investment groups make in booking conventions several years out, groups tend not to cancel except for extraordinary reasons.

“Plan

“In compliance with the previous (and current) contract, ACVB has been reporting group cancellations. ACVB has always been willing to discuss specific groups with City (or industry) representatives.

“Management believes the process by which the current contract was developed with the City (facilitated by an industry expert contracted by the City) thoroughly reviewed and discussed issues related to the impact of cancellations. ACVB will continue to communicate about broad issues facing the industry, however, this recommendation is not in keeping with the substantive and good faith efforts involved in the development of this contract that is only six months into its term.

“Timetable

“ACVB will continue reporting contractually-required information regarding cancellations, and will actively engage in dialogue with the City regarding other aspects of the industry.”

4. ACVB SHOULD FINALIZE DEVELOPMENT OF POLICIES REGARDING COORDINATION OF EFFORTS WITH AHCC AND SMG.

The 2002 contract with ACVB 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 did not comply with this contractual requirement for FY2003 and FY2004.

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 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

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

RESPONSE FROM ACVB

“ACVB agrees with the finding that a written plan was not submitted for FY03 and FY04. The specific contract requirement that ACVB, AHCC and ACC submit a plan for interorganizational coordination was not met for FY03 and FY04. The three entities have met regularly for many years and have recorded the minutes of those meetings. However, because of change in leadership at all three organizations, the plan was not updated until senior level staffing was in place.

“The plan that was written referenced a need to develop mutually acceptable policies regarding “booking windows” and “booking policy”. However, with the adoption of new contracts for ACVB and AHCC, the organizations believe that current contract language adequately sets forth policies for discussing and resolving exceptions regarding booking windows and booking policy.

“Plan

“As stated above, ACVB believes current contract language for the three entities is clear regarding exceptions to the policy. Further, since such exceptions may vary significantly, the case-by-case analysis does not lend itself to development of specific criteria. The DFAS Contract Administrator attends interorganizational meetings and is present during discussions regarding booking exceptions.

***“Timetable
“Not applicable.”***

5. MISCELLANEOUS FINDING

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

The 2002 contract required that ACVB 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. ACVB did not request that the contract be modified to address changes in City oversight of inducements.

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

RESPONSE FROM ACVB

“Management recognizes that, as with #2-#4 above, this is not a matter of compliance with the existing contract, but a recommendation to improve the agreement with the City.

“Plan

“Throughout the past 3 – 4 years, ACVB has frequently approached the city – verbally and in writing – about revising aspects of the contract that appeared unenforceable or invalid. The City response was consistently one of, “Wait until the contract expires and we will deal with all issues then”.

“As a party to the contract, ACVB recognizes its responsibility to identify issues that might compromise the integrity of the contract and will continue to communicate

with the city regarding any matters that might improve the transparent, accountable process of evaluating ACVB's performance as the City's destination marketing organization.

"Timetable

"Ongoing.

"Conclusion

"ACVB has demonstrated its willingness to cooperate with the City through various processes. The organization acknowledges that one of the key measures – convention bookings – has not met target goals. One of the most significant findings to come from this audit is a call to review goals for reasonableness. This has been done at the request of and in collaboration with city staff.

"The balance of the report addressing communication with the City is noted and, although not accepted as "findings" in the sense of contract compliance, will assist in guiding future dialogue and conversation with the City. We would request that since the contract is only six months through its term, that a renegotiation or amendment process not be undertaken at this point. The administrative investment by both City and ACVB does not seem warranted based on the items suggested as recommendations. We look forward to our continued partnership with the City as the primary organization responsible for comprehensive destination marketing."

CONCLUSION

ACVB receives a substantial amount of its funding from the City through the Lodgers Tax. ACVB's attention to its performance goals and measurements will ensure that it meets the return on investment that is required by the contract. ACVB's cooperation, sharing of information and willingness to change the contract to meet evolving needs will ensure that the contract continues to be mutually beneficial. We appreciate the assistance and cooperation of ACVB 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