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**Office of the City Auditor**

**Audit Report**

**AUDIT OF VISITDALLAS**

(Report No. A19-006)

**January 4, 2019**

**Interim City Auditor**

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CPA, CIA, CFE, CFF

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## Executive Summary

The City of Dallas (City) does not have sufficient mechanisms in place to effectively evaluate services provided by VisitDallas and needs to improve the Department of Convention and Event Services' (CES) and the Office of Economic Development's (ECO):

- Oversight and monitoring of the VisitDallas contracts and reporting
- Reliability and accountability of controls over VisitDallas' performance measures and expenses

As a result: (1) the City cannot ensure compliance with Hotel Occupancy Tax (HOT) and Dallas Tourism Public Improvement District (DTPID) requirements; and, (2) the City's ability to adequately evaluate VisitDallas' performance may be impaired.

### The City of Dallas' Oversight of VisitDallas

The City's oversight and monitoring of the contracts with VisitDallas and DTPID does not consistently include substantive analysis of reported information and commitments. The City also does not ensure timely collection of contractual payments from VisitDallas.

### Performance Measures for VisitDallas and Kay Bailey Hutchison Convention Center Dallas

The City does not ensure the system of controls over key performance measures for VisitDallas and the Kay Bailey Hutchison Convention Center Dallas (Convention Center) allows for consistent, complete and reliable information.

#### Background Summary

The City of Dallas (City) has service contracts with VisitDallas of approximately:\*\* (1) \$15.6 million annually of Hotel Occupancy Tax (HOT) revenue; and, (2) \$13.5 million annually of Dallas Tourism Public Improvement District (DTPID) revenue. Together these account for approximately 81 percent of VisitDallas' total revenues.

The VisitDallas contract reflects the City's desire to "*market the city of Dallas as a major meeting site and visitor's destination location and to promote the use of public facilities within the city with a primary emphasis on the Kay Bailey Hutchison Convention Center Dallas [Convention Center].*"

The DTPID and VisitDallas contract provides for special supplemental services for "*marketing, business recruitment, and promotional activities...including the provision of [monetary] incentives by [VisitDallas] to organizations to encourage them to bring their large and city-wide meetings to Dallas and to fund additional marketing by [VisitDallas] to increase hotel stays within the City.*"

\*\*Revenue approximations are based on an average of Fiscal Years (FY) 2013 through FY 2017 revenues. For additional information, see Appendix IV, Exhibit VI *Total Revenues for VisitDallas by Revenue Source* for complete detail of VisitDallas' revenues for FY 2012 through FY 2017

**Sources:** VisitDallas 2017 Accomplishments and Action Plan, City contracts with VisitDallas and DTPID, and the Public Improvement Districts Briefing to Economic Development Committee.

Specifically,

- Documented procedures are not in place for preparing reported metrics
- Assurance of key metrics reported by VisitDallas is inadequate
- Booked Citywide events do not consistently meet the definition of a Citywide event when the events occur
- Tracking and reporting of metrics for the Convention Center is incomplete
- VisitDallas' compensation as documented is not consistently tied to performance and results for Dallas

### **Internal Controls Over Certain Expenses of VisitDallas**

Controls over certain expense activities of VisitDallas are not adequate and may not consistently ensure that the City receives the expected benefit.

We recommend the City improve oversight and monitoring of the effectiveness of VisitDallas' services by implementing the recommendations in this report.

The objective of the audit was to evaluate the effectiveness of services provided by VisitDallas, including assessing the reliability and reporting of performance measures and determining whether DTPID incentive funds were used properly. We also reviewed whether HOT funds were used properly. The audit scope covered management operations from Fiscal Year (FY) 2016 through FY 2017; however, certain other matters, procedures, and transactions outside the scope were reviewed to understand and verify information during the audit period. This performance audit was conducted in accordance with generally accepted government auditing standards.

Management's response to this report is included as Appendix VI.

### Auditor Follow-Up Comments

During Fiscal Years 2013 through 2017, VisitDallas received approximately **\$146 million** in Hotel Occupancy Tax and Dallas Tourism Public Improvement District assessment funds through City contracts. While City management agreed that oversight and monitoring of the contracts to provide these funds to VisitDallas can and should be improved, they **disagreed with seven** of the 18 recommendations included in this report. City management's disagreement with these seven recommendations is of concern given the dollar amount of the contracts involved and the significance of the marketing, sales, and service VisitDallas provides on behalf of the City.

Although City management agreed with 11 of the 18 recommendations included in this report, the risks associated with these recommendations will not be fully addressed for at least three years. Due to this lengthy implementation timeframe, the Office of the City Auditor encourages City management to establish interim milestone dates and report implementation progress periodically to the City Council.

# Audit Results

## Section I – The City of Dallas’ Oversight of VisitDallas

### The City of Dallas’ Service Contract with VisitDallas for the Hotel Occupancy Tax

#### Oversight and Contract Monitoring of VisitDallas by Convention and Event Services Is Not Sufficient

The Department of Convention and Event Services (CES) does not: (1) have specific procedures in place to monitor VisitDallas; (2) consistently ensure performance goals and proposed budget approvals by the City of Dallas<sup>1</sup> (City) are documented; and, (3) obtain timely and detailed information from VisitDallas.

As a result, there are risks that potential contract compliance issues may not be identified, and the City cannot ensure that the contracted services provided by VisitDallas are accomplished as intended (see textbox and Appendix IV). For example:

- The CES does not have formal (written, approved, and dated) departmental procedures for monitoring VisitDallas<sup>2</sup>
- VisitDallas’ financial reports consolidate expenses in ways that inhibit appropriate monitoring by the City
- The CES does not perform detailed compliance reviews of VisitDallas’ expenses

#### City Service Contract Provisions with VisitDallas

*“Section 44-35 of the Dallas City Code, as amended, provides for a Hotel Occupancy Tax and for the allocation of a portion of the City’s Hotel Occupancy Tax revenues to be used for advertising and conducting solicitations and promotional programs to acquaint potential users with public meeting and convention facilities and for promoting tourism and advertising of the City...”*

*“The City desires to continue to utilize the services of the [VisitDallas] to perform professional activities that are necessary, useful and convenient to manage and supervise the promotion, stimulation, and development of convention and tourism in the city of Dallas to acquaint potential users and visitors with public meeting and convention facilities within the City, with a primary emphasis on the [Kay Bailey Hutchison Convention Center Dallas (Convention Center)], as well as promoting the city as a visitor and tourist attraction...”*

*“[VisitDallas] agrees to use its best efforts to market, advertise and solicit through various sales programs, to acquaint potential users and prospective tourists with the public meeting and convention facilities and other attractions situated within the city of Dallas with a primary focus on the [Convention Center].”*

**Source:** City Service Contract with VisitDallas (City Council Resolution 15-1666)

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<sup>1</sup> **“City Approval:** approval from the City Manager’s Office shall constitute City Approval; such approval may come from the City Manager or the City Manager’s designee.” **Source:** City Service Contract with VisitDallas (City Council Resolution 15-1666)

<sup>2</sup> The CES does have a checklist for tracking VisitDallas contract commitments and there is a general contract monitoring procedure that could apply to any contract in the department.



- Due dates are not specified for key contract deliverables from VisitDallas
- Annual Internal Revenue Service Form 990<sup>3</sup> (Form 990) for VisitDallas is not tracked and reviewed by CES
- Formal City approval of VisitDallas' performance goals, such as bookings for Citywide events and room nights, are not consistently or appropriately documented
- Formal City approval of VisitDallas' budget is not obtained even though most of VisitDallas' revenues relate to City contracts

For additional details and relevant contract/guidelines see Appendix I.

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<sup>3</sup> The Form 990 is an informational return covering board composition, financial operations, and other required disclosures.

## Recommendation I

We recommend the Director of CES improves monitoring of VisitDallas by:

- Developing and adopting formal procedures to:
  - Document a more in-depth review of VisitDallas' expenses
  - Obtain and review annually VisitDallas' Form 990
  - Request VisitDallas presents annual briefings on VisitDallas' budget, activities, and performance goals to the appropriate City Council committee
  - Ensure formal City approval (City Manager or City Manager's designee) of VisitDallas' performance goals
  - Ensure formal City approval (City Manager or City Manager's designee) of VisitDallas' annual budget
- Working in coordination with VisitDallas to create a financial reporting format that: (1) segments spending by funding source and in total across all funding sources for the same categories of expenses; and, (2) provides more detailed information
- Consulting with the City Attorney's Office, to implement a memorandum of understanding or supplemental contract agreement with VisitDallas that stipulates reasonable due dates for contractual obligations

Please see Appendix VI for management's response to the recommendation.

## Capital Contributions for the Kay Bailey Hutchison Convention Center Dallas Are Not Timely or Compliant

The CES does not ensure annual capital contributions are collected timely. Additionally, the capital contributions are sourced from the Dallas Tourism Public Improvement District (DTPID) funds, which is not allowable per the State of Texas Local Government Code for Improvement Districts in Municipalities and Counties. Late capital contributions hamper CES' ability to plan and fund needed facility improvements for the Convention Center. Improperly using DTPID funds could result in a legal liability and reputational damage for the City.

### Capital Contributions

VisitDallas is contractually obligated to make a \$500,000 capital contribution to the Convention Center to cover capital improvements. This capital contribution is due on January 1 of each year.

**Source:** City Service Contract with VisitDallas (City Council Resolution 15-1666)

### Late Capital Contributions

The CES did not timely collect four of six, or 67 percent, of the capital contributions made by VisitDallas for Fiscal Year (FY) 2012 through FY 2017 for the Convention Center. Capital contributions for FY 2012, FY 2013, and FY 2014 were made in April 2015 and May 2015 and capital contributions for FY 2016 were made in May 2017.

### Change in Contract Terms

A contributing factor for VisitDallas' noncompliance is the change in contract terms over the years between the City and VisitDallas regarding the capital contributions. Specifically,

- City Council Resolution 11-2452 (September 2011) – Specified, “*these funds shall be paid to the City from sources other than Municipal Hotel Occupancy Tax*”
- City Council Resolution 15-1666 which authorized the City Service Contract with VisitDallas (September 2015) – Stated, “*these funds shall be paid to the City from the Tourism Public Improvement District Fund*”
- Administrative Action 16-7122 (December 2016) – Removed the specification to use DTPID funds as the funding source for the capital contribution without adding additional language

The State of Texas Local Government Code for Improvement Districts in Municipalities and Counties Chapter 372.003(b)(13), *Authorized Improvements*, does not specify capital improvements in its list of allowable costs regarding special supplemental services for the improvement and promotion of the district.

## Recommendation II

We recommend the Director of CES:

- Ensures CES timely invoices VisitDallas for the annual capital contribution to meet VisitDallas' annual \$500,000 funding commitment to CES
- Monitors the timeliness of collections and performs appropriate collection efforts if capital contributions are not received timely
- In consultation with the City Attorney's Office, determines the appropriate funds for sourcing capital contributions to ensure compliance with the State of Texas Local Government Code for Improvement Districts in Municipalities and Counties Chapter 372.003(b)(13): *Authorized Improvements*
- In coordination with VisitDallas, works to take appropriate corrective actions, if the City Attorney's Office determines capital contributions were incorrectly sourced

Please see Appendix VI for management's response to the recommendation.

## Collections and Reconciliation of Payments for Creative Industries Are Not Timely

The Office of Economic Development (ECO) did not timely invoice and collect quarterly installment payments of \$75,000 from VisitDallas for use by Creative Industries (formerly known as Dallas Film Commission). Additionally, Creative Industries is not consistently requesting/collecting monthly financial reports from VisitDallas to reconcile Creative Industries' incurred program activity expenses of up to \$100,000 annually to VisitDallas' records (see textbox). As a result, Creative Industries' ability to plan cash flow needs is hampered. Specifically,

### VisitDallas Services for Creative Industries

VisitDallas, through the Hotel Occupancy Contract with the City, provides \$200,000 in funding annually for marketing and the promotion of the City as a location to produce motion pictures, television and other related creative media (program). Specifically,

- \$100,000 is a transfer to the Office of Economic Development paid in quarterly installments
- \$100,000 is direct pay to Creative Industries for reimbursement of program related activities

**Source:** City Service Contract with VisitDallas (City Council Resolution 15-1666)

### Quarterly Installment Payments

Three of eight quarterly installment payments, or 37 percent, were not collected timely. Installment payments totaling \$75,000 for the fourth quarter of FY 2016, first quarter of FY 2017, and third quarter of FY 2017, were deposited by ECO between 142 and 234 days after the end of the applicable quarter.

According to ECO, invoices to VisitDallas were not timely because during the invoicing period, ECO was going through transitions, including significant executive, staff, and operational changes.

### Program Activity Reimbursement

Creative Industries is not obtaining monthly financial reports from VisitDallas to reconcile program activity expenses. Creative Industries is also not performing reconciliations to VisitDallas' financial records timely because pertinent reports from VisitDallas are not requested or obtained.

The contract between the City and VisitDallas, approved by City Council Resolution 15-1666, section 2B: *DCVB Reporting Requirements*, item (5) notes that VisitDallas will:

*Provide a separate monthly report of the Dallas Film Commission-related financial activities to the Director of the Office of Economic Development or designee, in such form specified by the Office of Economic Development for the use and availability of Program Activity Payments by no later than 20 days after calendar month end; such reports to be provided by*

*[VisitDallas] in an industry standard electronic format suitable for electronic data analysis, such as Excel.*

The Standards for Internal Control in the Federal Government (Green Book) identifies procedures in Principle 16 – Perform Monitoring Activities; *Internal Control System Monitoring*, as a control activity needed to manage risk. The guidance states:

*Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions. [16.05]*

### **Recommendation III**

We recommend the Director of ECO:

- Ensures ECO timely invoices VisitDallas for quarterly installment payments to meet VisitDallas' annual \$100,000 funding commitment to ECO and Creative Industries
- Monitors the timeliness of collections and performs appropriate collection efforts if quarterly installment payments are not received timely

### **Recommendation IV**

We recommend the Director of ECO requests that VisitDallas provides monthly financial reports in accordance with the City Service Contract with VisitDallas, in a format that allows Creative Industries to efficiently reconcile direct expense payments for program activity to VisitDallas' financial reports.

Please see Appendix VI for management's response to the recommendation.

## The City of Dallas’ Contract with the Dallas Tourism Public Improvement District and VisitDallas

### Oversight and Contract Monitoring of the Dallas Tourism Public Improvement District and VisitDallas by the Office of Economic Development Is Not Adequate

The ECO’s oversight and monitoring of the DTPID and VisitDallas contract is not adequate. As a result, ECO cannot ensure consistent and timely oversight and monitoring of the DTPID and VisitDallas contract which may increase the risk of undetected, non-compliant use of DTPID funds by VisitDallas. Specifically, ECO does not:

- Have formal procedures in place for monitoring the DTPID and VisitDallas contract. The ECO did have a policy for monitoring Public Improvement Districts (PIDs).
- Track the timeliness of receipt of contractually required reports from VisitDallas, including quarterly and annual financial reports
- Periodically perform detailed VisitDallas expense reviews to confirm compliance with State of Texas law, and policies and procedures for both DTPID and VisitDallas<sup>4</sup>
- Obtain and review the annual DTPID Form 990 and the VisitDallas Form 990

#### Standards for Internal Control

**Principle 12** – Implement Control Activities; *Documentation of Responsibilities through Policies*, as a control activity needed to manage risk. The guidance in section 12.04 states:

*“Those in key roles for the unit may further define policies through day-to-day procedures, depending on the rate of change in the operating environment and complexity of the operational process. Procedures may include the timing of when a control activity occurs and any follow-up corrective actions to be performed by competent personnel if deficiencies are identified. Management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities.”*

**Source:** The Standards for Internal Control in the Federal Government

The National Association of State Auditors, Comptrollers, and Treasurers (NASACT) Best Practices in Contracting of Services, *Monitoring*, indicates that to properly monitor a contract, the agency should *“ensure that deliverables are received on time and document the acceptance or rejection of deliverables”*.

*The NASACT Best Practices in Contracting of Services, Monitoring*, further states individuals monitoring a contract should *“track budgets and compare invoices and charges to contract terms and conditions.”*

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<sup>4</sup> The policies and procedures include the following: (1) *DTPID Board Orientation, Operational Guidelines & Policies*; and, (2) the *VisitDallas Policies and Procedures Manual*.

The contract between the City, DTPID, and VisitDallas, approved by City Council Resolution 16-1250, *Scope of Services* section 2(l) states: “Allow reasonable access by the City to the financial records of DTPIDC<sup>5</sup> and the [VisitDallas] that relate to the District.

## **Recommendation V**

We recommend the Director of ECO, as allowed by the City contract with DTPID and VisitDallas:

- Develops a formal contract monitoring procedure
- Requests and documents timely collection of contract deliverables
- Obtains and reviews annually DTPID’s Form 990 and VisitDallas’ Form 990

## **Recommendation VI**

We recommend the Director of ECO periodically performs detailed compliance reviews of VisitDallas’ expenses as allowed by the City contract with DTPID and VisitDallas and monitors DTPID’s expenses to ensure compliance with the *DTPID Board Orientation, Operational Guidelines & Policies* and the *VisitDallas’ Policies and Procedures Manual*, and State of Texas laws for Tourism PIDs by analyzing, reviewing, and documenting expenses on a random sample basis within periodic intervals, such as monthly, quarterly or annually. This review should be documented, including the resolution of any non-compliance noted.

Please see Appendix VI for management’s response to the recommendation.

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<sup>5</sup> DTPIDC is an acronym for the Dallas Tourism Public Improvement District Corporation. **Source:** City contract with DTPID and VisitDallas (City Council Resolution 16-1250)



## The City of Dallas' Remittance Process for the Dallas Tourism Public Improvement District Does Not Adequately Address Interim Adjustments and Excess Assessments

The City's remittance process for the DTPID does not adequately address amounts remitted by hotels to the City: (1) from hotels that are not on the annual assessment rolls; and, (2) that exceed the approved annual service plans. Both types of remittances were processed by the City without formal authority to accept these assessments per the applicable City Council ordinances (see textbox). Without additional authoritative guidance on the City's acceptance of these remittances, disputes or legal actions could potentially arise.

### Remittances

During the period of October 1, 2015 through May 2017, up to eight hotels not on the annually approved DTPID assessment roll remitted funds to the City as donations to the DTPID. Remittances from these eight hotels totaled \$254,984, or 0.62 percent, of total remittances.

#### City Requirements for DTPID and VisitDallas

The contract between the City, DTPID, and VisitDallas, approved by City Council Resolution 16-1250, *Scope of Services* section 2(h) states:

*"If the District Assessment is greater than the approved amount in Exhibit A for any single year, DTPIDC [Dallas Tourism Public Improvement District Corporation] shall return any excess collections to the District property owners, reduce the total assessment in the following year to absorb any over-collections, or submit a revised petition for early renewal of the District in order to obtain the consent of the property owners for such excess collections."*

City Ordinance 29868 (City Council Resolution 15-1703), which approved the final service plan for FY 2016, *Exhibit C*, the cost of DTPID services and improvements will be levied *"...until the budget for services and improvements for the year is reached."*

**Source:** City contract with DTPID and VisitDallas (City Council Resolution 16-1250) and City Ordinance 29868 (City Council Resolution 15-1703)

Also, the DTPID total remittances in FY 2015 and FY 2016 exceeded the approved service plans by:<sup>6</sup>

- \$684,119 in FY 2015 (5.35 percent of total remittances of \$12,794,729)
- \$113,746 in FY 2016 (0.79 percent of total remittances of \$14,461,615)

Examples of interim adjustments and excess assessments include:

- Hotels, not on the annual DTPID assessment roll approved by City Council, remit the fee voluntarily

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<sup>6</sup>According to the Department of Economic Development subsequent changes in the current contract minimize the risk of future over collections: *"(h) if the District assessment is greater than the approved amount in Exhibit A for any single year, DTPIDC shall return any excess collections to the District property owners, reduce the total assessment in the following year to absorb any over-collections, or submit a revised petition for early renewal of the District in order to obtain the consent of the property owners for such excess collections"* **Source:** City Service Contract with VisitDallas (City Council Resolution 15-1666)

- Existing hotels in the DTPID, that drop below the room threshold required to participate in DTPID, continue to remit DTPID funds voluntarily
- Existing hotels in the DTPID continue to remit DTPID funds voluntarily after the annual service plan amount is reached

## **Recommendation VII**

We recommend the Director of ECO, in coordination with VisitDallas and in consultation with the City Attorney's Office, addresses the interim adjustments and excess assessments to ensure the City has formal authority to accept these assessments, including determining and documenting:

- The authority regarding hotels, not on the annual DTPID assessment roll, donating to the DTPID
- If ECO can obtain City Council approval as needed to formally accept additional hotels into the district
- The appropriate disposition of excess DTPID collections from FY 2015 and FY 2016

Please see Appendix VI for management's response to the recommendation.

## Section II – Performance Measures for VisitDallas and Kay Bailey Hutchison Convention Center Dallas

### VisitDallas’ Policies and Procedures for Preparing Reported Metrics Are Not Documented

VisitDallas does not have formal (written, approved, dated) policies and procedures that document the methodology, formulas, and associated definitions, used in preparing both the monthly VisitDallas Metrics Report and the annual Accomplishments and Action Plan report (see textbox). In addition, VisitDallas does not provide CES the underlying source documentation used to prepare the metrics to allow CES to periodically validate the accuracy of the reported information.

As a result, the methodology, formulas, and associated definitions for each metric, are not clear and the underlying source documentation is not periodically validated by CES which increases the risk that: (1) VisitDallas may not use a consistent process to prepare the metrics; and, (2) VisitDallas’ performance reports are not reliable.

For example, in the annual Accomplishments and Action Plan report for FY 2016 and FY 2017, VisitDallas used Tourism Economics as the source for the number of total visitors (domestic and international) to Dallas. When VisitDallas reported the number of total international visitors to Dallas, Travel Market Insights, Inc. (which showed significantly better results) was used as the source. The total number of visitors to Dallas, however, was not adjusted to reflect the increase in international visitors.

Exhibit I, on page 17, shows the total number of visitors as reported by Tourism Economics and a comparison of international visitors as reported by Tourism Economics and Travel Market Insights, Inc.

#### Metrics Reported by VisitDallas to the Department of Convention and Event Services

The monthly VisitDallas Metrics Report provides the Department of Convention and Event Services (CES) a summary of VisitDallas’ activities and accomplishments both monthly and fiscal year-to-date for the following areas of interest:

- Hotel Performance by City of Dallas, Dallas Metro, and Texas
- Membership by Segment
- Marketing
- Sales and Services by Bookings, Consumption, and Lead Generation
- Tourism by City of Dallas Market Indicators and Visitor Services
- Familiarization Tours and Site Inspections

The annual Accomplishments and Action Plan report provides CES and the public a summary of VisitDallas’ mission, achievements, and strategies for the next year on a functional basis.

Source: VisitDallas

Exhibit I

**Total Visitors and Comparison of International Visitors (in Millions)**

Fiscal Year	Tourism Economics Total Visitors	Tourism Economics International Visitors	Travel Market Insights, Inc. International Visitors
2016	25.7	1.4	2.59
2017	26.7	1.7	2.59

Source: Office of the City Auditor's Analysis

According to the Destination Marketing Association International's (DMAI) *Standard DMO<sup>7</sup> Performance Reporting Handbook*, "DMAI recommends DMOs implement policies and procedures to accurately and systematically measure [their] activity, performance and productivity..."

The Green Book identifies procedures in Principle 12 – Implement Control Activities; *Documentation of Responsibilities through Policies*, as a control activity needed to manage risk. The guidance states:

*Those in key roles for the unit may further define policies through day-to-day procedures, depending on the rate of change in the operating environment and complexity of the operational process. Procedures may include the timing of when a control activity occurs and any follow-up corrective actions to be performed by competent personnel if deficiencies are identified. Management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities. [12.04]*

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<sup>7</sup> The terms Convention & Visitors Bureau (CVB) and Destination Marketing Organization (DMO) are interchangeable. Referred to as CVBs for many decades, many CVBs have replaced the traditional "Convention & Visitors Bureau" portion of their name with a more descriptive, action-oriented name.

## Recommendation VIII

We recommend the Director of CES:

- Requests VisitDallas develops policies and procedures that document the methodology, formulas, and associated definitions, used in preparing both the monthly VisitDallas Metrics report and the annual Accomplishments and Action Plan report
- Reviews these VisitDallas policies and procedures for completeness and reasonableness and requests VisitDallas amends any aspects that are not considered sufficient
- Obtains underlying source documentation used by VisitDallas to produce metrics and periodically validates the accuracy of reported information

Please see Appendix VI for management's response to the recommendation.

## Assurance of Metrics Reported by VisitDallas Is Inadequate

Assurance of metrics, such as economic impact, bookings, and consumed activity reported by VisitDallas is inadequate. As a result, there is an increased risk that the City may be relying on inaccurate metrics when evaluating VisitDallas' performance. Specifically, there is either no independent validation or insufficient validation of:

- VisitDallas' data inputs used to determine economic impact
- Definite room night bookings
- Consumed activity such as room nights, Citywide events, and sporting events after the event occurs

In addition, VisitDallas' CRM (customer relationship management system) cannot readily provide historical data on previously prepared monthly metrics reported to the City.

### Economic Impact

There is no independent validation of the source data identified by VisitDallas' policy of using the best practice or alternative method for calculating economic impact in the Event Impact Calculator<sup>8</sup> model. The Event Impact Calculator model identifies certain sources as "*best practices*", "*alternative methods*", and in some cases "*proceed with caution*" and "*not recommended*" for the data inputs. For each data input, there is a risk that not using the "best practices" source could skew the results. Specifically, the model considers the inputs in Exhibit II as shown on page 20 to determine economic impact:

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<sup>8</sup> The Event Impact Calculator was developed by the Destination Marketing Association International (DMAI) in cooperation with Tourism Economics.

Exhibit II

**Inputs for Event Impact Calculator Model**

Input	Description
<b>Start and End Dates</b>	Dates for when the event will take place
<b>Overnight Visitors</b>	Number of attendees, delegates, or visitors staying at least one night in paid accommodations
<b>Day Visits</b>	Number of visits by attendees or delegates not staying overnight in paid accommodations
<b>Local Share of Day Visitors</b>	Percentage of day participants who are not from out of town
<b>Room Rate</b>	Average daily room rate for overnight participants staying in paid accommodation
<b>Persons per Room</b>	Estimated number of persons per hotel room
<b>Overnight Attendees Arriving by Air</b>	Percentage of visitors staying overnight in paid accommodations that arrived using air transportation

**Source:** DMAI's *Event Impact Calculator Standard Practices Handbook & Selected Case Studies* produced by Tourism Economics and DMAI

Definite Room Night Bookings

VisitDallas engages an accounting firm to perform an agreed-upon procedures engagement on the reliability of the room night bookings each year (see textbox). Although the accounting firm conducts the agreed-upon procedures as designed, the results may not provide the level of assurance desired. For example,

- **Low Definite Room Night Bookings Confirmation Response Rate**

Positive confirmations<sup>9</sup> were not returned for 51, or 73 percent of the 70 events for which only signed Letter of Agreements<sup>10</sup> were available. The

**Agreed-Upon Procedures Engagement**

*“An agreed-upon procedures engagement is one in which a practitioner is engaged by a client to issue a report of findings based on specific procedures performed on subject matter... The specified parties and the practitioner agree upon the procedures to be performed by the practitioner that the specified parties believe are appropriate... the practitioner does not perform an examination or review and does not provide an opinion or negative assurance.”*

**Source:** American Institute of Certified Public Accountants

<sup>9</sup> A positive confirmation is an inquiry made to a third party that requires a response. A positive confirmation is considered to represent a higher quality of evidence than a negative confirmation, since explicit evidence is received from the third party.

<sup>10</sup> A Letter of Agreement is a reservation which signifies the parties' intent to contract with the Convention Center and hotels at a future date.

events that were not confirmed were agreed to VisitDallas' CRM and were noted as no exception.

- **Definite Room Nights Were Not Randomly Selected for Testing**

Definite room nights were selected for testing for: (1) non-Citywide event bookings; and, (2) tourism by selecting the company with the most room nights to the least room nights until 50 percent of total room nights were selected. By not using a random sample, there is an increased risk for overstatement of total definite room nights.

#### Consumed Activity

Consumed activity is not included in the agreed-upon procedures. Without validation of consumed activity from prior-year bookings, the City is unable to evaluate the ultimate success of booked activity.

#### Historical Data Availability

VisitDallas' CRM cannot readily provide historical data on previously prepared monthly metrics reported to the City. As a result, the City is limited in its ability to validate the information previously reported. While the historical data can be obtained, the process is manual, very time consuming, and highly dependent upon the clarity and specificity of notes documented in CRM.

The Green Book identifies procedures in Principle 10 – Design Control Activities; *Design of Appropriate Types of Control Activities*, as a control activity needed to manage risk. The guidance states:

*Establishment and review of performance measures and indicators – Management establishes activities to monitor performance measures and indicators. These may include comparisons and assessments relating different sets of data to one another so that analyses of the relationships can be made, and appropriate actions taken. Management designs controls aimed at validating the propriety and integrity of both entity and individual performance measures and indicators. [10.03]*

The contract between the City, DTPID, and VisitDallas, approved by City Council Resolution 16-1250, section 14: *Right of Review and Audit*, states:

*[The] City is granted the right to audit, at [the] City's election, all DTPIDC and [VisitDallas] records and billings relating to the performance of this contract. DTPIDC and [VisitDallas] agree to retain such records for a minimum of three (3) years following completion of this Contract.*



The contract between the City and VisitDallas, approved by City Council Resolution 15-1666, section 17: *Right and Review of Audit*, states:

*[VisitDallas] shall keep, retain, and safeguard all records relating to this Contract or work performed sufficient to demonstrate proper expenditure of the amounts paid to it by the City, in such form and containing such information the City may request, for a minimum period of three (3) years from the date the term of this Contract expires.*

## **Recommendation IX**

We recommend the Director of CES, in coordination with VisitDallas, works to provide adequate assurance that key metrics such as economic impact, bookings, and consumed activity are independently validated and documented either by an independent consultant/contractor, or CES, on a periodic basis and relevant supporting historical data is retained.

Please see Appendix VI for management's response to the recommendation.

## Booked Citywide Events Do Not Consistently Meet the Definition of a Citywide Event When the Events Occur

Booked Citywide events do not consistently meet the definition of a Citywide event when the events occur. As a result, the City is paying the contractual retainage for performance goals that may not meet the City's economic impact objectives. In addition, VisitDallas' performance representation may overstate the actual results achieved.

An analysis of Citywide events<sup>11</sup> for the period of FY 2013 to FY 2017, showed of 53 booked Citywide events, only 23 (43 percent) met the definition after the events occurred (see textbox).

### Citywide Events

The contract between the City and VisitDallas, approved by City Council Resolution 15-1666, *Definitions* section defines a Citywide event as “a single event/convention/meeting with a minimum of 2,500 room nights on peak and an executed agreement (letter of agreement, memorandum of understanding, or facility use agreement) with a City-owned Facility”.

Retainage – The current City Service Contract with VisitDallas retains two percent of HOT funds based on VisitDallas meeting or exceeding performance goals.

**Source:** City Service Contract with VisitDallas and VisitDallas documents.

According to VisitDallas, the DMO industry's focus has historically been bookings because it is difficult to obtain accurate actual room nights sold. For example, one reason the realized room sales are lower than committed bookings, is that attendees are making lodging choices other than the designated hotels when the event nears, thus their lodging is not captured as related to the particular Citywide event. In response to the inability to accurately measure actual room nights sold, the DMO industry is considering other options such as actual attendance to measure results.

The NASACT Best Practices in Performance Measurement: Developing Performance Measures identifies what action plans should include in the section entitled *Develop Performance Measures*:

*3. Selecting key performance measures to be reported to external customers, stakeholders, and policy makers. Among the issues to be considered:*

*A. The key performance measures should reflect the success of the objectives and should focus on achieving the expected results.*

*B. Outcome, efficiency, and quality indicators will be useful for external reporting.*

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<sup>11</sup> Based on the Office of City Auditor's analysis of VisitDallas' DTPID internal report dated January 23, 2018.

## **Recommendation X**

We recommend the Director of CES, in coordination with VisitDallas, works to factor in historical results of consumed events when setting Citywide event bookings performance goals.

Please see Appendix VI for management’s response to the recommendation.

## Tracking and Reporting of Metrics for the Kay Bailey Hutchison Convention Center Dallas Is Incomplete

Data and metrics measuring the success of the Convention Center are not fully tracked or reported. In addition, documented procedures are absent. As a result, the City may not manage the Convention Center as effectively as it could be managed. Specifically,

- For FY 2013 through FY 2017, economic impact was not reported for events booked by CES in the Convention Center. The economic impact of events booked by VisitDallas for the Convention Center is shown in Exhibit III below.
- Convention Center space utilization metric for the one month tested, September 2017, could not be fully recalculated using the supporting data provided by CES
- A current analysis comparing space rental rates at the Convention Center to rates at other competing convention centers was not available

### Exhibit III

#### Economic Impact Generated by Events/Groups Fully or Partially Using the Convention Center

Fiscal Year	Economic Impact
2013	\$ 638,013,597
2014	704,219,233
2015	671,806,069
2016	668,451,025
2017	524,643,261
<b>Total Economic Impact</b>	<b>\$ 3,207,133,185</b>

Source: Economic Impact Calculated by VisitDallas

The NASACT Best Practices in Performance Measurement: Developing Performance Measures identifies what action plans should include in the section entitled *Develop Performance Measures*:

*3. Selecting key performance measures to be reported to external customers, stakeholders, and policy makers. Among the issues to be considered:*

*A. The key performance measures should reflect the success of the objectives and should focus on achieving the expected results.*

*B. Outcome, efficiency, and quality indicators will be useful for external reporting.*

The Green Book identifies procedures in Principle 12 – Implement Control Activities; *Documentation of Responsibilities through Policies*, as a control activity needed to manage risk. The guidance states:

*Those in key roles for the unit may further define policies through day-to-day procedures, depending on the rate of change in the operating environment and complexity of the operational process. Procedures may include the timing of when a control activity occurs and any follow-up corrective actions to be performed by competent personnel if deficiencies are identified. Management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities. [12.04]*

The Green Book identifies procedures in Principle 10 – Design Control Activities; *Design of Appropriate Types of Control Activities*, as a control activity needed to manage risk. The guidance states:

*Establishment and review of performance measures and indicators – Management establishes activities to monitor performance measures and indicators. These may include comparisons and assessments relating different sets of data to one another so that analyses of the relationships can be made, and appropriate actions taken. Management designs controls aimed at validating the propriety and integrity of both entity and individual performance measures and indicators. [10.03]*

## **Recommendation XI**

We recommend the Director of CES:

- Develops procedures for data and metrics measuring the success of the Convention Center including retaining proper supporting documentation
- Conducts a documented comparative analysis on a periodic basis of the Convention Center space rental rates

Please see Appendix VI for management's response to the recommendation.

## VisitDallas' Compensation As Documented Is Not Consistently Tied to Performance and Results

VisitDallas' compensation, as documented, for director level and above, is not consistently correlated to performance based on VisitDallas' compensation policies. In addition, VisitDallas' compensation policy does not: (1) address compensation adjustments for the actual results (of previously booked) groups/events; and, (2) include national performance comparisons/rankings when establishing the President/ Chief Executive Officer's (CEO) performance goals. As a result, there is an increased risk that VisitDallas' compensation is not based on actual performance.

### Compliance with Compensation Policy

VisitDallas has a policy and procedure in place to calculate an employee's incentive compensation and merit increase for the year using a calculation template. VisitDallas, however, does not consistently pay employees according to the amount calculated and no documentation is provided to support the payment of additional incentives/merits.

The pay calculation template results for employees with the title director, vice president, senior vice president, or other executive level shows:

- 17 of 63, or 27 percent, of the incentive payments did not agree with the payout calculation (15 were higher and 2 were lower)
- 12 of 58, or 21 percent, of merit (salary) increases did not agree with the payout calculation (10 were higher and 2 were lower)

### Incentive Compensation Adjustments for Actual Results of Groups/Events

VisitDallas incentive compensation does not include a provision for the actual results of groups/events. For example,

- If actual results of booked groups/events are higher in attendance or room nights sold, additional incentive compensation would not be paid
- If actual results of booked groups/events are lower in attendance or room nights sold, there is no clawback provision (see textbox) in place to recover incentives already paid

#### **Clawback Provision**

*"A provision under which money that's already been paid out must be returned to the employer or the firm... The primary aim of such a provision is to prevent managers from using incorrect accounting information."*

**Government contracts** – *"If the requirements of the contract are not fulfilled, then the provision of clawback may be exercised upon the contractors."*

**Source:** Corporate Finance Institute

- If booked groups/events are cancelled in future years, there is no clawback provision in place to recover incentives already paid. A cancellation will result in a decrease for the overall VisitDallas goals for the year, however, it will not affect the incentive compensation of the individual who booked the groups/events.

### President/Chief Executive Officer's Compensation

The CEO's compensation is based on defined goals that are: (1) approved by the VisitDallas' Board of Directors annually; (2) reviewed periodically throughout the year as to progress toward achievement; and, (3) incorporated into a calculation template to determine the total compensation amount paid. According to VisitDallas, the VisitDallas' Board of Directors objective is to compensate the CEO within the top 25<sup>th</sup> percentile of a defined peer group of DMOs. VisitDallas' CEO is among the top five highest paid Convention and Visitor's Bureau CEOs in the United States.

The CEO's goals, however, do not include national performance comparisons/rankings, such as with other Metropolitan Statistical Areas (MSA). For example, Dallas MSA is not a top-performing destination among the top 24 MSAs using standard hotel performance metrics (see textbox). For calendar years 2013 through 2017, key hotel performance metrics for the Dallas MSA compared to the top 24 MSAs in the country is shown in Exhibit IV on page 30.

#### **Key Hotel Performance Metrics**

Analysis of Metropolitan Statistical Areas concentrated on the below metrics:

- Hotel Occupancy Percentage – The total number of hotel rooms occupied divided by the total number of rooms available.
- Average Daily Rate – The total revenue received from hotel room sales divided by the total number of rooms occupied.
- Revenue per Available Room – The total revenue received from hotel room sales divided by the total number of rooms available.

**Source:** Hotel Industry Data



Exhibit IV

**Dallas Metropolitan Statistical Area Hotel Metrics  
National Comparisons/Rankings for Calendar Years 2013 through 2017**

<b>Hotel Metric</b>	<b>National Comparisons/Rankings</b>
<b>Below National Average</b>	
Average of Hotel Occupancy Percentage	16 of 24
Average of Average Daily Rate	21 of 24
Average of Revenue Per Available Room	21 of 24
Change in Average Daily Rate	15 of 24
Change in Revenue Per Available Room	16 of 24
<b>Above National Average</b>	
Change in Hotel Occupancy Percentage	9 of 24
Change in Demand	5 of 24
Change in Supply	9 of 24

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**Source:** Office of the City Auditor's analysis

According to VisitDallas,

*“Our charge is to bring in visitors and the economic impact they provide to the destination. Metrics like room demand are just one aspect that serves as a general indicator of that effort, but there are numerous factors that can affect that indicator that are beyond the DMO’s control. Even if one were to evaluate hotel performance, where you started and how much you grew are more accurate performance measures than where you ended...Better specific performance metrics could [be] more along the lines of various national rankings.... Or another approach could be to simply compare our bookings to other DMOs around the country. Our booking goals and performance are among the highest in the country.”*

The State of Texas law, Title 3: Local Taxation, Chapter 351: Municipal Hotel Occupancy Taxes, Section 351.101, *Use of Tax Revenue* (a) states: “Revenue from the municipal hotel occupancy tax may be used only to promote tourism and the convention and hotel industry...”

The Green Book identifies procedures in Principle 10 – Design Control Activities; *Design of Appropriate Types of Control Activities*, as a control activity needed to manage risk. The guidance states:

*Establishment and review of performance measures and indicators – Management establishes activities to monitor performance measures and indicators. These may include comparisons and assessments relating different sets of data to one another so that analyses of the relationships can be made, and appropriate actions taken. Management designs controls aimed at validating the propriety and integrity of both entity and individual performance measures and indicators. [10.03]*

## **Recommendation XII**

We recommend the Director of CES implements monitoring of VisitDallas' compensation to ensure that paid compensation is properly documented according to VisitDallas' compensation policies in order to demonstrate compliance with State law related to HOT.

## **Recommendation XIII**

We recommend the Director of CES monitors VisitDallas' compensation practices with particular focus on employee incentive compensation adjustments for the actual results of groups/events.

## **Recommendation XIV**

We recommend the Director of CES monitors VisitDallas' compensation practices with particular focus on the basis for the CEO's annual compensation goals in order to demonstrate compliance with State law related to HOT.

Please see Appendix VI for management's response to the recommendation.

## Section III – Internal Controls Over Certain Expenses of VisitDallas

### VisitDallas Does Not Have Adequate Controls Over Certain Expenses

VisitDallas does not consistently follow VisitDallas' established policies and procedures and State of Texas laws for HOT and DTPID expenses. The policies and procedures also do not include adequate guidance in certain areas. Additionally, expenses are not properly classified on a consistent basis (see Appendix II and Appendix III). As a result, there is an increased risk that VisitDallas' use of HOT funds is not in compliance with State of Texas law and the City will not achieve the expected benefit from expenses made from HOT and DTPID funds.

#### Noncompliance with State of Texas law for Hotel Occupancy Tax and VisitDallas' Policies for Dallas Tourism Public Improvement District

Of the 141 sampled expenses,<sup>12</sup> relating to HOT travel and entertainment, 46, or 33 percent, showed the expenses: (1) lacked supporting documentation; (2) were not compliant with HOT law requiring all expenses to directly promote and enhance the tourism and the convention and hotel industry; and/or, (3) exceeded VisitDallas' policy limits set for hotel room rates and tipping.<sup>13</sup>

#### Noncompliance with VisitDallas Policies and Procedures

Twenty of 263, or eight percent of the employee travel and entertainment expenses tested were improperly classified. For example,

- Flowers to a hospitalized employee were posted to the Non-Staff Travel & Entertainment Gifts account
- The miscellaneous account was used when there was a more specific account available
- VisitDallas recorded the reimbursement of an expense to a revenue account instead of crediting an expense account

In addition, the CEO's expense reports did not comply with VisitDallas' established policy as follows: (1) hotel room rates were above the policy limit; and, (2) ground transportation was higher than the most affordable option.

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<sup>12</sup> For FY 2016 and FY 2017, 263 sampled expenses (141 HOT and 122 DTPID) were randomly selected for testing.

<sup>13</sup> Noncompliance for DTPID was limited to tipping expenses exceeding policy limits.

Inadequate VisitDallas Policy Guidance

VisitDallas' written policy does not provide adequate guidance for meals and flights. For example,

- The policy does not specify a per diem or limits regarding meal and entertainment expenses
- The policy for booking flights requires that flight prices be obtained 14 days prior to travel; however, the policy does not include the following requirements:
  - Specify tickets must be purchased prior to 14 days of travel
  - Specify which online travel service(s) are acceptable to use when searching for flights
  - Provide general flight parameter guidance such as acceptable layover time, number of stops when evaluating lowest fare, and proximity of airport to final destination

**Key Attributes of an Effective Corporate Travel Policy**

The expense policy:

- Should specify any preferred vendors, the company's advance booking requirement, and the specific booking tool the traveler should use
- Should require travelers to "obtain the lowest available airfare that reasonably meets business travel needs"
- Should include "a requirement that the employee stay within the allowable per diem"
- Regarding meals for entertaining clients should "remind employees that their purchases should be reasonable and appropriate, as these expenses can quickly get out of hand"

**Source:** *How to Write an Effective Corporate Travel Policy* by Jenna Sheffield

- Specify that the employee select the lowest priced flight that meets the general flight parameters
- Specify required documentation showing the lowest airfare was booked
- Specify ownership and use of frequent flier mileage award program

In addition, the policy was inconsistent regarding the maximum allowable tip. The policy states in one section that tips "*should not exceed twenty (20%) of the bill before sales tax*" and in another section that "*authorized tipping is 20% of the total bill.*"

VisitDallas' policies and procedures provide details of acceptable spending, however, according to VisitDallas, the approver of invoices can waive the policies and procedures' guidelines when he or she deems it appropriate. This may render VisitDallas' policy ineffective as it can easily be over-ridden with no requirement to document the reason for a policy exception.

The Green Book identifies procedures in Principle 10 – Design Control Activities; Design of Appropriate Types of Control Activities; *Appropriate documentation of transactions and internal control* as a control activity needed to manage risk. The guidance states:

*Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained. [10.03]*

The Green Book identifies Principle 12 – Implement Control Activities; *Documentation of Responsibilities through Policies* which states in section 12.02, “*Management documents in policies the internal control responsibilities of the organization*”. Section 12.03 states, “*Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity.*”

Per VisitDallas' policy, “*The only justification for spending VisitDallas money for entertainment is to create additional tourism and/or convention business.*”

The Green Book identifies Principle 10 – Design Control Activities; *Design of Appropriate Types of Control Activities* which states in section 10.03, “*Management designs control activities so that all transactions are completely and accurately recorded.*”

## **Recommendation XV**

We recommend the Director of CES monitors VisitDallas' expenses to ensure compliance with *VisitDallas' Policies and Procedures Manual* and State of Texas laws for HOT by analyzing, reviewing, and documenting expenses on a random sample basis within periodic intervals, such as monthly, quarterly or annually. This review should be documented, including the resolution of any non-compliance noted.

## **Recommendation XVI**

We recommend the Director of CES requests that VisitDallas strengthens the *VisitDallas' Policies and Procedures Manual* to provide adequate guidance on allowable expenses to better ensure the City achieves the expected benefit from expenses made from HOT and DTPID funds.

Please see Appendix VI for management's response to the recommendation

## VisitDallas Commingles Funds from Hotel Occupancy Tax and Dallas Tourism Public Improvement District Within One Bank Account

Funds from HOT and DTPID are not maintained in separate bank accounts. The practice of commingling HOT funds is not in accordance with State of Texas law (see textbox). Although not a requirement in the contract with the City, the administrative contract between DTPID and VisitDallas requires that DTPID funds be deposited in a separate bank account. As a result, the City may not be able to clearly identify the source of funds used for various VisitDallas activity expenses and the City could be exposed to legal liability as well as reputational damage.

### State of Texas Tax Code

Chapter 351: Municipal Hotel Occupancy Taxes, Section 351.101 – *Use of Tax Revenue* (c) “... The person must maintain revenue provided from the tax authorized by this chapter **in a separate account established for that purpose and may not commingle that revenue with any other money.**”

**Source:** The State of Texas law, Title 3: Local Taxation, Chapter 351: Municipal Hotel Occupancy Taxes, Section 351.101

The DTPID administrative contract with VisitDallas General DTPIDC Operations: *Maintenance of DTPID Funds*, states “*All assessment funds received from the City of Dallas for the DTPIDC shall be deposited in a bank account separate from all other DCVB funds.*”

The City contract with DTPID and VisitDallas, approved by City Council Resolution 16-1250, section 3: *Collection and Distribution of Assessments* (d), states, “*The remaining assessments..., shall be transferred on a monthly basis to an account of the DCVB by Automated Clearing House, wire transfer...*”

### Recommendation XVII

We recommend the Director of CES requests VisitDallas complies with State of Texas law for HOT funds by maintaining a separate bank account for HOT funds.

### Recommendation XVIII

We recommend the Director of ECO requests VisitDallas complies with the DTPID administrative contract with VisitDallas by maintaining a separate bank account for DTPID funds.

Please see Appendix VI for management’s response to the recommendation.

Appendix I

**Details of Issues Identified Related to the City of Dallas’ Service Contract with VisitDallas**

As discussed on pages five through seven, the oversight and contract monitoring of VisitDallas by the Department of Convention and Event Services (CES) is not sufficient. The table below provides additional details and applicable guidance regarding specific issues in oversight and contract monitoring.

Condition	Issues Identified	Contract/Guidance
<p>The CES does not have a formal (written, approved, and dated) procedures for monitoring VisitDallas</p>	<p>Written procedures on the scope of the City of Dallas (City) monitoring responsibilities and activities specifically for the VisitDallas Hotel Occupancy Tax (HOT) contract are not in place. The CES does have a checklist for tracking VisitDallas contract commitments and there is a general contract monitoring procedure that could apply to any contract in the department. However, as there is an established standard to develop procedures for other large CES contracts, implementing dedicated procedures for monitoring the VisitDallas contract would facilitate complete and consistent oversight.</p>	<p>The Standards for Internal Control in the Federal Government (Green Book) identifies procedures in Principle 12 – Implement Control Activities; <i>Documentation of Responsibilities through Policies</i>, as a control activity needed to manage risk. The guidance in section 12.04 states:</p> <p><i>“Those in key roles for the unit may further define policies through day-to-day procedures, depending on the rate of change in the operating environment and complexity of the operational process. Procedures may include the timing of when a control activity occurs and any follow-up corrective actions to be performed by competent personnel if deficiencies are identified. Management communicates to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities.”</i></p>



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Condition	Issues Identified	Contract/Guidance
<p>VisitDallas' financial reports consolidate expenses in ways that inhibit appropriate monitoring by the City</p>	<p>The CES is responsible for monitoring HOT expenses while the Office of Economic Development (ECO) is responsible for monitoring the Dallas Tourism Public Improvement District (DTPID) expenses. Creative Industries (formerly the Dallas Film Commission) is a division of ECO and is responsible for monitoring their portion of HOT expenses. Each of these revenue sources (HOT and DTPID) have different budget limits and compliance requirements. VisitDallas' reporting of expenses to the City, however, does not distinctly present expenses by revenue source. Rather, for general audience purposes, expenses are pooled.</p> <p>Separating each revenue source (HOT, DTPID, Texas Event Trust Fund, Private and other) and showing how each is expended: (1) using the same set of expense categories; and, (2) tying these expense categories with overall revenue and expense totals would allow:</p> <ul style="list-style-type: none"> <li>• The CES and ECO to perform more effective monitoring of expenses under their supervision</li> <li>• The City to clearly see the overall budget; specifically, how the budget is comprised and how revenue sources are used</li> </ul>	<p>The contract between the City and VisitDallas, approved by City Council Resolution 15-1666, section 2B <i>DCVB Reporting Requirements</i> states:</p> <p><i>In order for the City to monitor the performance of [VisitDallas] in promoting the aforementioned and any other services now or later developed, [VisitDallas] shall prepare and submit all data, reports, and other documents as may be reasonably requested by the Director, in such form and containing such information satisfactory to the Director for approval.</i></p>
<p>The CES does not perform detailed compliance reviews of VisitDallas' expenses</p>	<p>Review of HOT expenses is limited to a high-level review of broad categories, with no detailed confirmation of how the funds are used or whether the use of funds is in compliance with State of Texas law and VisitDallas' policies and procedures.</p>	<p>The National Association of State Auditors, Comptrollers, and Treasurers (NASACT) Best Practices in Contracting of Services, <i>Monitoring</i>, states individuals should “<i>track budgets and compare invoices and charges to contract terms and conditions.</i>”</p>
<p>Due dates are not specified for key contract deliverables</p>	<p>Some of the deliverables in the HOT contract between the City and VisitDallas do not have specific timelines or specify due dates. Examples of deliverables per the contract with no due date include monthly and quarterly reporting on spending and performance metrics, monthly payments of HOT funds to VisitDallas, and collection of Creative Industries quarterly installments.</p>	<p>The NASACT Best Practices in Contracting of Services, <i>Contract Provisions</i>, states contracts should “<i>provide for specific measurable deliverables and reporting requirements, including due dates.</i>”</p>

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Condition	Issues Identified	Contract/Guidance
Annual Internal Revenue Service Form 990 (Form 990) for VisitDallas is not tracked and reviewed by CES	The City does not obtain VisitDallas' Form 990, which is an annual financial disclosure that non-profit organizations are required to file with the Internal Revenue Service each year. This form contains information about board composition, compensation data, and other legally required disclosures that would be helpful to City staff in monitoring VisitDallas.	<p>The contract between the City and VisitDallas, approved by City Council Resolution 15-1666, section 2B <i>DCVB Reporting Requirements</i> states:</p> <p><i>In order for the City to monitor the performance of the [VisitDallas] in promoting the aforementioned and any other services now or later developed, the [VisitDallas] shall prepare and submit all data, reports, and other documents as may be reasonably requested by the Director, in such form and containing such information satisfactory to the Director for approval</i></p>
Formal City approval of VisitDallas' performance goals, such as bookings for Citywide events and room nights, are not consistently or appropriately documented	Documentation of the City Manager's Office (CMO) approval of the VisitDallas HOT contract performance goals was not available for Fiscal Year (FY) 2016 and approval of performance goals for FY 2017 and FY 2018 was not documented until August 2018.	<p>The contract between the City and VisitDallas, approved by City Council Resolution 15-1666, section 2B <i>DCVB Reporting Requirements</i> item (4) states:</p> <p><i>Such performance goals shall be set by [VisitDallas] Board of Directors and submitted to the CMO for approval. Performance goals may be revised, with the approval of the [VisitDallas] Board and the CMO, based on market and unforeseen factors out of [VisitDallas]' control</i></p>
Formal City approval of VisitDallas' budget is not obtained even though most of VisitDallas' revenues relate to City contracts	The VisitDallas revenues have grown to \$41.5 million as of FY 2017 with the City contracts portion comprising 81 percent. According to CES, VisitDallas' annual budget is discussed with and verbally approved by the Director of CES, however formal approval by the City of the annual budget is not obtained. Two City representatives were present during VisitDallas' board meetings in which the board approved the annual budget for FY 2016, FY 2017, and FY 2018. However, a formal City process, including a wider audience, for presenting and communicating the annual VisitDallas budget to the City could improve transparency and better address the City's approval responsibility in the contract.	<p>The contract between the City and VisitDallas, approved by City Council Resolution 15-1666, section 2E <i>DCVB Budget</i>.</p> <p><i>All expenses by [VisitDallas] for the services authorized hereunder shall be within and in accordance with the annual budget, marketing plan, and comprehensive program approved by the City, and the [VisitDallas] will be so notified in writing by the City as to the acceptance of the specific activities proposed by the [VisitDallas] in their budget submittal for the specific year involved.</i></p>

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Source: Office of the City Auditor's analysis

**Details of Issues Identified for VisitDallas’ General Employee Expenses<sup>14</sup>**

As discussed in pages 32 through 35, VisitDallas does not have adequate controls over certain expenses. The table below provides details of expenses by category not in compliance with VisitDallas’ policies as well as the relevant language of VisitDallas’ policies.

Expense Category	Issues Identified	Frequency	Issue Amount as Reported	Relevant VisitDallas Policies
Airfare	Three expenses did not comply with VisitDallas’ policies and no documentation was available to support these exceptions. Specifically, one flight was booked less than 14 days prior to travel for \$524, one expense was for a seat upgrade of \$97, and one for \$131 did not include a receipt that showed the amount being reimbursed.	3 of 9 (33 percent)	\$752	<p><i>“Airline fares and schedules should be compared... at least 14 days before departure.”</i></p> <p>Employees <i>“are encouraged to search for the lowest fare available.”</i></p> <p>Expense reports should include <i>“an original receipt for all expenses with complete details.”</i></p>

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<sup>14</sup> All expenses were approved in accordance with VisitDallas’ approval procedure.

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<b>Expense Category</b>	<b>Issues Identified</b>	<b>Frequency</b>	<b>Issue Amount as Reported</b>	<b>Relevant VisitDallas Policies</b>
<b>Meals*</b>	<p>Three meal expenses totaling \$286 were not compliant with Hotel Occupancy Tax (HOT) law requiring all expenses to directly promote and enhance the tourism and the convention and hotel industry.</p> <p>Nine expenses did not include appropriate and complete descriptions within the Concur expense reporting system (Concur) for a total of \$1,040.</p> <p>Seven expenses totaling \$996 included tips that exceeded VisitDallas' policy limits.</p> <p>Two expenses totaling \$118 were for meals of excessive cost. Each of these meals were for one individual while on business travel not held with clients and each exceeded \$55.</p> <p>*Note – The above numbers and amounts will not sum to 17 and \$2,017 respectively, as some of the expenses had multiple issues.</p>	17 of 22 (77 percent)	2,017	<p><i>"The only justification for spending VisitDallas money for entertainment is to create additional tourism and/or convention business."</i></p> <p><i>Expenses "must be reported through Concur with complete descriptions of each individual expense."</i></p> <p><i>"Business meals and/or entertainment gratuity should not exceed twenty (20%) of the bill before sales tax."</i></p> <p><i>"...employees should use careful judgment in the use of VisitDallas funds for travel and entertainment."</i></p>
<b>Hotels</b>	<p>Ten expenses for a total of \$3,615 exceeded the maximum nightly rate outlined in the policy.</p> <p>Three expenses did not include a complete and correct description in Concur for a total of \$332.</p>	13 of 82 (16 percent)	3,947	<p><i>"Hotel maximum rates before taxes are \$250/day for New York City and \$180/day for all other cities."</i></p> <p><i>Expenses "must be reported through Concur with complete descriptions of each individual expense."</i></p>

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<b>Expense Category</b>	<b>Issues Identified</b>	<b>Frequency</b>	<b>Issue Amount as Reported</b>	<b>Relevant VisitDallas Policies</b>
<b>Ground Transportation</b>	<p>One expense for \$72 for an individual’s ride from the Dallas Fort Worth International Airport to their residence, using what appears to be a specialty provider, was charged at a higher rate than a similar rideshare service would have charged.</p> <p>Three expenses totaling \$1,893 were not in compliance with the policy as a larger vehicle than a mid-size car was selected without documentation to demonstrate a business need for a larger vehicle.</p> <p>One expense of \$50 for personal mileage had insufficient documentation to support mileage driven.</p>	5 of 7 (71 percent)	2,015	<p><i>"VisitDallas will not pay or reimburse any employee for town cars, limousine, or other similar single passenger service."</i></p> <p><i>"Employees are to select an economical car (mid-size)."</i></p> <p><i>"Complete and accurate documentation of all reimbursement is essential."</i></p>
<b>Other Expenses</b>	Various types of expenses that do not fit into standard categories.	8 of 21 (38 percent)	816	Various VisitDallas policies and procedures.
<b>Dallas Tourism Public Improvement District Tips</b>	Nine expenses totaling \$1,757 using Dallas Tourism Public Improvement District funds included tips that exceeded VisitDallas policy limits.	9 of 23 (39 percent)	\$1,757	<i>"Business meals and/or entertainment gratuity should not exceed twenty (20%) of the bill before sales tax."</i>

**Source:** Office of the City Auditor tested a sample of 141 HOT expenses and 23 TPID expenses involving tips for provided services.

**Details of Issues Identified for the President/Chief Executive Officer’s Expenses**

As discussed in pages 32 through 35, VisitDallas does not have adequate controls over certain expenses. The table below provides details specifically for the VisitDallas’ President/Chief Executive Officer’s (CEO) expenses that are not in compliance with VisitDallas’ policies as well as the relevant language of VisitDallas’ policies.

<b>Expense Category</b>	<b>Issues Identified</b>	<b>Frequency</b>	<b>Issue Amount as Reported</b>	<b>Relevant VisitDallas Policies</b>
<b>Hotels</b>	<p>Eighteen hotel stays totaling \$17,069, were above the policy limits. The average hotel stay for the CEO was \$323 per night.</p> <p>The cost per night for the CEO’s long-term rental home in Austin is approximately \$293 to \$343 (based on estimated nights the CEO appeared to be in Austin using the CEO’s expense reports and Outlook calendar, and other emails provided by VisitDallas summarizing Austin legislative meetings), with a total cost of \$12,000.</p>	18 of 22 (82 percent)	\$29,069	"Hotel maximum rates before taxes are \$250/day for New York City and \$180/day for all other cities."
<b>Gifts</b>	Purchases of gift items by the CEO, such as pens and chocolates. Documentation of who the gift items were given to was not identified.	N/A	7,041	"Client gifts shall be obtained from the VisitDallas gift inventory, with proper accounting of the client’s name, company, and business purpose."
<b>Meals</b>	When the CEO is not meeting with clients, his meal expenses appear high and he routinely submits hotel refreshment center expenses for reimbursement.	N/A	2,335	<p>"...employees should use careful judgment in the use of VisitDallas funds for travel and entertainment."</p> <p>"VisitDallas will not reimburse for the use of in-room refreshment centers."</p>

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<b>Expense Category</b>	<b>Issues Identified</b>	<b>Frequency</b>	<b>Issue Amount as Reported</b>	<b>Relevant VisitDallas Policies</b>
<b>Vehicle Expenses</b>	VisitDallas routinely paid for the CEO's Onstar subscription for his personal vehicle, even though the CEO opted to use a rental car paid for by VisitDallas over a period of several months when his business travel by car was frequent.	N/A	382	<p><i>"The purpose of the expense account is to benefit VisitDallas to accomplish VisitDallas objectives."</i></p> <p><i>"The only justification for spending VisitDallas money for entertainment is to create additional tourism and/or convention business."</i></p>
<b>Car Service</b>	Rather than using Uber, a cab, or other public transportation when traveling on business, the CEO often hired a private car service called Muv at a significantly higher rate. For example, the CEO went two separate places in New York City area for a total of 53.3 miles at a charge of \$532.50 with this service. In the San Diego area two separate stops for a total of 66 miles cost \$234.	N/A	1,307	<p><i>"The only justification for spending VisitDallas money for entertainment is to create additional tourism and/or convention business."</i></p> <p><i>"VisitDallas will not pay or reimburse any employee for town cars, limousine, or other similar single passenger services."</i></p>
<b>Various Personal Expenses</b>	Other various transactions were observed that would not be appropriate to charge as business expenses, such as purchasing magazines for personal enjoyment while traveling on business, valet parking, and the purchase of a \$543 Tumi backpack.	N/A	\$782	<p><i>"The only justification for spending VisitDallas money for entertainment is to create additional tourism and/or convention business."</i></p>

**Source:** Office of the City Auditor tested the President/CEO's expense reports for FY 2016 and FY 2017

## Appendix IV

### Background, Objective, Scope and Methodology

#### Background

##### VisitDallas

*“VisitDallas is an award-winning independent, not-for-profit organization that promotes Dallas as a business and leisure destination.”* The VisitDallas mission is *“to market Dallas as the ideal convention and visitor destination to the regional, national and international marketplace and to favorably impact the Dallas economy through meetings and tourism.”* VisitDallas achieves its mission through marketing, sales and service. Marketing raises visitor awareness and interest through destination branding campaigns and advertising. Sales’ bookings bring conventions and meetings to Dallas. Service ensures that VisitDallas delivers the support for client business needs and guarantees that the City of Dallas (City) fulfills its promises and garners repeat bookings and visitation.

The VisitDallas organization is governed by a 55 voting-member board of directors that also has an executive committee and a finance committee. VisitDallas has about 80 employees working out of its Dallas office and regionally.

##### Department of Convention and Event Services

A key function of the Department of Convention and Event Services (CES) is operating and maintaining the Kay Bailey Hutchison Convention Center Dallas (Convention Center), attracting and serving convention clients and overseeing various contracts critical to its operations. The Convention Center is one of the premier convention destinations in the nation and an economic driver for North Texas, bringing millions of visitors and billions in tourism dollars to the region. The CES sustains the Debt Service Fund, which provides for the payment of principal and interest on the Convention Center’s outstanding revenue refunding and improvement bonds.

##### Office of Economic Development

Creative Industries – formerly the Dallas Film Commission, is a division of the Office of Economic Development (ECO) and receives \$200,000 annually through the Hotel Occupancy Tax (HOT) contract with VisitDallas.

Public Improvement District Program – The primary goal of ECO’s Public Improvement District (PID) program is for the City to assist groups of property owners to request special assessments for supplemental district services. The



ECO's Redevelopment Division has a small staff that provides assistance with PIDs.

The PIDs are governed by State of Texas law and the City's PID Policy. Individual PIDs are governed by property owner elected boards and managed by a specifically formed non-profit organization or homeowners' association. State of Texas law requires the City Council to:

- Annually adopt an updated PID Service Plan
- Hold a public hearing to give property owners a chance to state concerns/positive comments about PID operations
- Set an annual PID assessment rate for each district

The City Council authorized the creation of the Dallas Tourism Public Improvement District (DTPID) and approves the DTPID annual service plan

Dallas Tourism Public Improvement District – In support of Dallas' effort to be a top five destination for conventions and tourism, the DTPID went into effect in August 2012 and was renewed in 2016 for a term of 13 years. Significantly increasing the VisitDallas budget when established, the DTPID has funded Dallas branding and sales and marketing incentives, including funding for arts marketing, to bring more meetings and visitors to Dallas. The DTPID is made up of hotel properties in the city limits of Dallas with 100 or more hotel rooms. These properties pay a two percent assessment on their occupied rooms for the purpose of generating funds to market and promote Dallas as a convention and tourism destination.

The DTPID is governed by a ten voting-member board of directors consisting of participating DTPID hoteliers that direct the use of all funds generated. The City authorized the creation of the DTPID and must annually approve its budget. The DTPID board has contracted with the City to collect the funds, and with VisitDallas to administer the programs and use of funds. The DTPID corporation non-profit entity has no employees.

**An Audit Report on –  
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As shown in Exhibit V below, the annual assessment revenue budget for the DTPID is more than all other City PID assessment budgets combined.

**Exhibit V**

**Comparison of Dallas Tourism Public Improvement District Assessment  
Revenue Budget  
to the Total Budget for All Public Improvement Districts**

<b>City Public Improvement District</b>	<b>Proposed Fiscal Year 2017 Annual Budget</b>	<b>Budget Comparison</b>
DTPID	\$16,528,576	\$16,528,576
Deep Ellum	392,167	
Downtown	6,581,041	
Klyde Warren Park/DAD	1,047,742	
Knox Street	906,935	
Lake Highlands	498,633	
Oak Lawn H-Line	345,612	
Prestonwood	316,580	
South Dallas/Fair Park	95,481	
South Side	192,931	
Uptown	2,245,574	
University	1,037,000	
Vickery Meadow	895,420	14,555,116
<b>Total</b>		<b>\$31,083,692</b>

**Source:** August 15, 2016 City Economic Development Committee briefing by ECO on City PIDs

VisitDallas Revenues

As shown in Exhibit VI below, VisitDallas total revenues and revenues for HOT and DTPID have grown.

**Exhibit VI**

**Total Revenues for VisitDallas by Revenue Source**

Revenue Source	Fiscal Years 2013-2017:							
	5 -Year Average Percentage	5 -Year Average	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014	Fiscal Year 2013	Fiscal Year 2012 <sup>15</sup>
Hotel Occupancy Tax	43.5	\$15,632,249	\$16,675,447	\$16,606,012	\$16,140,203	\$15,136,105	\$13,603,479	\$12,487,676
Dallas Tourism Public Investment District	37.5	13,475,696	14,890,959	14,775,070	13,537,644	12,732,591	11,442,218	703,075
Special Event Trust Funds - State of Texas	11.3	4,080,247	7,341,765	1,983,764	4,494,714	2,449,833	4,131,157	2,134,965
Strategic Dallas Alliance, partnerships, and sponsorships	2.8	993,221	247,647	2,297,782	738,538	1,358,828	323,311	791,899
Membership dues and administration fees	2.4	873,984	888,967	847,337	781,156	910,201	942,259	977,695
In-kind goods and services	1.2	430,258	651,965	545,260	264,224	448,240	241,602	71,973
Ticket sales	0.9	332,308	668,048	532,392	193,380	131,035	136,686	116,432
Other revenues	0.4	131,636	166,272	203,463	140,895	94,141	53,407	234,522
Total support and revenue, net of releases	100.0	\$35,949,599	\$41,531,070	\$37,791,080	\$36,290,754	\$33,260,974	\$30,874,119	\$17,518,237
5-Year change in total revenue			\$10,656,951					
5-Year change in total revenue as percentage			34.5%					
Annual change in total revenue for Fiscal Year (FY)13 through FY17 <sup>16</sup>			\$ 3,739,990	\$ 1,500,326	\$ 3,029,780	\$ 2,386,855		
Annual change in total revenue for FY13 through FY17 as percentage			9.9%	4.1%	9.1%	7.7%		

**Source:** Revenue data is from Annual VisitDallas Financial Statements and Independent Auditor's Reports

<sup>15</sup> The Dallas Tourism Public Investment District started toward the end of 2012, and therefore, was not included in the 5-Year Average.

<sup>16</sup> The 4-Year Average annual change in total revenue and the annual percent change for FY 2013 through FY 2017 is \$ 2,664,238 and 7.7 percent, respectively.

Contracts with VisitDallas

There are three primary contracts related to Visit Dallas as follows:

1. City Service Contract with VisitDallas

The City has a service contract with VisitDallas that includes payment of HOT. This contract was approved by City Council Resolution 15-1666 and is effective FY 2016 through FY 2020, followed by a 5-year and a 3-year renewal option (13 years total). The service contract requires the City to pay 30 percent of the City's seven percent HOT revenue monthly to VisitDallas, net of the portion generated from the Convention Center Omni Hotel, and net of a two percent retainage paid on a quarterly basis based on VisitDallas meeting or exceeding the agreed upon performance goals.

**City Service Contract Provisions with VisitDallas**

*"[VisitDallas] will solicit, arrange for, and service conventions, and publicize Dallas so as to attract conventions and visitors, to the [Convention Center] and other City-owned Facilities as directed. Notwithstanding the following, the City and [VisitDallas] recognize that a potential customer's needs may be better suited to be held at another City facility or other facilities located in Dallas, Texas. In such a case, [VisitDallas] and City will agree on the use or the method of marketing the competing facilities to best develop, stimulate and promote conventions and tourism within the City of Dallas."*

**Source:** City Service Contract with VisitDallas (City Council Resolution 15-1666)

2. City Contract with the Dallas Tourism Public Improvement District and VisitDallas

The DTPID board has a management entity contract with the City for the City to collect the DTPID assessment funds and with VisitDallas to administer the programs and use of funds. The current contract was approved by City Council Resolution 16-1250 and is effective FY 2017 through FY 2029 (13 years). Separately, the DTPID annual service plan budget and hotel assessment roll ordinance is approved each year by City Council.

**City Contract with the Dallas Tourism Public Improvement District (DTPID) and  
VisitDallas**

The services to be supplied to the District provide special benefits to the property owners within the District and are supplemental to standard City services. The purpose of the District is to enhance services, undertake certain improvements, in particular, special supplemental services relating to District marketing, business recruitment, and promotional activities authorized by the Act for improvement and promotion of the District, including the provision of incentives by VisitDallas to organizations to encourage them to bring their large and citywide meetings to Dallas and to fund additional marketing by VisitDallas to increase hotel stays within the City.

Allowable costs:

- Only use District assessment funds received to defray expenses which are authorized improvements and services defined in the Act and specifically listed in the Service Plan which is approved annually by the City
- Shall not use Assessment Funds for private, personal, non-public purposes or for any other purposes not allowed under the Act

**Source:** City Contract with the DTPID and VisitDallas (City Council Resolution 16-1250)

3. Dallas Tourism Public Improvement District (DTPID) Administrative Contract with VisitDallas

The DTPID has an administrative contract with VisitDallas to administer the programs and use of funds. The current contract aligns with the City’s fiscal years and is effective FY 2018 through FY 2029 (11 years). The City does not sign this contract.

**Dallas Tourism Public Improvement District (DTPID) Administrative Contract with VisitDallas**

*“The Dallas Tourism Public Improvement District is a public improvement district dedicated to improving convention and group hotel bookings and hotel room night consumption in the City of Dallas.”*

The non-profit 501 (c) (6) entity entitled the Dallas Tourism Public Improvement District Corporation (DTPIDC) oversees the administration of the DTPID to ensure the effective and judicious allocation of District assessment revenues to accomplish the District mission.

The DTPIDC Board contracts with VisitDallas to implement the funded activities of the DTPID. The contract is funded by DTPID proceeds received from a two percent special assessment levied against all hotels with 100 or more rooms within the City of Dallas.

VisitDallas implements additional marketing and incentive programs to secure increased convention, group, and other hotel activity to the City of Dallas.

**Source:** DTPIC Contract with VisitDallas

**Objective, Scope, and Methodology**

This audit was conducted under the authority of the City Charter, Chapter IX, Section 3 and in accordance with the FY 2017 Audit Plan approved by the City Council. This performance audit was conducted 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The objective of the audit was to evaluate the effectiveness of services provided by VisitDallas, which included: (1) assessing the reliability and reporting of performance measures; and, (2) determining whether DTPID incentive funds were used properly. We also reviewed whether HOT funds were used properly. The audit scope covered management operations during the period of FY 2016 through FY 2017; however, certain other matters, procedures, and transactions outside the scope were reviewed to understand and verify information during the audit period.

To achieve the audit objective, we performed the following procedures:

- Conducted interviews with staff and/or management of CES, ECO, City Controller's Office, City Attorney's Office, VisitDallas, and the DTPID
- Attended respective VisitDallas and DTPID Board of Director's meetings
- Researched applicable laws and regulations that impact relevant contracts
- Performed various analyses

In addition, we reviewed:

- City, DTPID, and VisitDallas contract requirements
- VisitDallas and DTPID reports and documentation
- VisitDallas' payments to the City
- Certain VisitDallas performance metrics
- Convention Center performance and utilization metrics
- VisitDallas' employee compensation program
- Certain VisitDallas expenses

**Major Contributors to the Report**

Andrew Yates, CPA, CIA – Auditor

Eva Narten, CPA, CIA, CISA – Project Manager

Rory Galter, CPA – Acting Audit Manager

Theresa Hampden, CPA – Interim First Assistant City Auditor



## Management's Response

### Memorandum

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City Auditor's  
Office



CITY OF DALLAS

**DATE:** December 24, 2018

**TO:** Carol A. Smith, Interim City Auditor

**SUBJECT:** Management Response to Audit Report: Audit of VisitDallas

Thank you for the opportunity to respond to your audit of VisitDallas. We appreciate the amount of work you and your staff put into this audit and we believe you have raised many important issues that warrant further examination. We agree that oversight and monitoring of the contract with VisitDallas can and should be improved and we are committed to doing so. To accomplish this objective, we will meet and discuss your recommendations with VisitDallas, request that VisitDallas regularly brief a City Council committee on their operations and discuss a possible supplemental contract agreement or memo of understanding.

Unfortunately, we are not able to agree with all recommendations in this audit report. Some of the recommendations contain multiple parts, and while we may agree with a piece of the recommendation, we cannot agree overall. In these instances, we have noted the areas with which we agree and our plans for addressing the issue.

Further, many of the recommendations would require changes in how VisitDallas operates internally. Since it is an independent not-for-profit organization contracted with the City of Dallas through September 30, 2020, we do not have the authority or accountability needed to implement these recommendations. Section 12 of the contract with VisitDallas, titled Independent Contractor, provides "DCVB's (Dallas Convention and Visitors Bureau) status shall be that of an independent contractor...DCVB shall exercise independent judgment in performing services under this Contract and is solely responsible for setting working hours, scheduling or prioritizing the work flow and determining how the work is to be performed."

While section 17 of the contract with VisitDallas, titled Right of Review and Audit, provides the City the right to audit "for purposes of evaluating compliance with this and other provisions of the Contract," the right to audit does not include the ability to require VisitDallas to change how they perform the work contained in Section 2 of the contract, titled Scope of Work.

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In fact, Section 4 of the contract, titled Change in Service, provides "any modification [or] changes in the program by the City shall take into consideration the amount agreed to in this Contract, and shall not require any additional funding. Changes in the scope of services, which in the opinion of the DCVB and the CMO would require additional funding by the City, must first be authorized in advance by resolution of the City Council."

Again, we do not want our management response to suggest that we are discounting the good work that went into this audit, or that we disagree that we need to improve oversight and monitoring. We look forward to working with VisitDallas in this respect, and to further conversations with your office.

Our responses to the audit report recommendations are as follows:

**Recommendation I**

We recommend the Director of CES improves monitoring of VisitDallas by:

- Developing and adopting formal procedures to:
  - Document a more in-depth review of VisitDallas' expenses
  - Obtain and review annually VisitDallas' Form 990
  - Request VisitDallas presents annual briefings on VisitDallas' budget, activities, and performance goals to the appropriate City Council committee
  - Ensure formal City approval (City Manager or City Manager's designee) of VisitDallas' performance goals
  - Ensure formal City approval (City Manager or City Manager's designee) of VisitDallas' annual budget
- Working in coordination with VisitDallas to create a financial reporting format that: (1) segments spending by funding source and in total across all funding sources for the same categories of expenses; and, (2) provides more detailed information
- Consulting with the City Attorney's Office, to implement a memorandum of understanding or supplemental contract agreement with VisitDallas that stipulates reasonable due dates for contractual obligations

**Management Response / Corrective Action Plan**

Agree  Disagree

We agree with your recommendation and are already working with VisitDallas to implement this recommendation.

**Implementation Date**

Given that the contract's initial term expires September 30, 2020, we anticipate implementation by September 30, 2021

**Responsible Manager**

Director, Department of Convention and Event Services

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**Recommendation II**

We recommend the Director of CES:

- Ensures CES timely invoices VisitDallas for the annual capital contribution to meet VisitDallas' annual \$500,000 funding commitment to CES
- Monitors the timeliness of collections and performs appropriate collection efforts if capital contributions are not received timely
- In consultation with the City Attorney's Office, determines the appropriate funds for sourcing capital contributions to ensure compliance with the State of Texas Local Government Code for Improvement Districts in Municipalities and Counties Chapter 372.003(b)(13): *Authorized Improvements*
- In coordination with VisitDallas, works to take appropriate corrective actions, if the City Attorney's Office determines capital contributions were incorrectly sourced

**Management Response / Corrective Action Plan**

Agree  Disagree

We agree with your recommendation. We will invoice VisitDallas on time for the annual capital contribution. If VisitDallas shows good cause for extending the timeline for payment, we will ensure we receive that request in writing and that we provide written permission from the City Manager's Office for such an extension. We are not able to guarantee that VisitDallas will submit payment for the capital contribution invoice by the January 1 due date in the contract. However, we will follow up appropriately, and will consult with the City Attorney's Office if payment is unreasonably delayed.

We will consult with the City Attorney's Office on the appropriate funds for sourcing capital contributions and possible corrective actions if the capital contributions were incorrectly sourced.

**Implementation Date**

February 29, 2020

**Responsible Manager**

Director, Department of Convention and Event Services

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**Recommendation III**

We recommend the Director of ECO:

- Ensures ECO timely invoices VisitDallas for quarterly installment payments to meet VisitDallas' annual \$100,000 funding commitment to ECO and Creative Industries
- Monitors the timeliness of collections and performs appropriate collection efforts if quarterly installment payments are not received timely

**Management Response / Corrective Action Plan**

Agree       Disagree

We agree with your recommendation. ECO will timely invoice VisitDallas for quarterly installment payments to meet VisitDallas' annual \$100,000 funding commitment to ECO and Creative Industries. ECO will monitor the timeliness of collections and perform appropriate collection efforts if quarterly installment payments are not received timely.

**Implementation Date**

December 31, 2019

**Responsible Manager**

Assistant Director, Administration, Office of Economic Development

**Recommendation IV**

We recommend the Director of ECO requests VisitDallas provides monthly financial reports in accordance with the City Service Contract with VisitDallas, in a format that allows Creative Industries to efficiently reconcile direct expense payments for program activity to VisitDallas' financial reports.

**Management Response / Corrective Action Plan**

Agree  Disagree

We agree with your recommendation. ECO will work with VisitDallas and request that they provide monthly financial reports in a format that provides sufficient information for reconciliations.

**Implementation Date**

December 31, 2020

**Responsible Manager**

Assistant Director, Administration, Office of Economic Development  
Creative Industries Manager

**Recommendation V**

We recommend the Director of ECO, as allowed by the City contract with DTPID and VisitDallas:

- Develops a formal contract monitoring procedure
- Requests and documents timely collection of contract deliverables
- Obtains and reviews annually DTPID's Form 990 and VisitDallas' Form 990

**Management Response / Corrective Action Plan**

Agree  Disagree

We agree with your recommendation. ECO will develop a formal contract monitoring procedure, request and document timely collection of contract deliverables, and obtain and review annually DTPID's Form 990 and VisitDallas' Form 990.

**Implementation Date**  
December 31, 2021

**Responsible Manager**  
Assistant Director, Administration, Office of Economic Development

**Recommendation VI**

We recommend the Director of ECO periodically performs detailed compliance reviews of VisitDallas' expenses as allowed by the City contract with DTPID and VisitDallas and monitors DTPID's expenses to ensure compliance with the *DTPID Board Orientation, Operational Guidelines & Policies and the VisitDallas' Policies and Procedures Manual* and State of Texas laws for Tourism PIDs by analyzing, reviewing, and documenting expenses on a random sample basis within periodic intervals, such as monthly, quarterly or annually. This review should be documented, including the resolution of any non-compliance noted.

**Management Response / Corrective Action Plan**

Agree  Disagree

Although we are not able to implement this recommendation, we will periodically perform high level compliance reviews of VisitDallas' and DTPID's expenses using judgmental sampling.

**Implementation Date**  
Not applicable

**Responsible Manager**  
Not applicable



**Recommendation VII**

We recommend the Director of ECO, in coordination with VisitDallas and in consultation with the City Attorney's Office, addresses the interim adjustments and excess assessments to ensure the City has formal authority to accept these assessments, including determining and documenting:

- The authority regarding hotels, not on the annual DTPID assessment roll, donating to the DTPID
- If ECO can obtain City Council approval as needed to formally accept additional hotels into the district
- The appropriate disposition of excess DTPID collections from FY 2015 and FY 2016

**Management Response / Corrective Action Plan**

Agree       Disagree

We are not able to implement this recommendation because the recommendation requires actions that are beyond our control. While we will ask the City Attorney's Office for assistance with addressing this matter, we are not able to implement this recommendation.

**Implementation Date**

Not applicable

**Responsible Manager**

Not applicable

**Recommendation VIII**

We recommend the Director of CES:

- Requests VisitDallas develops policies and procedures that document the methodology, formulas, and associated definitions, used in preparing both the monthly VisitDallas Metrics report and the annual Accomplishments and Action Plan report
- Reviews these VisitDallas policies and procedures for completeness and reasonableness and requests VisitDallas amends any aspects that are not considered sufficient
- Obtains underlying source documentation used by VisitDallas to produce metrics and periodically validates the accuracy of reported information

**Management Response / Corrective Action Plan**

Agree  Disagree

We agree with your recommendation. The Director of CES will

- Request VisitDallas develops policies and procedures that document the methodology, formulas, and associated definitions, used in preparing both the monthly VisitDallas Metrics report and the annual Accomplishments and Action Plan report
- Review these VisitDallas policies and procedures for completeness and reasonableness and request VisitDallas amends any aspects that are not considered sufficient
- Obtain underlying source documentation used by VisitDallas to produce metrics and periodically validate the accuracy of reported information

**Implementation Date**

September 30, 2021

**Responsible Manager**

Director, Department of Convention and Event Services

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**Recommendation IX**

We recommend the Director of CES, in coordination with VisitDallas, works to provide adequate assurance that key metrics such as economic impact, bookings, and consumed activity are independently validated and documented either by an independent consultant/contractor, or CES, on a periodic basis and relevant supporting historical data is retained.

**Management Response / Corrective Action Plan**

Agree  Disagree

We are not able to agree with your recommendation because the recommendation requires additional funding that is not currently budgeted.

**Implementation Date**  
Not applicable

**Responsible Manager**  
Not applicable

**Recommendation X**

We recommend the Director of CES, in coordination with VisitDallas, works to factor in historical results of consumed events when setting Citywide event bookings performance goals.

**Management Response / Corrective Action Plan**

Agree  Disagree

We are not able to agree with your recommendation because it is impractical and not a standard industry practice. We have been unable to find any other convention/visitors' bureau which sets performance goals in this way. The recommendation would also require changes in how VisitDallas operates internally that are beyond the scope of the contract. See discussion of Section 12 of the contract with VisitDallas on the front page of this response.

We do agree that historical performance has value. Historical performance is captured in a national database and used as an evaluative business tool to determine the viability of future and re-bookings. Both CES and VisitDallas already avail themselves of this tool and use it as a practical business tool when making booking decisions.

**Implementation Date**

Not applicable

**Responsible Manager**

Not applicable

**Recommendation XI**

We recommend the Director of CES:

- Develops procedures for data and metrics measuring the success of the Convention Center including retaining proper supporting documentation
- Conducts a documented comparative analysis on a periodic basis of the Convention Center space rental rates

**Management Response / Corrective Action Plan**

Agree  Disagree

We agree with your recommendation. CES will:

- Develop procedures for data and metrics measuring the success of the Convention Center including retaining proper supporting documentation
- Conduct a documented comparative analysis on a periodic basis of the Convention Center space rental rates

**Implementation Date**

Given that at least two years of data will be required to demonstrate sustainability, we will implement this recommendation by September 30, 2021.

**Responsible Manager**

Director, Department of Convention and Event Services

**Recommendation XII**

We recommend the Director of CES implements monitoring of VisitDallas' compensation to ensure that paid compensation is properly documented according to VisitDallas' compensation policies in order to demonstrate compliance with State law related to HOT.

**Management Response / Corrective Action Plan**

Agree  Disagree

We disagree with your recommendation because the recommendation requires changes in how VisitDallas operates internally that are beyond the scope of the contract. See discussion of Section 12 of the contract with VisitDallas on the front page of this response.

**Implementation Date**

Not applicable

**Responsible Manager**

Not applicable

**Recommendation XIII**

We recommend the Director of CES monitors VisitDallas' compensation practices with particular focus on employee incentive compensation adjustments for the actual results of groups/events.

**Management Response / Corrective Action Plan**

Agree  Disagree

We are not able to implement your recommendation since your suggestion does not follow industry standards where incentives are paid when an event is booked, which may be up to 15 years in advance of the actual event. In addition, the recommendation requires changes in how VisitDallas operates internally that are beyond the scope of the contract. See discussion of Section 12 of the contract with VisitDallas on the front page of this response.

**Implementation Date**

Not applicable

**Responsible Manager**

Not applicable

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Empathy | Ethics | Excellence | Equity

**Recommendation XIV**

We recommend the Director of CES monitors VisitDallas' compensation practices with particular focus on the basis for the CEO's annual compensation goals in order to demonstrate compliance with State law related to HOT.

**Management Response / Corrective Action Plan**

Agree  Disagree

We agree with your recommendation. The Director of CES will monitor VisitDallas' compensation practices with particular focus on the basis for the CEO's annual compensation goals in order to demonstrate compliance with State law related to HOT.

**Implementation Date**

September 30, 2020

**Responsible Manager**

Director, Department of Convention and Event Services

**Recommendation XV**

We recommend the Director of CES monitors VisitDallas' expenses to ensure compliance with VisitDallas' Policies and Procedures Manual and State of Texas laws for HOT by analyzing, reviewing, and documenting expenses on a random sample basis within periodic intervals, such as monthly, quarterly or annually. This review should be documented, including the resolution of any non-compliance noted.

**Management Response / Corrective Action Plan**

Agree  Disagree

Although we are not able to implement the specifics of this recommendation, we will periodically perform high level compliance reviews of VisitDallas' expenses using judgmental sampling.

Additionally, we already monitor VisitDallas' expenses. However, our understanding is that the City Auditor wants a much more robust review, which would require changes to VisitDallas' internal operations and financial reports. We would also need to determine if this additional work would require resources, such as City staff or an outside auditor.

**Implementation Date**

Not applicable

**Responsible Manager**

Not applicable

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Empathy | Ethics | Excellence | Equity

**Recommendation XVI**

We recommend the Director of CES requests that VisitDallas strengthens the VisitDallas' Policies and Procedures Manual to provide adequate guidance on allowable expenses to better ensure the City achieves the expected benefit from expenses made from HOT and DTPID funds.

**Management Response / Corrective Action Plan**

Agree  Disagree

We agree with your recommendation. The Director of CES will request that VisitDallas strengthens the VisitDallas' Policies and Procedures Manual to provide adequate guidance on allowable expenses to better ensure the City achieves the expected benefit from expenses made from HOT and DTPID funds.

**Implementation Date**  
September 30, 2021

**Responsible Manager**  
Director, Department of Convention and Event Services

**Recommendation XVII**

We recommend the Director of CES requests VisitDallas complies with State of Texas law for HOT funds by maintaining a separate bank account for HOT funds.

**Management Response / Corrective Action Plan**

Agree  Disagree

We agree with your recommendation. The Director of CES will request VisitDallas complies with State of Texas law for HOT funds by maintaining a separate bank account for HOT funds.

**Implementation Date**  
December 31, 2019

**Responsible Manager**  
Director, Department of Convention and Event Services



**Recommendation-XVIII**

We recommend the Director of ECO requests VisitDallas complies with the DTPID administrative contract with VisitDallas by maintaining a separate bank account for DTPID funds.

**Management Response / Corrective Action Plan**

Agree  Disagree

We agree with your recommendation. The Director of ECO will request VisitDallas comply with the DTPID administrative contract with VisitDallas by maintaining a separate bank account for DTPID funds.

**Implementation Date**

December 31, 2020

**Responsible Manager**

Director, Office of Economic Development

  
\_\_\_\_\_  
Joey Zapata  
Assistant City Manager

C: T.C. Broadnax, City Manager  
Kimberly Bizer Tolbert, Chief of Staff  
Christopher J. Caso, Interim City Attorney  
M. Elizabeth Reich, Chief Financial Officer  
Rosa Fleming, Interim Director, Department of Convention and Event Services  
Courtney Pogue, Director, Office of Economic Development  
Sheri P. Kowalski, City Controller, City Controller's Office  
Robin Bentley, Assistant Director, Department of Economic Development  
Jiroko Rosales, Assistant Director, Department of Economic Development  
Renee Hayden, Internal Control Program Manager, City Controller's Office