



**AU18-001 Contract Compliance -  
Corpus Christi Convention and Visitors Bureau**

**City Auditor's Office  
Kimberly L. Houston  
Interim City Auditor**

**January 7, 2019**

## Executive Summary

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In accordance with the 2018 Annual Audit Plan, we conducted an audit of the City's contract with the Corpus Christi Convention and Visitors Bureau (CCCVB).

### **Audit Objectives**

Is the City's relationship and oversight structure with the CCCVB comparable to that of peer cities?

Is there adequate oversight over the CCCVB's use of HOT revenues and performance of driving overnight visitors to Corpus Christi?

### **Audit Conclusion**

In general, the City's relationship and oversight structure is comparable to peer cities; however, greater contract oversight is needed over the CCCVB's use of HOT revenues and performance measures.

City management agrees with this report. See management's responses following each issue. Management's response can be seen in its entirety in Appendix B.

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## Introduction

In accordance with the 2018 Annual Audit Plan, we conducted a contract compliance audit of the City of Corpus Christi’s (City) consulting services agreement with Corpus Christi Convention and Visitors Bureau (CCCVB).

### Background

As authorized by the Tax Code and ratified through City ordinance, the City imposes a 9% hotel occupancy tax (HOT) on the costs of hotel rooms. Use of revenue from HOT may only be used to promote tourism and the convention and hotel industry. The Tax Code also outlines other uses such as capital improvements to convention center facilities, advertising, promotion of the arts, and historical preservation. Exhibit 1 below shows the 10-year history of HOT tax revenue for the City.

Exhibit 1 HOT Tax revenue for FY2009 – FY2018

Budget v. Actual Total HOT (9%)			
Fiscal Year	Budget	Actual	Variance
FY2018	15,659,912	16,076,435	416,523
FY2017	15,503,368	15,315,212	(188,156)
FY2016	15,270,697	14,769,247	(501,450)
FY2015	15,073,561	15,110,411	36,850
FY2014	16,634,029	17,066,868	432,839
FY2013	9,271,732	10,280,352	1,008,620
FY2012	8,107,240	9,339,673	1,232,433
FY2011	7,780,888	8,344,430	563,542
FY2010	8,059,736	7,719,075	(340,661)
FY2009	10,437,908	10,127,333	(310,575)

Source: FY2009- FY2017 CAFRs and FY2018 Adopted Budget. FY2014 is 14-month fiscal year. FY2018 Estimate from Infor Financial System

Two percent (2%) of the HOT is dedicated to the repayment of bonds used for expansion and improvement of the City’s convention center complex. The remaining 7% is utilized to fund certain Parks and Recreation activities and the CCCVB. This audit will only focus on CCCVB funding.

The City has a consulting services agreement with the CCCVB “for the purpose of promoting convention and visitor activity in the Corpus Christi bay area.” Through this agreement the City expects to attract more overnight visitors and conventioners with the added benefit of increased sales and HOT.

Since October 2015, 44% of the 7% HOT for the April – March period preceding the October fiscal year start is budgeted as CCCVBs annual funding. The City provides an additional \$200,000 of funding through the Convention Events Fund (CEF) to aid in securing conventions. However, this fund will not be reviewed in this report. Exhibit 2 shows the City’s funding for CCCVB for the past 10-years.

Exhibit 2 Annual HOT Revenue Trending

City CCCVB Budget			
Fiscal Year	Budget	Actual	Variance
FY2018	5,338,959	5,338,959	-
FY2017	5,226,091	5,226,091	-
FY2016	4,960,000	4,905,114	(54,886)
FY2015	4,960,000	4,959,742	(258)
FY2014	5,509,120	5,464,184	(44,936)
FY2013	4,046,662	3,888,662	(158,000)
FY2012	3,232,044	3,209,544	(22,500)
FY2011	2,486,122	2,479,122	(7,000)
FY2010	3,200,000	3,030,000	(170,000)
FY2009	3,138,060	3,301,660	163,600

Source: FY2009- FY2017 CAFR. FY2014 is 14-month fiscal year. Unaudited  
 FY2018 numbers are from Infor Financial System.

**Audit Objective**

The objectives for this audit are:

1. *Is the City’s relationship and oversight structure with the CCCVB comparable to that of peer cities?*
2. *Is there adequate oversight over the CCCVB’s use of HOT revenues and performance of driving overnight visitors to Corpus Christi?*

**Audit Conclusion**

In general, the City’s relationship and oversight structure is comparable to peer cities; however, greater contract oversight is needed over the CCCVB’s use of HOT revenues and performance measures.

**Management and Auditor Responsibility**

City management is responsible for establishing and maintaining a system of internal controls to ensure assets are safeguarded, financial (and non-financial) activity is accurately reported and reliable, and management and employees are in compliance with laws, regulations, and agreements with other entities.

This audit report provides independent, objective analysis, recommendations, and information concerning the activities reviewed. The report is a tool to help management discern and implement specific improvements. The report is not an appraisal or rating of management.

We conducted this performance audit 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit steps were developed to provide sufficient evidence to answer the objectives of this audit. Our methodology can be found in Appendix A - Audit Scope and Methodology.

**Staff Acknowledgement**

Kimberly Houston, Interim City Auditor  
Lauren Campos, Auditor  
Sarah Arroyo, Assistant Auditor

## Audit Results and Recommendations

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### A. Contract Compliance

#### A.01 City Contract Management Policies

Condition: City policy does not exist to assess and identify contracts requiring enhanced monitoring methods such as high-dollar or high-risk agreements or the formal appointment of a contract manager for every City contract. No documented procedures are in place for monitoring compliance of the Corpus Christi Convention and Visitor's Bureau's (CCCVB) performance of their consulting services agreement with the City.

Although contract oversight for the CCCVB agreement has generally resided with an Assistant City Manager and/or the City's Business Liaison, there is no designated person in the CCCVB contract or through other median assigning contract management and monitoring.

For the past five years, the City has paid approximately \$5 million dollars annually to the CCCVB. This organization is highly visible through their promotion of the City as a tourist destination, business meeting site, and film commission. Due to these factors, this contract should require enhanced monitoring.

Criteria: The State of Texas' *Procurement and Contract Management Guide* requires enhanced monitoring for high-dollar and high-risk contracts. Enhanced monitoring includes, but is not limited to, frequency of site visits, contractor meetings, documentation requirements deemed necessary to assess the progress of the contract's achievement of the identified goals and outcomes, and the establishment of responses to assessments of unfulfillment of unsatisfactory performance. Increased monitoring is required for contracts exceeding \$1 million.

**Recommendation:** City Management should:

- 1) Develop and document a City policy requiring enhanced monitoring for high-risk and high-dollar contracts. Include in the policy parameters to judge contracts against to help determine its high-risk status and establish a dollar threshold to identify high-dollar contracts.
- 2) Require all City contracts to have an assigned contract manager.

**Management Response:**

<i>Agree/Disagree</i>	<i>Action Plan:</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	1) Develop City policy regarding contract management	Kim Baker, Assistant Director of Finance (Procurement)	January 2020
	2) Clearly assign contract managers	Department Directors	January 2020

**A.02 Consulting Services Agreement Compliance**

Condition: No procedures exist to monitor the CCCVB’s contract compliance. We found compliance in four (4) of eleven (11) key contract areas. Greater oversight is needed over content in accounting records, preparation of business plans, content and record maintenance of performance reports, insurance requirements, and assignment of board members. A summary of these contract areas and their respective statuses are shown in Exhibit 3.

Exhibit 3 Compliance Status Table

CCCVB Consulting Services Compliance Status			
Contract Terms			Status
1	2.06 4.04	<i>Annual Financial Audit Report</i> Provide an independent audit within ninety (90) days after the end of each fiscal year.	Y
2	3.01	Accounting records to be maintained in a form approved by the City's Director of Finance.	N
3	4.01	Business Plan Provide City Manager with a Business/Marketing Plan that outlines the overall objectives of the CCCVB by July 31st of each year. The Plan must describe the plan of action for the upcoming year, including strategic markets; a line item budget; and significant initiatives.	N
4	4.01	The Plan will be in a format similar to the City's Business Plan template.	N
5	4.02	<i>Quarterly Reports</i> Provide quarterly reports to the City on expenditures of Hotel Occupancy Tax (HOT) funds, in accordance with Tax Code.	Y



Contract Terms			Status
6	4.03	<i>Performance Reports</i> The CCCVB shall periodically report to the City Council on the activities and work accomplished.	N
7	4.04	<i>Annual Report</i> Present annual report, within sixty (60) days after the end of each fiscal year, on the outcomes of the performance measures presented in the Business/Marketing Plan for the previous year.	N
8	5.02	<i>HOT performance requirements</i> City's 7% portion of the hotel occupancy tax earned and received by City must meet or exceeds \$6,200,000.	Y
9	7.01	<i>Insurance</i> The officers and employees of CCCVB designated to withdraw funds must be covered by a blanket fidelity bond in the sum of \$100,000. The bond must be provided by CCCVB, issued by a corporate surety designating CCCVB as named insured, the City as an additional named insured, and in the form as to be approved by the City Attorney.	N
10	9.01	<i>Voting Board Members</i> The affairs of the CCCVB shall be governed by a board of directors composed of thirteen (13) members selected by City Council.	Y
11	9.02	<i>Ex-officio advisory, non-voting board members</i> Mayor and City Manager, or their designees <i>Council appointees</i> Corpus Christi International Airport representative Port of Corpus Christi Authority representative Regional Transportation Authority representative	N

**Accounting Records**

Maintenance of accounting records are not approved by the City's Director of Financial Services as required by contract. During reviews of expenditures, we noted records included summary level explanations, with exception to invoices, on how HOT funds was utilized.

Auditor's noted inconsistencies in check requests. We noted no formal accounts payable process and that invoices, emails, and check request forms are all acceptable methods for requesting a check. For example, check request forms for the Heritage Society did not include supporting documentation, such as itemized receipts or invoices, showing the money was spent as described on the request. However, all payments are authorized by the CEO.

### *Agency Reports*

Business Plans are not prepared in the City's template as required by contract because the CCCVB states prior City management did not require them to do so. Business Plans presented to auditors by the CCCVB contained only strategic goals, annual budget, and projects planned for the year.

The U.S. Small Business Administration states a business plan should contain an executive summary, company description, market analysis, organization management, service or product line description, marketing and sales strategy, future strategic financial plans, financial projections, and any other supporting documents such as staff bios, pictures, legal documents, or other contracts.

Performance reports are not presented to City Council. Only requests for funding and special presentations (i.e. convention center hotel expansion) are made. A City representative does attend board meetings where periodic performance updates are provided; however, a formal annual performance report is not prepared. Annual performance reports demonstrate to City management which measures the CCCVB accomplished during a given fiscal year. This will be discussed further in Issue C.

### *Insurance*

According to Risk Management, insurance requirements are not fulfilled and there is no evidence of coverage for general liability or errors and omission. Although a policy for public dishonesty/crime coverage exists, no limits were indicated.

### *Board Composition*

CCCVB board agendas show two ex-officio board members who are not listed as authorized board members in the City's contract. One is a vendor of the CCCVB and the second is a representative of a state official. In August 2017, through change in bylaws, the state legislative affairs ex officio member was added. However, "no change in bylaws may be considered, which is inconsistent with any provisions" in the City's contract.

### *HOT Revenue Goal*

Although the CCCVB met the goal of exceeding \$6.2 million for the City's 7% HOT revenue, this threshold does not align with current revenue activity levels. This measure has been in place since 2006. Exhibit 4 shows a 10-year history of the City's 7% HOT revenue compared to the performance measure.

Exhibit 4 Annual 7% HOT Revenue Performance Measure Results

7% HOT Revenue v. Goal			
Fiscal Year	HOT Rev	Goal	Variance
FY2018	\$ 12,504,453	\$ 6,200,000	\$ 6,304,453
FY2017	11,912,161	6,200,000	5,712,161
FY2016	11,532,788	6,200,000	5,332,788
FY2015	11,752,936	6,200,000	5,552,936
FY2014	13,274,846	6,200,000	7,074,846
FY2013	10,280,352	6,200,000	4,080,352
FY2012	9,339,673	6,200,000	3,139,673
FY2011	8,344,430	6,200,000	2,144,430
FY2010	7,719,075	6,200,000	1,519,075
FY2009	7,877,067	6,200,000	1,677,067

Source: FY2009- FY2017 CAFRs. FY2018 Estimate from Infor Financial System.  
 FY2014 is 14-month fiscal year.

**Recommendation:** City Management should:

- 1) Develop and document procedures for monitoring the CCCVB’s consulting services agreement. These procedures should include a formal process to review Business Plans, financial reports, performance achievement, and annual goal assessment.
- 2) Asses current insurance requirements and coverage for adequacy. Periodically, review policy for compliance.
- 3) Require the CCCVB to obtain guidance from Financials Services on how to best account for HOT fund usage. All accounting methods, forms, and other related processes over HOT accounting should be approved by the Finance Director or their designee.
- 4) Require the CCCVB to comply with terms in their contract regarding accounting records (ex. payment processing), agency reports (ex. Business Plans, annual performance reports), and insurance requirements. All reports should be signed by CCCVB management.
- 5) Communicate required advisory board compliance to CCCVB management. Only members appointed by City Council are allowed positions to the board. Any board composition changes should be revised in future contracts.
- 6) Periodically evaluate HOT revenue goals to ensure they reflect current HOT revenue activity.

**Management Response:**

<i>Agree/Disagree</i>	<i>Action Plan:</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	1) Will be required per terms of agreement.	Keith Selman, Interim City Manager	January 2020
	2) Will assess current insurance requirements and monitor periodically	Gilbert Sanchez, Risk Manager	January 2020
	3) Staff will create a standard format for financial reporting for all HOT tax recipients	Constance Sanchez, Director of Finance	January 2020
	4) Will be required per terms of contract. Business Plan may not be required.	Keith Selman, Interim City Manager	January 2020
	5) Will communicate advisory board compliance	Keith Selman, Interim City Manager	January 2020
	6) Will be required per terms of contract.	Keith Selman, Interim City Manager	January 2020

**B. HOT Revenue Expenditures**

Condition: There are no policies or procedures in place to manage expenditures incurred by the CCCVB to ensure the City is getting the best value out of their HOT Revenue. We noted greater oversight is needed over spending practices.

Due to the absence of purchasing policies and procedures, we evaluated purchasing practices against the City’s Financial Procedures for the procurement card program, in-town mileage reimbursements, and out-of-town travel. For the period of October 2016 – June 2018, we judgmentally selected to review nine (9) vendor reimbursements for five of fifteen CCCVB employees who have business credit cards.

*Business Credit Cards*

CCCVB employees with American Express business credit cards are reimbursed by check for charges after submitting reimbursement requests with receipts to the CEO for approval. The employee is responsible for paying their own credit card bill directly to American Express. This practice has burdened some employees and has resulted in late

payments and returned payments. One card holder defaulted on their credit cards, was issued a replacement card, and continues to make late payments. Late payments are largely due to untimely reimbursement requests.

Analysis of credit card activity revealed:

- 1 of 5 cardholders knew their credit card limits
- Per diem not paid for out-of-town travel
- Sales tax paid although the CCCVB is tax exempt
- Single transactions greater than \$1,000
- Monthly reimbursements exceeding \$5,000
- Receipts presented not itemized, illegible, or inadequate (ex. airline tickets or hand-written notes)
- Out-of-town travel expenses paid for non-CCCVB employee, purchases for gifts and mileage without a stated business purpose
- Gratuities, meals and gifts for staff, and frequent lunch meetings
- Reimbursement for alcohol purchases
- Personal purchases
- No disclosure of interest evident for related party transactions

Criteria: City Procurement Card Program procedures state only business purchases are allowed and all card holders must avoid the appearance of impropriety in the use of cards.

Card holders are responsible for reconciling transactions to their statement immediately after the closing of their review periods. Each transaction must be supported by description of what is purchased and the appropriate business purpose. Original (itemized) receipts must be maintained, single transaction limits are \$1,000, and spending limit per cardholder is \$5,000 per monthly cycle.

For purchases greater than \$1,000, quotes are required with documented evidence. Purchases of goods for personal benefit, alcoholic beverages, flowers, gifts, sales tax, and gratuities are not allowed. Cardholders are required to get written authorization prior to making every purchase. Food and alcohol purchases must be approved in advance by the City Manager.

A 95% compliance with performance standards is expected of cardholders to allow for continued use of credit cards. Anything less may be grounds for immediate revocation of card usage and disciplinary action.

The City's Travel Policy states expenses for meals and all tips for overnight travel are paid on a per diem basis. Per diem is adjusted based on the time of day travel commences.

Payment of City credit card bills are made by Financial Services not the cardholder themselves.

**Recommendation:** City Management should:

- 1) Revise contract terms to promote greater accountability and allow for maximum use of HOT Revenue. CCCVB spending practices should align with City financial policies and procurement procedures in so much as possible. For example, in places which require City Council approval or other exceptions should be documented with justification and approved by the City manager or the Board of Directors.
- 2) Require CCCVB business credit card holders undergo City procurement card and purchasing training to include annual refresher training.

**Management Response:**

<i>Agree/Disagree</i>	<i>Action Plan:</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	1) While the City will encourage greater accountability over spending practices via a written and enforced (by the CVB) policy, alignment with all tenets of City procurement policies is concerning.	Keith Selman, Interim City Manager	January 2020
	2) Will be required per terms of contract.	Keith Selman, Interim City Manager	January 2020

**C. Setting Performance Measures and Monitoring**

Condition: Formal procedures are not in place to monitor, accept, and evaluate prior year performance goals for carry forward or suspension. Reporting for social media goals is unnecessarily complex for the CCCVB's operation. Records to support performance measures is not kept and when regenerated does not always tie to board reports.

Annual CCCVB goals are largely determined by CCCVB staff with input from the CCCVB board, of which City management holds a non-voting seat. Once accepted by the CCCVB board, CCCVB does not submit finalized goals to City management for approval to ensure

the CCCVB’s vision aligns with the City’s. When reporting performance measures to the City a formal report is not prepared, but an Excel spreadsheet instead.

We noted CCCVB performance is “overly measured” because two sets of goals exist. One is for reporting to the City (performance measures) and a second is used internally (strategic goals) by the CCCVB. Many goals are duplicative, unrelated to CCCVB operations, or cumbersome to measure. In FY2018, there are 13 performance measures and 19 internal goals. Eleven of the performance measures are duplicated on the internal goal list. Exhibit 5 shows where the commonalities are.

Exhibit 5 List of FY2018 Performance Measures and Strategic Goals

<b>FY2018 Performance Measures</b>	
1	Grow occupancy in local hotels by 1%
2	Grow RevPar in local hotels by 1%
3	Book room nights via meetings and conventions (60,000 room night goal)
4	Increase website traffic by 20%
5	Increase web content articles (trip ideas) to 500
6	Increase number of registered users on website (grow by 10%)
7	Increase number of website listings on website (grow by 3%)
8	Drive traffic from social media to website (maintain 15%)
9	Produce and help promote festivals and special events
10	Increase visitor center attendance by 5%
11	Pursue film projects (360 room nights annually)
12	Increase total ad value produced by TV, radio, print/web stories by 5%
13	Ad value increase compared to previous fiscal year by 5%

Note: Blue highlight indicates duplicate goals

<b>Additional 2018 Strategic Goals</b>
Increase Fiesta de le Flor attendance by 10%
Increase in engagement, reach, posts, and website traffic across Facebook, Twitter, Instagram, and Pinterest
Manage and implement traditional and digital media campaigns
Increase yearly average media circulation by 5%
Increase outer-market promotions by 10%
Establish partner engagement initiative
Increase travel writer visits by 10%
All staff serve on board of a not-for-profit or city commission/board

Source: CCCVB FY2017- FY2018 Performance Measures and Strategic Goals

There are internal goals that should be considered a reportable goal to City management such as, “Increase Fiesta de le Flor attendance by 10%.” Contractual scope of services such as “Produce and help promote festivals and special events” is listed as a goal without performance measurables.

Although goals can change year to year, not all goals may not be relatable to the CCCVB. For example, “Increasing RevPar<sup>1</sup> by 1%,” is being tracked although it is a goal more suitable for hotel industry. The CCCVB has no control over hotel room rates or the number of hotel rooms available. These are key components in calculating RevPar and these elements reside under the purview of hotel operators. To track this information a third-party vendor is paid to collect and report on this area.

We found reports used to track engagement and social media traffic to the CCCVB’s website more sophisticated than what is needed for the type of business activity the CCCVB conducts. Social media data is provided by a vendor that pulls the information, interprets it, and creates board presentations. When auditors requested documentation to support the numbers included in board reports, they had to be reran by the vendor because the supporting documentation is not kept. Once auditors reviewed the data, we noted it did not match board reports for Twitter, Facebook, Pinterest, Instagram and website sessions. This is due to the information being cumulative because it cannot be isolated for a specific point in time.

To understand the data files provided by the vendor, CCCVB staff set up a video conference with their social media vendor to explain what information is used for tracking social media activity. There is a second vendor that provides similar functions, at possibly a lower cost, that is being utilized to track advertising value. This software can provide historical data for specific time frames and can be retrieved by CCCVB staff independent from the vendor.

Criteria: Contract section 4 states a business/marketing plan should be provided to the City Manager by July 31<sup>st</sup> each year in a similar format to those prepared by City departments. An annual report is required to show the outcomes of performance measures presented in the Business/Marketing plan for the previous year.

Cause: Per CCCVB, prior City management excepted them from the requirement of preparing a business plan in the same form as City departments. The contract is silent on how goals should be developed, approved, and what records should be retained on performance data.

Effect: There is no clear direction in the CCCVB’s contract on how to establish performance goals in line with the City’s visions. Current methods for tracking

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<sup>1</sup>RevPar or revenue per available room (average daily room rate x occupancy rate) *provides a convenient snapshot of a how well a hotel fills its rooms, as well as how much it is able to charge.*



performance is unnecessarily complex. Maintaining two sets of goals is inefficient and creates additional work.

**Recommendation:** City Management should:

- 1) Strengthen contract oversight by formally documenting procedures to monitor CCCVB performance contract compliance
- 2) Enforce requirement of developing a formal business/marketing plan with annual reporting. The format should be presented in the same fashion as other City departments or other form approved by management.
- 3) Revise contract terms to provide greater clarity on creating, accepting, reviewing, and approving performance goals. The method by which goals are measured should eliminate redundancy, simplify performance tracking, and be relatable to the CCCVB's scope of services.
- 4) Enforce records retention requirements for all performance measure outcome reports and supporting documentation.

**Management Response:**

<i>Agree/Disagree</i>	<i>Action Plan:</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	1) See A.01 (2)	Keith Selman, Interim City Manager	January 2020
	2) Will be required per terms of contract. Format may differ from City Departmental Business Plans.	Keith Selman, Interim City Manager	January 2020
	3) Will be required per terms of contract and redundancy eliminated.	Keith Selman, Interim City Manager	January 2020
	4) Will be required per terms of the contract and incorporated into City Performance Reporting (CPR).	Keith Selman, Interim City Manager	January 2020

**D. Use of Local Businesses and Hire Corpus Christi First**

Condition: The CCCVB's contract does not provide guidance on utilizing local businesses or address the extent, if at all, to which it is acceptable to advertise for events or businesses outside the City. We noted HOT funds are spent to advertise for a business

that is not located in the City (ex. storefront on print ad) and use of vendors outside the City (ex. other local City).

The CCCVB adopts a regional approach to attract visitors to the City. It is not unusual to see advertising campaigns include non-local businesses, the promotion of non-local events, or the use of vendors outside the City. In the scope of services in the CCCVB’s contract it uses phrases such as “drive overnight visitors to the Corpus Christi area” or “promote the City of Corpus Christi.”

We polled other visitor bureaus across the state and learned San Antonio, Arlington, and Galveston do not promote events outside their cities. Fredericksburg does, but they are funded by both the City and Gillespie County.

Criteria: Tax Code Section 351.101 permits promoting a municipality’s vicinity. However, through Council policies *Use of local businesses* and *Hire Corpus Christi First* emphasis is placed on maximizing efforts for utilizing local businesses to ensure a portion of the City’s tax dollars remain in the local economy for economic benefit.

**Recommendation:** City management should seek City Council input as to whether they want to spend HOT Tax revenue dollars on out-of-town businesses in CCCVB advertisements, utilizing out-of-town vendors, and promoting events for other Cities. Should Council accept the use of HOT Tax revenue dollars on non-local businesses and events, inquire to what degree, if any, should there be any limitation on doing so. Incorporate Council direction into future CCCVB contracts using clear and precise language.

**Management Response:**

<i>Agree/Disagree</i>	<i>Action Plan:</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	1)Engage City Council on Corpus Christi First, CVB’s regional approach, and incorporate into contract.	Keith Selman, Interim City Manager	January 2020

**E. Leasing City Property**

Condition: The lease contract between the Parks Department and the CCCVB for Jalufka, Merriman-Boys, and McCampbell Houses in Heritage Park does not specify the required reporting steps when damage occurs to City property. Contract language only addresses casualty loss that deems the property unsafe to occupy. Designated smoking

areas are not established at Heritage Park. A Certificate of Appropriateness was not obtained from Development Services for the work performed on the CCCVB's leased properties in Heritage park.

*No Notice to City of Property Damage*

In April 2018, a fire occurred on the back porch of the Jalufka House in Heritage Park. A Fire Department report states multiple cigarette butts were found lying around the area where the fire was extinguished. Five months after the fire, auditors observed smoking activity in the vicinity of where the fire occurred and saw a cigarette lighter that appeared to be left overnight on the porch banister. We noted no designated smoking areas or no smoking signs installed where the fire occurred.

*Rent Abatement*

In August 2018, cost of the fire repairs was submitted to Parks Department as part of rent credit consolidated with other work in a job change order valued at \$6,513. Fire damage repair should not be considered as rent contribution.

*Certificate of Appropriateness*

Lastly, a permit was issued to a contractor for improvements to the Jalufka House, but no inspection was performed, and City records show no certificate of appropriateness was obtained.

Criteria: City ordinance prohibits smoking within 10ft of an entrance of a public building, requires no smoking signs to be clearly and conspicuously posted where prohibited, and deems it unlawful for smoking paraphernalia to be inside or within 10ft of any public building.

City procedures require any damage to City property be reported to Risk Management within 72 hours of the event. When damage occurs to City property, Asset Management, Development Services and Engineering Services are brought in to assess damage, inspect repairs for compliance with City codes, accept work, and/or obtain warranty on the work performed.

In the City's lease agreement with the CCCVB for three historical houses in Heritage Park, it states repairs and maintenance are the responsibility of the CCCVB. Any damages are to be repaired within 30-days. Although the City is granting credit against monthly rent (\$3,000/month with 2% annual increase) for improvements made to the leased buildings, the fire damage repair falls outside of improvement parameters.

Heritage Park and the associated buildings are local historic landmarks in the City. The Unified Development Code states a certificate of appropriateness is required before the commencement of work on any designated landmark. Certificates of appropriateness are issued by the Landmark Commission.

In the City’s consultant services agreement with the CCCVB, it states the City is not liable for any CCCVB damages arising from its operations or the use or maintenance of its facilities.

**Recommendation:** City Management should:

- 1) In every lease agreement for City property, the casualty loss section should be strengthened to direct leasees to report any and all damages of City property to the appropriate department.
- 2) Re-examine rent credit submitted by the CCCVB to Parks Department for allowable expenditures under the lease terms.
- 3) Require CCCVB to obtain all required inspections and certificates for work performed on leased properties.
- 4) Ensure no smoking signs are installed where smoking is not permitted in Heritage Park.

**Management Response:**

<i>Agree/Disagree</i>	<i>Action Plan:</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	1) Include said language	Miles Risley, City Attorney	January 2020
	2) Re-examine rent credit for fire damage repair	Becky Perrin, Parks and Recreation	January 2020
	3) Require CVB to obtain required inspections for work performed. Discuss Landmark Commission requirement.	Nina Nixon Mendez, Development Services Director	January 2020
	4) Install no smoking signs where no smoking is prohibited.	Becky Perrin, Parks and Recreation	January 2020

**F. Accountability over Hotel Occupancy Tax Revenue Usage**

Condition: *HOT Use Methodology* There is no guidance on how to determine if a historical festival, musical performance, or other event is considered eligible for funding by Hotel Occupancy Tax Revenue (HOT); regardless, of whether its hosted by the Heritage Society, CCCVB or other group.

*MOU/Related party transactions*

Although the Heritage Society utilizes administrative resources of the CCCVB, funds transfer between the two organizations, and the Heritage Society's board is controlled by the CCCVB, there is no agreement in place between the two organizations to define what role each organization plays in relation to the other. There is no process in place to account for costs incurred by the CCCVB for Heritage Society business or to reimburse the CCCVB for indirect costs.

*Commingling*

When the Heritage Society hosts HOT eligible events, such as Fiesta de la Flor, they retain the revenue from ticket sales and other fees in the Heritage Society's bank account. When a HOT edible event generates revenue, usage and accountability of the revenue must follow the same stipulations as all HOT revenue and must be kept in a separate bank account.

*Accounting for Project Cost*

No prescribed procedures exist on how to account for expenses the CCCVB incurs on behalf of the Heritage Society such as indirect costs (ex. personnel, accounting, IT) or direct costs (ex. advertising, materials). No methodology exists to determine which organization will reimburse the other for producing events and how to account for and monitor those costs. For example, to get the project cost for Fiesta de la flor, in addition to invoiced expenditures, staff labor, materials, and volunteer hours would need to be considered. The same practice would need to be accounted for events hosted outside CCCVB and Heritage Society events such a Buccaneer Days.

The Heritage Society is organized as a 501(c)(3) corporation which allows them to attract and accept foundation grants and tax-deductible donations that the CCCVB cannot. However, when any funding the Heritage Society obtains is mixed with revenue generated from HOT activities, whether it is ticket sales or monies transferred in from the CCCVB bank accounts, the money becomes comingled.

Criteria: Tax Code Section 351.101(a)(4) permits the use of HOT funds for promoting the arts such as music festivals (Fiesta de la Flor), historical activities (Frontera) and other crafts/folk art events (Dia de Los Muertos Street Festival). Section 351.101(c) states HOT tax revenue may not be comingled with other revenue.

**Recommendation:** City Management should:

- 1) Require the CCCVB to enter into an agreement with the Heritage Society outlining what roles the other will have in relation to the other. The terms should include provisions for the Heritage Society to reimburse the CCCVB for indirect and direct costs the CCCVB incurs on their behalf. Conversely, ensure the CCCVB develops and documents a procedure for tracking and reimbursement of such costs. The process should include timely reconciliation and reimbursement.

- 2) With assistance from Financial Services, require a standardized form to be developed to adequately account for and justify all expenses reimbursed to the CCCVB by the Heritage Society.
- 3) With assistance from the City's Legal Department, develop and document a methodology as to what constitutes a HOT revenue eligible event and provide examples of such events.
- 4) Require no comingling of HOT revenue with other funds.
- 5) Require establishment of group accounting codes within to identify and record expenditures paid by HOT funds by activity. The accounting codes should identify program costs spent on unique activities the CCCVB engages in whether produced themselves or for other organizations.

**Management Response:**

<i>Agree/Disagree</i>	<i>Action Plan:</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	1) Require CVB enter into an agreement with the Heritage Society, if they receive HOT funds.	Paulette Kluge, CEO, CVB	January 2020
	2) Require standardized reporting for reimbursements from Heritage Society to the CVB.	Paulette Kluge, CEO, CVB	January 2020
	3) Utilize best practice guides to develop.	Miles Risley, City Attorney Paulette Kluge, CEO, CVB	January 2020
	4) Require no co-mingling of HOT Revenue with other funds.	Paulette Kluge, CEO, CVB	January 2020
	5) Require accounting codes in contract.	Constance Sanchez, Financial Services Director, Paulette Kluge, CEO, CVB	January 2020

**G. Right to Audit Clause**

While the City's agreement with the CCCVB includes a provision requiring access to financial records, it does not have a distinctive right to audit clause or language directing any subcontractors, or similar entity, to be obligated to the same requirements. During the audit, auditors encountered difficulty acquiring access to the Heritage Society's

financial records due to confusion over whether or not it was allowable. To gain access, auditors sought assistance from the City’s Legal Department and the Council Audit Committee.

Criteria: Section 22.353(b) of the Texas Business Organizations Code requires nonprofit corporations, such as the Corpus Christi CVB Heritage Society, to make its records, books and reports available to the public for inspection and copying.

Section 351.101(d) of the Tax Code states an organization contracted under this code shall maintain complete and accurate records of each expenditure of HOT revenue. At the City’s requests, all records should be made available.

**Recommendation:** The City is responsible for ensuring contractors maintain complete and accurate financial records in accordance with the Tax Code. Therefore, City Management should require any organization the CCCVB provides HOT funding to be formally notified their records are subject to review or audit by City personnel or an authorize representative. Failure to provide the City access to records should be considered non-compliance and/or breach of contract. The non-participatory organization should be subject to funding forfeiture and be required to repay any funding that cannot be supported by proper documentation.

**Management Response:**

<i>Agree/Disagree</i>	<i>Action Plan:</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Require any organization the CCCVB provides HOT funding to be formally notified their records are subject to review or audit by City personnel or an authorize representative.	Paulette Kluge, CEO, CVB	January 2020

## Appendix A – Audit Scope and Methodology

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This audit scope included a review of the City's consulting services agreement with the Corpus Christi Convention and Visitor's Bureau (CCCVB). Financial records and activities surrounding use of hotel occupancy taxes were reviewed for the periods of October 1, 2016 through June 30, 2018. However, due to significant issues, we expanded the scope to conduct additional reviews of performance measures. We conducted this audit from August to December 2018.

Our methodology included inquiries with City and contractor staff, review of contract compliance of key contract terms, analysis of the CCCVB's utilization of hotel occupancy (HOT) tax revenue, review of performance measures and strategic goals, and review of adherence with Tax Code provisions as it relates to HOT.

General and application controls were not reviewed because the CCCVB's financial records are maintained by a contracted accounting firm that utilizes QuickBooks. We relied on QuickBooks data files and expenditure records provided by their accounting firm.

To determine compliance for key contract provisions, we reviewed the CCCVB's annual financial statements, accounting records, existence of and content of business plans, expenditure reports and supporting documentation, board presentations on performance measures, insurance coverage, advisory board composition for adherence to contract terms, by-laws and the City's annual HOT revenue collections.

To ascertain the level of internal controls over usage of HOT revenue, we reviewed vendor files (expenditures) against the City's Financial Policies in absence of CCCVB policies and procedures.

To assess performance measures and strategic goals, we reviewed board reports, annual performance measures and strategic goals, consultant reports, website data, festival ticket sales, visitor center logs, and visitor center sales.

The audit program included detailed steps to obtain sufficient understanding of each internal control designed to provide assurance that an adequate oversight structure exists over the management of the CCCVB's agreement with the City.

Additional consideration was made over management matters and due to their sensitive nature were omitted from this report.

In conducting our audit, we relied on the following authoritative guidelines to serve as criteria:

- Texas Tax Code, Chapter 351
- State Comptroller's Contract Management Guide



- Council Policy 11 and 26
- City's consulting services and lease agreement with the CCCVB
- City Financial Policies and Procedures
- CCCVB Bylaws
- Unique HR CCCVB Employee Handbook

We believe this testwork provides sufficient and appropriate evidence for our audit conclusion and findings.

# Appendix B – Management Response

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January 7, 2019

Keith Selman  
INTERIM CITY MANAGER

PO Box 9277  
Corpus Christi  
Texas 78469-9277  
Phone 361-826-3220  
Fax 361-826-3839  
KeithSe@ccitexas.com  
www.ccitexas.com


Kimberly L. Houston  
Interim City Auditor  
Corpus Christi, Texas

Re: AU18-001 Corpus Christi Convention and Visitors Bureau, Contract Compliance

We have carefully reviewed the issues presented in the audit report referenced above, and our plans to correct the issues are described on the following pages.

We are committed to correcting the issues in the audit report by implementing the action plans in a timely fashion.

Sincerely,

  
\_\_\_\_\_  
Keith Selman  
Interim City Manager

Date 1/7/19

**A. Contract Compliance**

**A.01 City Contract Management Policies**

**Recommendation(s):**

City Management should:

- 1) Develop and document a City policy requiring enhanced monitoring for high-risk and high-dollar contracts. Include in the policy parameters to judge contracts against to help determine its high-risk status and establish a dollar threshold to identify high-dollar contracts.
- 2) Require all City contracts to have an assigned contract manager.

**Management Response:**

<i>Agree/Disagree</i>	<i>Action Plan:</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	1) Develop City policy regarding contract management	Kim Baker, Assistant Director of Finance (Procurement)	January 2020
	2) Clearly assign contract managers	Department Directors	January 2020

**A.02 CCCVB Contract Compliance**

**Recommendation(s):**

City Management should:

- 1) Develop and document procedures for monitoring the CCCVB's consulting services agreement. These procedures should include a formal process to review Business Plans, financial reports, performance achievement, and annual goal assessment.
- 2) Assess current insurance requirements and coverage for adequacy. Periodically, review policy for compliance.
- 3) Require the CCCVB to obtain guidance from Financials Services on how to best account for HOT fund usage. All accounting methods, forms, and other related processes over HOT accounting should be approved by the Finance Director or their designee.

- 4) Require the CCCVB to comply with terms in their contract regarding accounting records (ex. payment processing), agency reports (ex. Business Plans, annual performance reports), and insurance requirements. All reports should be signed by CCCVB management.
- 5) Communicate required advisory board compliance to CCCVB management. Only members appointed by City Council are allowed positions to the board. Any board composition changes should be revised in future contracts.
- 6) Periodically evaluate HOT revenue goals to ensure they reflect current HOT revenue activity.

**Management Response:**

<i>Agree/Disagree</i>	<i>Action Plan:</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	1) Will be required per terms of agreement.	Keith Selman, Interim City Manager	January 2020
	2) Will assess current insurance requirements and monitor periodically	Gilbert Sanchez, Risk Manager	January 2020
	3) Staff will create a standard format for financial reporting for all HOT tax recipients	Constance Sanchez, Director of Finance	January 2020
	4) Will be required per terms of contract. Business Plan may not be required.	Keith Selman, Interim City Manager	January 2020
	5) Will communicate advisory board compliance	Keith Selman, Interim City Manager	January 2020
	6) Will be required per terms of contract.	Keith Selman, Interim City Manager	January 2020

policies and procurement procedures in so much as possible. For example, in places which require City Council approval or other exceptions should be documented with justification and approved by the City manager or the Board of Directors.

- 2) Require CCCVB business credit card holders undergo City p-card and purchasing training to include annual refresher training.

**Management Response:**

<i>Agree/Disagree</i>	<i>Action Plan:</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	1) While the City will encourage greater accountability over spending practices via a written and enforced (by the CVB) policy, alignment with all tenets of City procurement policies is concerning.	Keith Selman, Interim City Manager	January 2020
	2) Will be required per terms of contract.	Keith Selman, Interim City Manager	January 2020

**C. Setting Performance Measures and Monitoring**

**Recommendation(s):**

City Management should:

- 1) Strengthen contract oversight by formally documenting procedures to monitor CCCVB performance contract compliance
- 2) Enforce requirement of developing a formal business/marketing plan with annual reporting. The format should be presented in the same fashion as other City departments or other form approved by management.
- 3) Revise contract terms to provide greater clarity on creating, accepting, reviewing, and approving performance goals. The method by which goals are measured should eliminate redundancy, simplify performance tracking, and be relatable to the CCCVB scope of services.
- 4) Enforce records retention requirements for all performance measure outcome reports and supporting documentation.

**Management Response:**

<i>Agree/Disagree</i>	<i>Action Plan:</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	1) See A.01 (2)	Keith Selman, Interim City Manager	January 2020
	2) Will be required per terms of contract. Format may differ from City Departmental Business Plans.	Keith Selman, Interim City Manager	January 2020
	3) Will be required per terms of contract and redundancy eliminated.	Keith Selman, Interim City Manager	January 2020
	4) Will be required per terms of the contract and incorporated into City Performance Reporting (CPR).	Keith Selman, Interim City Manager	January 2020

**D. Use of Local Businesses and Hire Corpus Christi First**

**Recommendation(s):**

City management should seek City Council input as to whether they want to spend HOT Tax revenue dollars on including out-of-town businesses in CCCVB advertisements, utilizing out-of-town vendors, and promoting events for other Cities. Should Council accept the use of HOT Tax revenue dollars on non-local business and events, inquire to what degree, if any, should there be any limitation on doing so. Incorporate Council direction into future CCCVB contracts using clear and precise language.

**Management Response:**

<i>Agree/Disagree</i>	<i>Action Plan:</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	1) Engage City Council on Corpus Christi First, CVB's regional approach, and incorporate into contract.	Keith Selman, Interim City Manager	January 2020

**E. Leasing City Property**

**Recommendation(s):**

City Management should:

- 1) In every lease agreement for City property, the casualty loss section should be strengthened to direct leasees to report any and all damages to City property to the appropriate department.
- 2) Re-examine rent credit submitted by the CCCVB to Parks Department for allowable expenditures under the lease terms.
- 3) Require CCCVB to obtain all required inspections and certificates for work performed on leased properties.
- 4) Ensure no smoking signs are installed where smoking is not permitted in Heritage Park.

**Management Response:**

<i>Agree/Disagree</i>	<i>Action Plan:</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	1) Include said language	Miles Risley, City Attorney	January 2020
	2) Re-examine rent credit for fire damage repair	Becky Perrin, Parks and Recreation	January 2020
	3) Require CVB to obtain required inspections for work performed. Discuss Landmark Commission requirement.	Nina Nixon Mendez, Development Services Director	January 2020
	4) Install no smoking signs where no smoking is prohibited.	Becky Perrin, Parks and Recreation	January 2020

**F. Accountability over Hotel Occupancy Tax Revenue Usage**

**Recommendation(s):**

City Management should:

- 1) Require the CCCVB to enter into an agreement with the Heritage Society outlining what roles the other will have in relation to the other. The terms should include provisions for the Heritage Society to reimburse the CCCVB for indirect and direct costs the CCCVB incurs on their behalf. Conversely, ensure the CCCVB develops

and documents a procedure for tracking and reimbursement of such costs. The process should include timely reconciliation and reimbursement.

- 2) With assistance from Financial Services, require a standardized form to be developed to adequately account for and justify all expenses reimbursed to the CCCVB by the Heritage Society.
- 3) With assistance from the City's Legal Department, develop and document a methodology as to what constitutes a HOT Revenue eligible event and provide examples of such events.
- 4) Require no comingling of HOT Revenue with other funds.
- 5) Require establishment of group accounting codes within to identify and record expenditures paid by HOT funds by activity. The accounting codes should identify program costs spent on unique activities the CCCVB engages in whether produced themselves or for other organizations.

**Management Response:**

<i>Agree/Disagree</i>	<i>Action Plan:</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	1)Require CVB enter into an agreement with the Heritage Society, if they receive HOT funds.	Paulette Kluge, CEO, CVB	January 2020
	2)Require standardized reporting for reimbursements from Heritage Society to the CVB.	Paulette Kluge, CEO, CVB	January 2020
	3) Utilize best practice guides to develop.	Miles Risley, City Attorney Paulette Kluge, CEO, CVB	January 2020
	4)Require no comingling of HOT Revenue with other funds.	Paulette Kluge, CEO, CVB	January 2020
	5)Require accounting codes in contract.	Constance Sanchez, Financial Services Director, Paulette Kluge, CEO, CVB	January 2020

**G. Right to Audit Clause**

**Recommendation(s):**

The City is responsible for ensuring contractors maintain complete and accurate financial records in accordance to with the Tax Code. Therefore, City Management should require any organization the CCCVB provides HOT funding to be formally notified their records are subject to review or audit by City personnel or an authorize representative. Failure to



provide the City access to records should be considered non-compliance and/or breach of contract. The non-participatory organization should be subject to funding forfeiture and be required to repay any funding that cannot be supported by proper documentation.

**Management Response:**

<i>Agree/Disagree</i>	<i>Action Plan:</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Require any organization the CCCVB provides HOT funding to be formally notified their records are subject to review or audit by City personnel or an authorize representative.	Paulette Kluge, CEO, CVB	January 2020