

June 20, 2002

Internal Audit Report 2002-7
Anchorage Convention and Visitors Bureau
Cultural and Recreational Services

Introduction. The Anchorage Convention and Visitors Bureau (ACVB) is a nonprofit corporation formed to promote tourism and increase the number of visitors to Anchorage. Anchorage Municipal Code (AMC) Title 12 Chapter 12.20.020 levies an eight percent (8%) tax on hotel/motel room rents and designates that, "One-half of the total tax revenues received are dedicated to promotion of the tourism industry." Since passage of the ballot proposition levying the Bed Tax in 1980, all funds designated for tourism promotion have gone to the ACVB through a Contract for Professional Services (Contract) with the Municipality of Anchorage (Municipality).

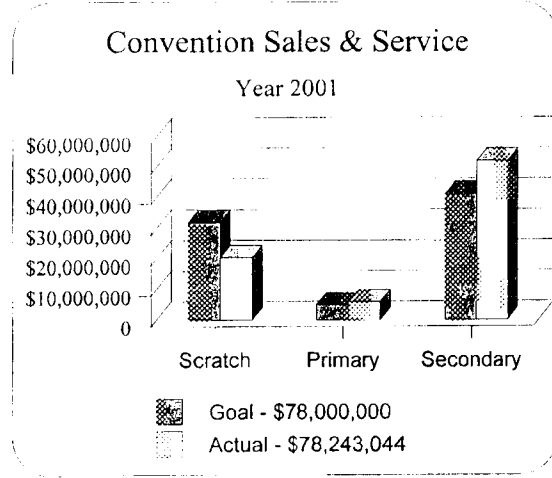
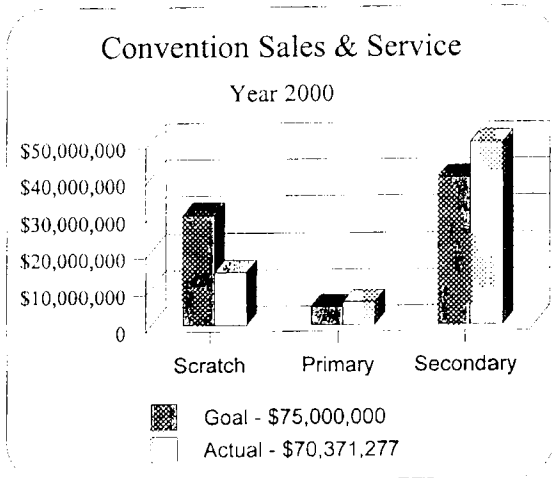
Scope. The objective of this audit was to review Contract compliance and evaluate program performance. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of January through March 2002 and was requested by the Administration.

Overall Evaluation. Overall, the ACVB has complied with the requirements of the Contract and was working to promote tourism in Anchorage. There were, however, several issues that we feel should be brought to management's attention. The Contract did not contain specific and measurable performance measures. Bed Tax funds were used to pay for expenses that may not be appropriate with Municipal funds, such as various employee fringe benefits. The ACVB does not utilize fund accounting as required by the Contract. Also, Bed Tax revenue was used to purchase fixed assets. (See Attachment A for ACVB Statements of Financial Position and Statement of Activities.).

Approximately \$64 million has been paid to the ACVB since 1980, with \$5.6 million paid in 2001 and a projection of \$6 million to be paid in 2002. The amount of Bed Tax received by the ACVB has increased by an average of 9% per year since 1980. During that time, the ACVB's dependence upon Bed Tax funds has also increased from 80% of its total revenue in 1992 to 87% in 2001. The ACVB has a loan for improvements made to the old city hall building with a remaining balance of \$1,301,329.81 as of December 31, 2001. The Municipality has guaranteed this loan and would assume the liability if the lease with the ACVB was terminated. (See Attachment B for the ACVB's response to Internal Audit Report 2002-7 findings and recommendations.)

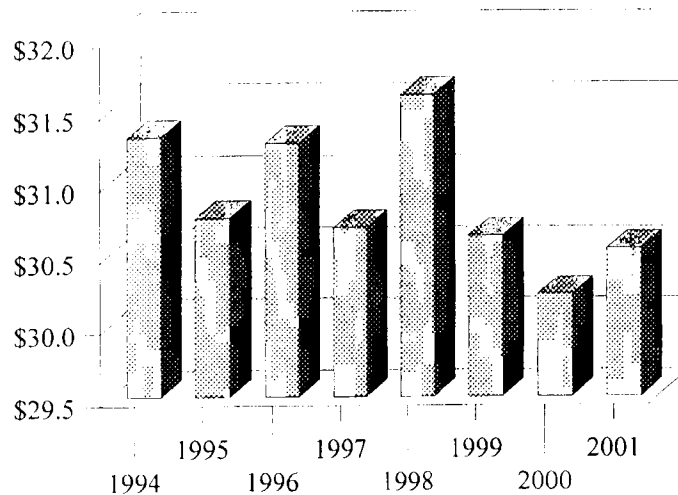
FINDINGS AND RECOMMENDATIONS

1. **Contract for Professional Services Does Not Contain Performance Measures.**
 - a. **Finding.** The Contract with the ACVB for the promotion of tourism does not contain specific performance measures. The scope of services states that the ACVB will “. . . provide professional services in the promotion of Anchorage with the expectation to increase the number of visitors to Anchorage” Without measurable performance measures, it is difficult to determine whether the Municipality is receiving a satisfactory return on the Bed Tax devoted to tourism. The ACVB has established internal goals for projected sales resulting from conventions and visitors to Anchorage. The ACVB also tracks their involvement based on how leads are developed. For example, a “scratch” lead is a lead developed totally by the ACVB. A “primary” lead is a lead developed from a lead outside the ACVB. A “secondary” lead is a lead already planned for Anchorage prior to the ACVB's involvement. The following chart depicts the lead development for 2000 and 2001.



The ACVB also computes a return on investment which is the amount of projected sales resulting from the promotion efforts by the ACVB for each dollar of Bed Tax. Based on the ACVB's statistics, the return on investment for 1994 through 2001 was as follows:

Return on Investment



- b. **Recommendation.** The Municipality should consider including performance measures in future contracts with the ACVB. The performance measures could be similar to those used by the ACVB to track their performance.
- c. **Management Comments.** Management concurred and stated, "Performance Measures need to be established."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Questionable Expenses With Bed Tax Revenue.**

- a. **Finding.** Bed Tax revenue was used to pay for ACVB expenses that may not have been intended by the Contract. The Contract states that the Contractor shall provide professional services in the promotion of Anchorage with the expectation to increase the number of visitors to Anchorage through the development of advertising and sales programs directed toward increasing the number of conventions, tour groups, independent travelers, incentive tours, world congresses and off-season visitors. The ACVB used Bed Tax revenue to fund basically their total organization, including employee fringe benefits, typically not supported by public funds. Our review of the financial records disclosed charges for employee parking, an employee picnic, a banquet, staff get-togethers, a pop machine and 401(k) contributions. According to the audited financial statements for 2001, 28% of the administration expenses were financed by hotel/motel bed tax. However, the AMC states that the bed tax is dedicated to promotion of the tourism industry.
- b. **Recommendation.** The Municipality should consider including in the Contract with the ACVB a line item budget detailing those costs that may be paid for by Bed Tax revenue.

- c. **Management Comments.** Management concurred and stated, “The budget should detail costs that may be paid out of Bed Tax revenue. Contract amendment may be needed.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Fund Accounting Not Used by ACVB.**

- a. **Finding.** The ACVB was not using fund accounting as required by the Contract. The Contract states that:

“The Contractor shall establish and maintain a financial management system that:

- A. Provides accurate, current, and complete disclosure of all financial transactions relating to the Agreement;
- B. Maintains separate accounts by source of funds for all revenues and expenditures and identifies the source and application of funds for the Contractor’s performance under this Agreement, including information pertaining to subcontracts, obligations, unobligated balances, assets, liabilities, outlays and income.
- C. Effectively controls and accounts for all municipal funds and Agreement property . . .”

Our review of the ACVB’s accounting records disclosed that separate accounts by source of funds were not maintained. Expenditures were not recorded to the

respective source of funds but to the general fund. Thus it was difficult to determine specifically how the Municipal Bed Tax was spent.

- b. **Recommendation.** The Municipality should enforce the Contract requirements and require that the ACVB maintain separate accounts by source of funds for all revenues and expenditures and identify the source and application of funds for their performance under this Contract.
- c. **Management Comments.** Management concurred and stated, “Fund accounting is required by the contract and Contractor will be directed to immediately implement fund accounting by source of funds for all revenues and expenditures and identify the source and application of funds.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Use of Bed Tax for the Purchase of Fixed Assets.**

- a. **Finding.** The Contract with the ACVB makes reference to the purchase of fixed assets with Bed Tax revenue. The Contract states, “Equipment purchased on or after January 1, 2001 by the Contractor with Municipal funds and a value of \$12,000 shall be the sole property of Anchorage.” We find several issues related to this provision. First, the \$12,000 limit appears to be excessive. The Municipality records all assets costing \$1,000 or greater on fixed asset records. With the implementation of GASB 34, all capital assets belonging to the Municipality will have to be depreciated and recorded on the balance sheet. Setting a different capitalization limit on assets purchased by the ACVB could create inconsistent accounting treatment. Another issue is the approval to use Bed Tax revenue to procure fixed assets and equipment since the Bed Tax allocated to the ACVB is required to be spent for the promotion of tourism. The Contract does not place a requirement that the assets or equipment

must be directly related to the promotion of tourism and not for the benefit of the ACVB.

- b. **Recommendation.** The Municipality should reconsider the Contract provision regarding the use of Bed Tax revenue for the purchase of fixed assets, specifically the \$12,000 limit for Municipal ownership.
- c. **Management Comments.** Management concurred and stated, “This portion of the contract will be reevaluated.”
- 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 May 6, 2002.

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