

**Chamber of Commerce  
Contract Compliance**

**City of Tulsa  
Internal Auditing  
June 2008**



# Chamber of Commerce Contract Compliance



## City of Tulsa Internal Auditing

  
\_\_\_\_\_  
Ron Maxwell, CIA, CFE  
Chief Internal Auditor

  
\_\_\_\_\_  
Phil Wood, CIA, CFA  
City Auditor

**AUDIT TEAM:**  
Cathy Criswell, CIA, CPA  
Kelly Brader, Auditor in Charge  
Tina McIntosh  
Seth Potter

# **SUMMARY OF AUDIT PROJECT**

## **Scope:**

Review compliance with the contract between the City of Tulsa and the Metropolitan Tulsa Chamber of Commerce.

## **Objectives:**

- Determine whether both parties comply with contract terms
- Determine if payments to the Chamber are in accordance with contract terms
- Evaluate ongoing contract compliance monitoring

**Overall Risk Exposure:** (Low, Moderate, High)  
**Moderate**

**Conclusion:** (Satisfactory, Satisfactory-needs improvement, or Unsatisfactory)  
**Satisfactory-needs improvement**

## **Significant Project Results:**

- Management fees were paid in accordance with contract requirements.
- Performance measures are insufficient.
- Contract Administrator does not have the necessary authority, experience or training for working in the economic development and tourism industries.
- Quarterly reports are submitted timely, but do not include all required data.
- Established contract methodologies or contractor selection criteria are not utilized when awarding the economic development contract.

## **Responsible Parties:**

- Michael Kier, Director, Finance Department
- Mike Bunney, Director, Economic Development

## **INTRODUCTION**

Economic development is important to ensure sustainability of the City by increasing or creating new employment opportunities; increasing the tax base; and, most importantly, the quality of life for the Citizens of Tulsa. Convention and visitor activities are an integral part of economic development. Some of the benefits of tourism are direct employment in hotels, restaurants, retail establishment and transportation. Indirectly it supports industries and professions which supply related goods and services.

The City levies an excise tax of 5% on hotel room revenues. The ordinance requires 38.4% of these tax revenues be deposited into an Economic Development Fund to be used for economic development purposes. An Economic Development Commission is established to oversee expenditure of the funds.

The City of Tulsa contracts with the Metropolitan Tulsa Chamber of Commerce (MTCC), on behalf of the Economic Development Commission. MTCC is required to develop and implement an effective strategy to enhance long term economic growth, diversification of Tulsa and promotion of the use of convention facilities and tourism. MTCC delivers most of these services through its two divisions: Economic Development and the Convention and Visitors Bureau (CVB).

# **Audit Findings, Recommendations and Management Responses**

## **AUDIT FINDING 1**

Contractor selection criteria are not used when awarding the economic development contract.

### **SUMMARY:**

It has been a long tradition, dating back to the early 1900's that the City has contracted with MTCC for economic development purposes. City management generally uses a contract awarding methodology prescribed by executive order for selected consultants. However, this type of methodology is not applied when awarding the economic development contract. Without exploring available options for the economic development contract or using the established contract methodology, there is less assurance the value of the services provided is equivalent to the amount of funding expended.

### **RECOMMENDATIONS:**

Stakeholders should use an established contract methodology or contract selection criteria for selecting future economic development contractor(s). Continued funding of MTCC may be the best option available, but without exploring other options, stakeholders cannot be sure.

### **RESPONSE:**

Decline. While the processes outlined in the recommendation are sound, until potential alternate providers are identified the use of those processes will be ineffective.

### **AUDITOR COMMENT:**

Decline of the recommendation accepts risk that alternative providers may not be identified and funding expended may not maximize service provided.

## **AUDIT FINDING 2**

The performance measures in the fiscal year 2007 MTCC contract are not clear or concise.

### **SUMMARY:**

The MTCC contract contains several performance requirements, yet only two are quantifiable performance measures. Furthermore, the contract does not reflect an economic development mission for the City.

Setting meaningful and quantifiable performance measures will allow management to analyze the success of programs, costs, progress, and accountability. City managers need precise performance measures to effectively assess the value of services provided by this contract. This information will focus on essential economic activity and growth.

The Economic Development Commission selected a consultant to assist in updating the economic development contract. Performance measurement was one of the areas evaluated by the contractor.

### **RECOMMENDATION:**

Management should create an economic development mission or goal to use as a guide when establishing performance measures in future contracts. Management should also consider including in the contract that any amendments or changes to marketing plans and budgets be presented by the contractor to the contract administrator prior to changes being made.

Internal Auditing supports the following recommendation made in the consultant's draft report:

The contractor should continue reporting new total conventions booked, however some additional categories should be included:

- Convention center leads and bookings
- Convention hotel leads and bookings
- Sports events leads, development and bookings
- New group tour programs leads and bookings
- Leisure visitors produced
- Positive media publicity impressions produced
- Convention services quality and effectiveness
- Sales calls made & client contacts made
- Trade shows attended
- General marketing
- Website
- Visitor services
- Tour operator group sales leads and bookings
- Total sales leads generated
- Familiarization tours conducted

- Site inspections (individual trips)
- Convention services
- Benchmarking activities by month, quarter, and year against past performances

**RESPONSE:**

Concur

### **AUDIT FINDING 3**

MTCC did not provide information about how actual expenditures compared to budget.

#### **SUMMARY:**

The MTCC contract requires performance reports be submitted 30 days after each calendar quarter and 60 days after the end of the fiscal year. MTCC submits performance reports and marketing plans timely and includes all of the required information, with the exception of budgetary versus actual expenditures data. MTCC senior management stated they did not include the actual expenditures versus budget because it was never required in prior contracts. In addition, MTCC's accounting records and budgets are based on a calendar year, while the City's are on a fiscal year. MTCC relies on the City's contract administrator to oversee this information.

Communication between partners is essential for a partnership to be successful, but communication is even more important when it involves public funds. When funding any activity, management should ensure there is cost justification, City needs are met and ensure public funds are used appropriately.

#### **RECOMMENDATIONS:**

The economic development contract should continue to require actual expenditures versus budget in performance reports. The contract administrator should ensure this information is received and reviewed.

#### **RESPONSE:**

Concur

## **AUDIT FINDING 4**

Changes to the marketing plan are not communicated to the contract administrator.

### **SUMMARY:**

MTCC prepares a marketing plan of City funding for proposed activities during the contract period. Some of the proposed activities also involve private funding obtained by MTCC. The marketing plan is provided to the City contract administrator who uses the marketing plan for review of reimbursement requests from MTCC. If MTCC is not successful in securing enough private funding for an activity, they may use funds from other projects to fund the activity. When these changes occur, the City's contract administrator only learns of the change when reimbursement requests for an event are received. For example, in the FY07 marketing plan, \$10,000 was earmarked as the City's portion for the LPGA Tournament and \$15,000 from private partners. MTCC was unsuccessful in securing sufficient funding from private partners, so the City paid \$25,000.

Internal Auditing reviewed the marketing plan and discovered several mathematical errors and some activities listed twice. The contract administrator does not review or verify the plan for accuracy. The contract administrator uses the marketing plan for review of reimbursement requests from MTCC.

Communication between partners is important for a partnership to be successful, but when the partnership involves public funds, communication becomes essential.

### **RECOMMENDATIONS:**

Management should consider including in the contract that any significant amendments or changes to the marketing plan be discussed with and provided to the contract administrator in writing. Management should set the change amount threshold, rather than allowing MTCC to make this determination.

If the marketing plan is used when reviewing reimbursement requests the contract administrator should verify clerical accuracy and ensure totals do not exceed the budget.

### **RESPONSE:**

Concur

## **AUDIT FINDING 5**

New sales contacts and leads goals were not met.

### **SUMMARY:**

The FY2007 contract requires MTCC to develop and implement an increasingly, effective and comprehensive marketing program which results in the identification of new and expanded markets. The goal related to this was to achieve 300 new sales, contacts and leads. MTCC reported they made 260 new sales, contacts, and leads.

The Economic Development Commission selected a consultant to assist in updating the economic development contract. New sales contacts and leads were addressed in the consultant's draft report.

### **RECOMMENDATIONS:**

The contract administrator should monitor contractor results and offer assistance or guidance when necessary. Management should continue to include new sales contacts and leads with some modifications.

Internal Auditing supports the following recommendations made in the draft consultants report:

- Create a more comprehensive tracking report to consistently evaluate the Tulsa convention and visitor bureau's ongoing success, measuring key specific marketing activity and productivity it produces.
- Track and report all sales calls made
- Tour operator group sales
- Total sales generated
- Benchmark sales by month, quarter, and year against past performances

### **RESPONSE:**

Concur

## **AUDIT FINDING 6**

Contract administrator does not have a background in economic development and CVB activities.

### **SUMMARY:**

According to the contract all correspondence from MTCC is to be submitted to a contract administrator. The contract administrator receives correspondence on a regular basis from the contractor and is the official repository for all contract documentation. Although MTCC submits performance reports they are not reviewed to ensure performance measures are being met.

The contract administrator reviews all MTCC payment requests, approves and submits them for payment. The contract administrator attempts to resolve most issues related to payment, but submits some issues to senior management for resolution.

### **RECOMMENDATIONS:**

Management should consider placing a senior manager as the contract administrator. This individual should have the expertise and authority to ensure contract compliance, the ability to mitigate risks in a timely manner, ensure the City's needs are met, and to assist City leaders in developing future activities and areas of interest which the City will fund. Processing of invoices should be assigned to a clerical support position.

### **RESPONSE:**

Concur with modification. A new contract administrator will be assigned. The administrator will have access to a senior manager and the Economic Development Commission as necessary to effect contract compliance.

## **Report Distribution List**

Mayor  
Councilor, District 1  
Councilor, District 2  
Councilor, District 3  
Councilor, District 4  
Councilor, District 5  
Councilor, District 6  
Councilor, District 7  
Councilor, District 8  
Councilor, District 9  
Budget & Capital Planning Division  
Chief of Staff  
City Auditor  
City Attorney  
Council Administrator  
Council Secretary  
Director, Economic Development  
Economic Development Commission Chairperson  
Finance Director  
General Counsel  
Senior Administrative Services Officer - Finance  
Mayor's Audit Advisory Committee  
Metropolitan Tulsa Chamber of Commerce