



**OFFICE OF THE CITY AUDITOR**  
**COLORADO SPRINGS, COLORADO**

# 12-10 Colorado Springs Convention and Visitors Bureau Contract Audit

May 2012



# OFFICE OF THE CITY AUDITOR COLORADO SPRINGS, COLORADO

## 12-10 Colorado Springs Convention and Visitors Bureau

May 2012

### **Purpose**

The purpose of this audit was to answer questions concerning whether the Convention and Visitors Bureau had used funds provided by the City of Colorado Springs in an efficient, effective, and economical manner. Compliance with the terms of the City contract and reported Return on Investment were also examined. The audit covered calendar year 2010.

### **Highlights**

The Convention and Visitors Bureau (CVB) is funded through membership dues, sponsorships, events, and a portion of the Lodgers and Auto Rental Tax (LART), which is collected and administered by the City of Colorado Springs. The CVB's budgeted revenue for 2010 was estimated at \$2,387,453. Funding from LART was estimated at \$1,783,368, which equated to 74.6% of the budgeted revenue. The LART funding from the City is regulated via an annual service contract between the City and the CVB.

Actual LART collections for 2010 were \$164,880.22 higher than budgeted and the City returned 50% of this over collection to the CVB, per the contract terms. Total CVB funding from the City for 2010 was \$1,865,808.

**Commendable Practice:** In 2010 the CVB was awarded an accreditation from the Destination Marketing Accreditation Program, which is a program developed by Destination Marketing Association International. The accreditation was attained by the CVB due to the achievement of a significant measure of excellence in a wide variety of topics including governance, finance, management, membership, and destination development.

### **Key Results**

- The City was compliant with the payment schedule and amounts outlined in the Contract.

### **Management Response**

The Convention and Visitors Bureau as well as City management generally agree with the observations and recommendations presented in the report.

Detailed responses by both the Convention and Visitors Bureau along with City management are included in the report.

### **Recommendations**

1. We recommend that the CVB consider presenting the City with a wrap-up variance report which identifies all line items that need approval. We also recommend that future contracts be more specific with regards to approval methods and time frames. Further, we recommend that the City and the CVB mutually determine if the Contract could be simplified to eliminate unnecessary terms.
2. For future contracts, we recommend the City reduce and refine the required number of performance indicators to those that are most relevant to demonstrating the effectiveness of the CVB in performing its primary mission. Reporting that includes year over year trends may be more useful than single year results compared to the plan for a given year.

For those performance indicators reported, the CVB

*(Continued on page 2)*

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*(Highlights continued from page 1)*

- The CVB tracks a wide variety of performance measures, most of which are used for internal management purposes. Some of these indicators are listed in the Contract and must be reported to City Council on a regular basis. Our review found that not all performance measures were being reported as directed in the Contract.
- The base numbers used by the CVB in calculating their economic impact appeared to be accurately tracked and adequately documented. The multipliers used to calculate the impact of various groups or visitor types were conservative estimates based on industry standards. Benchmarking showed that similar methods of tracking and reporting impact were in use by other Bureaus.
- We found that the CVB was consistent with the industry standard estimates of visitor expenditures used to develop the impacts of various classifications of visitor.

**Conclusion:** We conclude that overall, the CVB was utilizing the funds provided by the City to provide visitor and convention promotion services in an efficient, effective, and economical manner as outlined in the Contract. We did however identify several status reporting issues, which are listed in the Observations, Recommendations, and Responses section of this report.

**Observations:**

1. Contract terms were not clear and some budget deviations were not reported.
2. Performance indicators were not reported according to the contract terms and could be improved.
3. City oversight of the contract could be improved.

*(Recommendations continued from page 1)*

- should consider including a definition of how each factor was calculated. We recommend that the CVB adhere to all reporting requirements listed in the Contract.
3. We recommend that the Economic Vitality and Innovation Division assume responsibility for this contract, including the implementation of the recommendations contained in this report.



# OFFICE OF THE CITY AUDITOR PUBLIC REPORT

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Date: May 9, 2012

To: President Hente, President Pro Tem Martin, Members of City Council

Re: 12-10 Colorado Springs Convention and Visitors Bureau

We performed an audit of the Colorado Springs Convention and Visitors Bureau (the CVB). The purpose of this audit was to answer questions concerning use of public funds provided to the CVB as requested by members of City Council in August 2010. We also reviewed the return on investment as reported to City Council and we evaluated whether the CVB was providing services in compliance with the contract established January 30, 2010. The audit covered the period January 1, 2010 through December 31, 2010.

We conclude that overall, the CVB was using the City contributions to provide visitor and convention promotion services in an efficient, effective, and economical manner as specified in the annual Service Contract. In addition, we believe the economic impact estimates were within the guidelines of the CVB's revenue booking policy. We did note areas of concern surrounding communications and reporting between the CVB and the City while reviewing the Annual Contract for compliance, and those areas are detailed in the attached report.

We would like to thank the CVB for their assistance during this audit.

As always, feel free to contact me if you have any questions.

Sincerely,

Denny Nester, MBA, CPA, CIA, CGFM, CFE, CGAP  
City Auditor

Cc: Doug Price, President and CEO, Convention and Visitors Bureau  
Jim Cassidy, CFO, Convention and Visitors Bureau  
Kara Skinner, Fiscal Planning Manager  
Steve Cox, Chief of Economic Vitality and Innovation



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## REPORT DETAILS

### PURPOSE AND SCOPE

We performed an audit of the Colorado Springs Convention and Visitors Bureau (the CVB). The purpose of this audit was to answer questions raised by City Council concerning whether the CVB had used funds provided by the City of Colorado Springs (the City) in an efficient, effective, and economical manner. We examined the return on investment as reported to City Council to verify the accuracy of the information reported. Compliance with the terms of the City contract established January 30, 2010 was also evaluated. The audit covered the period January 1, 2010 through December 31, 2010.

### BACKGROUND

The CVB was incorporated in 1980 as a private non-profit corporation to promote Colorado Springs and the Pikes Peak Region as a year-round visitor destination. The CVB engages in activities that include, but are not limited to, a national advertising plan, sales missions, operating a visitor information center, involvement in support of local events and local calendars intended to drive tourism and support local economic development.

The CVB is governed by a board of directors and a separate board of advisors. The CVB has a current staffing level of 16 full-time and two part-time individuals. They also have the support of more than 40 volunteers.

The CVB is funded through membership dues, sponsorships, events, and a portion of the Lodgers and Auto Rental Tax (LART), which is collected and administered by the City of Colorado Springs. The CVB's budgeted revenue for 2010 was estimated at \$2,387,453. Funding from LART was estimated at \$1,783,368, which equated to 74.6% of the budgeted revenue. The LART funding from the City is regulated via an annual service contract (the Contract) between the City and the CVB.

The most recent prior audit of the CVB performed on behalf of the City was in 2002 and focused on contract compliance. The CVB is also subject to routine external financial statement audits as a requirement of the Contract.

We would like to acknowledge that the CVB staff was very receptive and helpful during the course of our fieldwork.

This audit was divided into two areas:

1. Contract compliance
2. Review of performance measures

### CONTRACT COMPLIANCE

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The Contract includes details of the funding arrangement between the CVB and the City as well as specific reporting requirements. The City was compliant with the payment schedule and amounts

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outlined in the Contract. Per the funding agreement, the City agreed to pay the CVB \$1,783,368 for services from the LART fund. The funding agreement also stated that in the event total 2010 revenues to the LART fund were less than the budgeted amount of \$3,566,735, the CVB would pay the City back one-half of the difference between budgeted and actual collection amounts. If the LART funds were more than budgeted, the City would pay the CVB one-half of the difference between the collections and budget for LART. Actual LART collections for 2010 were \$164,880.22 higher than budgeted. The City paid one-half of that amount, or \$82,440.11, to the CVB as shown below.

<b>2010 Lodgers and Automobile Rental Tax Fund Collections</b>	
Total Budgeted LART Collections	\$ 3,566,735.00
Total Actual LART Collections	\$ 3,731,615.22
Difference	\$ 164,880.22

<b>Payment Totals for the 2010 Convention and Visitors Bureau Contract</b>	
Initial Contract amount paid to CVB	\$ 1,783,368.00
1/2 LART Over-collection	\$ 82,440.11
Total Paid to CVB per 2010 Contract	\$ 1,865,808.11

### PERFORMANCE MEASURES

There are several sources of information concerning the economic impact of tourism and visitor promotion on the economy. It is clear from these studies that this industry is important for the State of Colorado and the City. Total visitor spending in the Pikes Peak region is estimated at \$1.350 billion for 2010. One analysis showed that eliminating the \$12 million Colorado state funding for tourism in 1993 resulted in a loss of \$1.4 billion per year in revenue.<sup>1</sup>

The challenge for the local CVB is to report the impact of their efforts to promote Colorado Springs as a visitor destination. The CVB tracks a wide variety of performance measures, most of which are used for internal management purposes. Some of these indicators are listed in the Contract and must be reported to City Council on a regular basis. Our review found that not all performance measures were being reported as specified in the Contract. See the Observation section for details.

We noted that the base numbers (number of events, number of visitor inquiries, number of rooms booked, etc.) used by the CVB in calculating their economic impact appeared to be accurately tracked and adequately documented. The multipliers used to calculate the impact of various groups or visitor types were conservative estimates based on industry standards. When we contacted other Convention and Visitors Bureaus, we found that they used similar methods of tracking and reporting impact.

We reviewed the CVB's economic impact calculations and verified that their totals were consistent with their internal policies for booking revenue estimates. We sampled 5% of the events comprising the Group Sales and Marketing Activities to provide reasonable assurance that the CVB was calculating the economic impact of each event properly as well as meeting their minimum standards for level of contact

<sup>1</sup> *The Rise and Fall of Colorado Tourism*, Dr. Bill Siegel, Longwoods International

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with each client. We found that the CVB was consistent with the industry standard estimates of visitor expenditures used to develop the impacts of various classifications of visitor.

It is important to note that the CVB changed their economic impact reporting methods in the first quarter 2011. They eliminated several categories and revised their calculation of Visitor Inquiry impact to better reflect those areas that are directly related to the CVB's performance and make the results more conservative. The CVB's calculation for Total Economic Impact as reported and under the revised method is shown below.

Category	As reported	Revised
Group Sales and Marketing Activities	\$ 92,985,321	\$ 92,985,321
Visitor Inquiries	\$172,211,490	\$ 94,764,978
Public Relations	\$ 75,599,480	0
New Membership	\$ 209,632	0
LART Total Receipts	\$ 3,538,848	0
<b>Total Economic Impact 2010</b>	<b>\$344,544,771</b>	<b>\$ 187,750,299</b>

The CVB is a member of Destination Marketing Association International (DMAI), and the DMAI recommends several methods for calculating Return on Investment (ROI). The CVB's methodology for computing the City's economic return for each dollar invested consisted of dividing the Total Economic Impact in 2010 by the Total Dollars paid by the City. The alternate method for computing ROI would consist of dividing the Total Economic Impact in 2010 by the Total Operating Cost in 2010. It is important to note that using only the City funding as the denominator can make it appear as if the other CVB funding had no direct economic impact. Please see the comparison below;

**Method 1 (CVB current method)**

**Total Impact (revised) \$187,750,299 / Total LART Received \$1,865,808**

**= Economic Return per Dollar \$100.63**

**Method 2 (Alternate DMAI approved method)**

**Total Impact (revised) \$187,750,299 / Total Operating Expense \$2,516,424**

**= Economic Return per Dollar \$74.61**

Both of these calculations are estimates of the total impact of visitors to the region who can be identified as receiving some assistance from the CVB. There are other studies of economic impact that use different sources of information making it difficult to compare results. For example, a study commissioned by the State of Colorado reports that only \$7.60 is returned per dollar invested in Tourism promotion, but this reflects tax receipts from visitors, not total spending. During our review it was noted that the CVB has modified and refined their methodology over time to make their estimates more conservative. We concur with this approach.



**COMMENDABLE PRACTICES**

In 2010 the CVB was awarded an accreditation from the Destination Marketing Accreditation Program, which is a program developed by Destination Marketing Association International. The accreditation was attained by the CVB due to the achievement of a significant measure of excellence in a wide variety of topics including governance, finance, management, membership, and destination development.

**CONCLUSION**

We conclude that overall, the CVB was utilizing the funds provided by the City in an efficient, effective, and economical manner to provide visitor and convention promotion services as outlined in the Contract. We did however identify status reporting issues, which are listed in the Observations, Recommendations, and Responses section of this report.

**OBSERVATIONS, RECOMMENDATIONS AND RESPONSES**

As part of our audit, we reviewed the 2010 Contract for Services between the City and the CVB. We tested for compliance with the terms of the Contract. In addition to verifying that the City paid the CVB the appropriate amounts at the appropriate times, we also reviewed the 2010 Expenditure Budget set forth in the Contract and the Performance Indicators listed in the Contract. We have listed our areas of concern below.

**CONTRACT TERMS WERE NOT CLEAR AND SOME BUDGET DEVIATIONS WERE NOT REPORTED**

Section 4 of the Contract states that “Any deviation in any line item expenditure in excess of \$5,000 from the budget shall require approval by the City Manager or designee.” We compared the 2010 year-end actual expenditures to the 2010 budget to determine if any line items were in excess of \$5,000.

- a. After comparing the 2010 year-end actual expenditures to the 2010 budget, we noted that four accounts were over the budgeted amount in excess of \$5,000. Of the four accounts, only two of the accounts were specifically pointed out to the City designee (the Budget Office) as being in excess in the December 2010 update. Although all four accounts over budget would have been visible in the 2010 Audited Financial Statements provided to the City in March, only two accounts were specifically identified to be approved.
- b. The Contract did not specify a time frame for the actual approval of line item expenditure deviations in excess of \$5,000. It was unclear in the Contract as to whether expense deviations were to be approved monthly or annually. The timeframe for City response to the approval request was also unclear.
- c. The CVB submitted variance reports to the City on a monthly basis, but the CVB never received written or verbal approval for the two accounts that were identified as being in excess of \$5,000. The CVB stated that a non-response from the City was deemed acceptance to any requests.

None of the deviations were significant financially or caused the CVB to fail in any of its performance goals.

**AUDITOR’S RECOMMENDATION**

We recommend that the CVB consider presenting the City with a wrap-up variance report, which identifies all line items that need approval. We also recommend that future contracts be more specific with regards to approval methods and time frames. Further, we recommend that the City and the CVB mutually determine if the Contract could be simplified to eliminate unnecessary terms.

**CVB RESPONSE**

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We agree with the recommendation. For 2011, a final post-audit variance report was prepared and submitted to the City on or about March 27, 2012. The City and the CVB have developed a revised Contract for Services for 2012 which clarifies the reporting requirements.

The CVB has, as noted in this report, submitted extensive information to the City including performance information not required by contract. The CVB uses various Destination Marketing Association International performance reporting standards as standard industry measures of activity and performance.

**CITY RESPONSE**

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We agree with the recommendation. As noted above by the CVB, the City and the CVB have developed a revised contract for services for 2012 which addresses the Auditor's recommendations.

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**PERFORMANCE INDICATORS WERE NOT REPORTED ACCORDING TO THE CONTRACT TERMS AND COULD BE IMPROVED**

Part of our review of contract compliance required that we evaluate the measurement and effectiveness of the performance indicators identified in the Contract. The performance indicators are essentially targets or goals identified by the CVB for a particular period. There were a total of 12 performance indicators in the 2010 Contract.

Section 5.e of the Contract states that the CVB “shall submit to the City Manager or designee a report of program accomplishments under the terms of this contract on a quarterly basis.” The section also states that “the report will include a presentation of year-to-date progress in each of the performance indicators.”

We tested to determine whether all 12 performance indicators were included in the quarterly reports submitted to the City.

<b>Performance Measures From Exhibit G of the Contract</b>	<b>Quarterly Report Status</b>
Number of trade shows attended by sales personnel	Not Reported
Number of hours of volunteers in visitor centers	Not Reported
Number of Bureau members	Not Reported
Number of member functions hosted by Bureau	Not Reported
Dollars spent on advertising and marketing	Not Reported
Estimated revenue generated per trade show	Partially Reported
Estimated number of days most leisure travelers in destination	Not applicable, Not Reported*
Estimated room nights booked	Partially Reported
Total estimated revenue generated by group sales and marketing activities	Partially Reported
Total estimated income resulting from membership investment fees, programs and miscellaneous revenue	Partially Reported
Total estimated revenue generated as a result of national advertising program	Reported
City economic return for each dollar invested with CVB	Not Reported

\*The Estimated Days in destination is an industry standard number and is not a reflection of CVB efforts. It is not an applicable measure of their performance.

We found that only one indicator was completely reported. Although only one indicator was being properly reported in the quarterly status updates, the CVB was tracking all 12 indicators for internal use. The absence of the indicators in the quarterly reports appeared to be an oversight of contract requirements and was not brought to the CVB's attention by the City.

Total economic impact was reported as the sum of the estimated revenue generated from the performance measures reported or partially reported.

The CVB includes their detailed marketing plan as an attachment to the Contract. This plan includes useful information on how they plan to achieve their goals. It does not, however, explicitly explain or define the various performance measurement calculations. The quarterly reports provided to the City also did not contain explanations of the performance measures that would be helpful to the recipient's understanding of the information.

The 2010 quarterly reports did contain several indicators which were not specified in Exhibit G, but were useful in evaluating the organization's performance. These included Mail, Email and Internet Inquiries, requests for Visitor's Guides, number of visitors to the Visitor Center and year to date collections of the Lodging and Auto Rental Tax (LART).

#### AUDITOR'S RECOMMENDATION

For future contracts, we recommend the City reduce and refine the required number of performance indicators to those that are most relevant to demonstrating the effectiveness of the CVB in performing its primary mission. Reporting that includes year over year trends may be more useful than single year results compared to the plan for a given year.

For those performance indicators reported, the CVB should consider including a definition of how each factor was calculated. We recommend that the CVB adhere to all reporting requirements listed in the Contract.

#### CVB RESPONSE

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We agree with the recommendation. The City and the CVB have developed a revised Contract for Services for 2012 which clarifies the reporting requirements, reducing the performance measures to those which are clearly measurable. The CVB will report those items quarterly as outlined in the contract and will include an outline of how those performance measures are defined and calculated. The CVB and City will determine the value of reporting year over year trends versus single year results compared to plan.

#### CITY RESPONSE

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We agree with the recommendation. As noted above by the CVB, the City and the CVB have clarified the reporting requirements and reduced the performance measures. For the 2012 contract, the Auditor's recommendation has been incorporated.

**CITY OVERSIGHT OF THE CONTRACT COULD BE IMPROVED**

Historically the CVB contract has been reviewed and administered by the City’s Budget Office, as the designee of the City Manager. The CVB provides a draft of the contract language and suggests changes each year, which were approved by the Budget Division prior to being presented to City Council.

Due to staff limitations, the Budget Office did not have the resources to provide feedback on the quarterly reports or review the monthly budget variance memos. In 2011, the City’s form of government was changed to a Council-Mayor format and the City Manager position was eliminated. The Mayor’s office created a new Office of Economic Vitality. The stated responsibility of this office is for “developing, implementing, and managing economic vitality programs that contribute to a stronger local economy”. Given the potential for positive economic impact on the community as a result of the CVB funding, it is synergistic to change the oversight responsibility from the Budget Office to the Economic Vitality and Innovation Division of the City.

**AUDITOR’S RECOMMENDATION**

We recommend that the Economic Vitality and Innovation Division assume responsibility for this contract, including the implementation of the recommendations contained in this report.

**CVB RESPONSE**

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We do not disagree with the recommendation and will follow City direction on whom to report contract results to and whom to work with on future contracts. Our work with various City departments and personnel has been positive in the past and we will continue to work positively with the City to provide quality promotional services into the future.

**CITY RESPONSE**

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We agree with the recommendation. The Budget Office has had a very positive working relationship with the CVB staff; we agree that limited staff and increased workloads in the Budget Office made it difficult to administer the contract. The CVB contract is directly related to the goals of the Economic Vitality and Innovation Department and should be administered by that Department.

# CITY COUNCIL'S OFFICE OF THE CITY AUDITOR

## COLORADO SPRINGS, COLORADO

### **About our Office**

The mission of the Office of the City Auditor is to provide City Council with an independent, objective and comprehensive auditing program for operations of the City. Our auditing program includes:

- Evaluating the adequacy of financial controls, records and operations
- Evaluating the effectiveness and efficiency of organizational operations
- Providing Council, management and employees objective analysis, appraisals, and recommendations for improving systems and activities

The Office of the City Auditor is responsible for auditing the systems used by the City of Colorado Springs and its enterprises, including Colorado Springs Utilities and Memorial Health System. We perform a variety of audits for these entities, including financial audits, performance audits, contract audits, construction audits, and information system audits. We also perform follow-up on a periodic basis to monitor and ensure management actions have been effectively implemented.

### **Authorization and Organizational Placement**

Our audits are conducted under the authority of Chapter 1, Article 2, Part 7 of the Colorado Springs City Code, and more specifically parts 703, 705 and 706 of the Code. The Office of the City Auditor is structured in a manner to provide organizational independence from the entities it audits. This independence is accomplished by the City Auditor being appointed by and reporting directly to the City Council.

### **Audit Standards**

The audit will be planned in a manner that meets or exceeds the International Standards for the Professional Practice of Internal Auditing, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors, with the exception of the requirements under standards 1312 and 1321 to obtain an external quality assurance review once every five years. We do not believe this non-compliance impacted the quality of our audit.

The audit will include interviews with appropriate personnel and such tests of records and other supporting documentation as deemed necessary in the circumstances. We will review the internal control structure and compliance tests. Sufficient competent evidential matter was gathered to support our conclusions.