STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

April 14, 2011

The Honorable Rick Murphy, Chair
Joint Legislative Audit Committee

The Honorable Carl Seel, Vice Chair
Joint Legislative Audit Committee

Dear Senator Murphy and Representative Seel:

Our Office has recently completed an 18-month followup of the Arizona Sports and Tourism Authority (Authority) regarding the implementation status of the 6 audit recommendations presented in the performance audit report released in March 2009 (Auditor General Report No. 09-04). As the attached grid indicates:

- 3 have been implemented;
- 2 have been partially implemented; and
- 1 is in the process of being implemented.

Unless otherwise directed by the Joint Legislative Audit Committee, this concludes our follow-up work on the Authority's efforts to implement the recommendations from the March 2009 performance audit report.

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:sjs
Attachment

cc: Tom Sadler, CEO
Arizona Sports and Tourism Authority

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ARIZONA SPORTS AND TOURISM AUTHORITY
Auditor General Report No. 09-04
18-Month Follow-Up Report

Recommendation	Status/Additional Explanation
Finding 1: Authority should continue to address its financial situation	
1.1 The Authority should revise its cash flow projections to incorporate capital repair and replacement costs and to reflect NFL income tax revenues at historical growth rates.	**Partially implemented at 6 months** The Authority has revised its cash flow projections to reflect NFL income tax revenues at historical growth rates, but has not incorporated capital repair and replacement costs. The Authority reported that because of continuing projected deficits, it does not have the monies available to fund the capital repair and replacement reserves, and to include these reserves in its projections provides no value for decision-making purposes.
1.2 The Authority and its Board of Directors should continue to take steps to address its financial shortfall by increasing revenues and/or decreasing expenses. In doing so, the Authority should study the various options available to increase facility revenues and decrease facility expenses to address its projected deficits and fund its required reserve accounts.	**Implementation in process** The Authority continues to take steps to address its financial shortfall, including reducing its operating expenses from more than \$1.4 million in fiscal year 2007 to approximately \$1.09 million in fiscal year 2010. Additionally, according to authority-prepared projections, the Authority plans to reduce its operating expenses to less than \$800,000 in fiscal year 2011. Similarly, the Authority worked with its facility manager to reduce the facility's recurring operating expenses from \$12.3 million in fiscal year 2007 to \$9.4 million in fiscal year 2010. Although the Authority reported that it continues to work with the facility manager to identify additional opportunities to reduce expenses, the facility's operating expenses are expected to increase in fiscal year 2011 due to higher energy costs, increased facility manager fees, and an approved pay raise for facility manager employees after 2 years of no raises. The Authority reported that it agreed to the pay raise only if the facility manager increased its revenue target to offset the pay raises.
Finding 2: Authority should enhance its oversight of the facility manager	
2.1 The Authority should continue with its plans to review its incentive fee structure and revise its management agreement to include an incentive fee structure based on the performance of the facility manager, such as whether the facility manager increased revenues or reduced operating expenses. The Authority should also ensure that any changes it makes to the management fee structure conform to U.S. Internal Revenue Service regulations.	**Implemented at 18 months**

Recommendation	Status/Additional Explanation
2.2 The Authority should develop and implement a formal contract-monitoring plan detailing the activities that its staff will perform to adequately monitor the facility manager's performance in several key areas, such as the facility manager's financial activities, event settlements, and preventative maintenance.	**Partially implemented at 18 months** The Authority continues to take steps to improve its facility manager performance monitoring activities, such as implementing a process for reviewing at least one of the facility manager's event settlements each month and reviewing monthly and quarterly maintenance information provided by the facility manager. In addition, the Authority reported that it visually inspects the completion of preventative maintenance. However, the Authority reported that it does not document these visual inspections, but plans to do so in the future.
2.3 The Authority should ensure that the facility manager establishes a written agreement with the Arizona Cardinals for box office services.	**Implemented at 6 months**
Finding 3: Minor improvements needed to better fulfill mission	
3.1 The Authority should update its written YAS policies and procedures to integrate selection criteria, which are now incorporated into application materials, and to eliminate the outside committee review of YAS grant applications, which no longer occurs.	**Implemented at 6 months**