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October 23, 2018

The Honorable Anthony Kern, Chair
Joint Legislative Audit Committee

The Honorable Bob Worsley, Vice Chair
Joint Legislative Audit Committee

Dear Representative Kern and Senator Worsley:

Our Office has recently completed a 36-month followup of the Arizona Sports and Tourism Authority (Authority) regarding the implementation status of the 18 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in September 2015 (Auditor General Report No. 15-107). As the attached grid indicates:

- 11 have been implemented;
- 1 is partially implemented;
- 3 are in the process of being implemented;
- 2 are not yet applicable; and
- 1 is no longer applicable.

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 September 2015 performance audit report.

Sincerely,
Dale Chapman, Director
Performance Audit Division

cc: Tom Sadler, President/CEO
Arizona Sports and Tourism Authority

Arizona Sports and Tourism Authority Board of Directors

Arizona Sports and Tourism Authority
Auditor General Report No. 15-107
36-Month Follow-Up Report

Recommendation	Status/Additional Explanation

Finding 1: Authority's tourism revenues are insufficient to fund all statutorily designated priorities

Recommendation	Status/Additional Explanation
1.1 The Board should take an active role in addressing the issue of insufficient tourism revenues for funding monthly distributions by taking the following actions:	
a. Working with authority staff to identify and study various options for addressing the issue, including determining the potential financial impact to each statutory priority for each option;	**Implementation in process** As discussed in the 24-month followup, the Authority projected its future monthly distributions from tourism revenues according to the distributions and priorities set in statute for fiscal years 2017 through 2021, and its projections for these fiscal years indicated that, although it will be able to meet its stadium bond debt obligations, all of its other, lower funding priorities will likely be impacted by monthly revenue shortfalls through fiscal year 2021. In addition, the Authority reported that all funding priorities would be impacted even more if the plaintiff in the *Saban Rent-A-Car LLC vs. the Arizona Department of Revenue (Saban vs. ADOR)* lawsuit is successful and the car rental surcharge is eliminated. This could impact the Authority's ability to pay its stadium bond debt obligations with its tourism revenues. The Authority reported that, in October 2016, the Authority's Board of Directors (Board) consulted with the Authority's legal counsel to discuss the advisability and feasibility of developing options for addressing the shortfalls in its tourism revenues based on the projections. According to the Authority, given the potential impact of the *Saban vs. ADOR* lawsuit on the Authority's funding priorities, the Board determined that it should delay its development of potential options for addressing the shortfalls until a decision has been reached in the *Saban vs. ADOR* lawsuit. In September 2018, the Arizona Supreme Court agreed to review the case, and set oral arguments for November 2018.
b. Working with stakeholders and the Legislature to identify which options would be feasible; and	**Not yet applicable** See explanation for Recommendation 1.1a.
c. Clearly communicating to the Legislature and stakeholders the financial impacts to each funding priority for any recommended options.	**Not yet applicable** See explanation for Recommendation 1.1a.

Recommendation	Status/Additional Explanation
1.2 To help ensure that its distribution of tourism revenues is consistent with current statutory requirements, the Authority should:	
a. Work with its legal counsel to determine if it can legally correct the errors this report has identified in the Authority's prior distributions and then act accordingly; and	**Implemented at 24 months**
b. Hire an outside contractor to annually review its monthly revenue distributions, including conducting work to determine if the amounts distributed were consistent with its statutory requirements.	**Implemented at 12 months**

Finding 2: Authority may face challenges funding future operations

Recommendation	Status/Additional Explanation
2.1 In order to ensure that it complies with its FUF agreement with the Cardinals, the Authority should:	
a. Consult with its legal counsel and work with the Cardinals to determine the correct amount of any required payments between the two parties for fiscal years 2011 through 2014;	**Implemented at 12 months**
b. Continue to conduct the calculations as required by the FUF agreement to determine any future payments between two parties, including any payments from the Authority to the Cardinals; and	**Implemented at 12 months**
c. Hire an outside contractor to annually review its calculations related to the FUF agreement to identify potential errors.	**Implemented at 24 months**

Finding 3: Authority should consider various options for improving facility management agreement

Recommendation	Status/Additional Explanation
3.1 The Authority should consider various options for improving its facility management agreement as follows:	
a. If the Authority chooses to enter an agreement with a fixed-price for any services, whether the agreement is a fixed-price agreement or an agreement with a mixture of a fixed-price and cost-reimbursement components, it should take additional steps to design an effective agreement, including: • Increasing performance incentives to compensate the facility management contractor for assuming more risk; • Incorporating incentives and/or disincentives for nonfinancial performance in its agreement; and	**No longer applicable** The Authority did not enter an agreement with a fixed price for any services.

Recommendation	Status/Additional Explanation
• Including its subjective fee evaluations to be completed by the Cardinals and the Fiesta Bowl to help determine a performance-based incentive fee.	
b. If the Authority chooses to enter an agreement with cost reimbursement for any services, whether the agreement is a cost-reimbursement agreement or an agreement with a mixture of a fixed-price and cost-reimbursement components, it should take additional steps to appropriately design and oversee an effective agreement including: • Enhancing its oversight of the facility management contractor's expenses; • Including a revenue guarantee that meets the Authority's needs; and • Better aligning facility revenue and expenses in the facility's annual budget.	**Implemented at 24 months**
3.2 The Authority should work with its consultant to procure and negotiate the most beneficial agreement possible by:	
a. Designing the agreement to help ensure that the Authority's facility-related revenues can pay for its administrative and operational expenses;	**Implemented at 12 months**
b. Incorporating into the agreement and/or establishing sufficient mechanisms to adequately oversee its facility management contractor and ensure that the Authority is receiving the highest quality service for the lowest possible costs; and	**Implemented at 12 months**
c. Ensuring the agreement is consistent with any of the Authority's other agreements.	**Implemented at 12 months**
3.3 The Authority should work with its legal counsel to ensure that the new agreement complies with IRS regulations for tax-exempt facilities.	**Implemented at 12 months**
Finding 4: Authority should improve its facility capital improvement practices	
4.1 To help ensure the sustainability and viability of the facility, the Authority and its Board should develop and implement capital planning policies and procedures that include:	
a. A clear definition of what constitutes a capital improvement project, including but not limited to significant capital maintenance projects;	**Implemented at 36 months**

Recommendation	Status/Additional Explanation
b. Provisions for the Board's monitoring and oversight of capital improvements planning and budgeting to help ensure a clear decision-making process, including a description of how the Board will prioritize and approve projects, and a description of the roles and responsibilities in the process for authority staff, the facility management contractor, and facility tenants;	**Partially implemented at 36 months** In fiscal year 2018, the Board and its finance committee monitored and provided oversight of capital improvements planning and budgeting during quarterly financial performance updates provided by board staff. In addition, as of September 2018, the Board had developed a written procedure that outlines the roles and responsibilities of authority staff in the capital improvements planning and budgeting process. However, the Board has not developed written policies and procedures that include a description of how the Board will prioritize and approve projects or a description of the roles and responsibilities of the facility management contractor and facility tenants in the capital improvements planning and budgeting process.
c. Provisions for developing a multiyear capital improvement plan (capital plan) covering a period of at least 3 to 5 years that clearly identifies capital and major equipment needs, maintenance requirements, funding options, and operating budget impacts; and	**Implementation in process** The Authority has developed a multiyear capital improvement plan that includes capital and major equipment needs and operating budget impacts (see explanation for Recommendation 4.1b). However, this capital improvement plan does not specifically address funding options for the projects. In addition, as of October 2018, the Authority had not developed written policies and procedures requiring the development of a multiyear capital improvement plan that clearly identifies capital and major equipment needs, maintenance requirements, funding options, and operating budget impacts.
d. Provisions for developing a capital improvement budget as part of its annual budget process using the information in the capital plan to help separately budget and track capital projects. The budget should include a schedule for completing each project, including specific project phases, estimated funding requirements for the upcoming year(s), and planned timing for acquisition, design, and construction activities.	**Implementation in process** The Authority included proposed capital improvement projects in its fiscal year 2019 draft budget. However, the list of proposed projects in the budget did not include a schedule for completing each project, including specific project phases, estimated funding requirements for the upcoming year(s), and planned timing for acquisition, design, and construction activities.