Arizona Office of Tourism

Office met some of its statutory objective and purpose, but did not comply with some State requirements for spending public monies for promotional activities we reviewed, accounting for some tourism revenues it distributed for Maricopa County tourism promotion, and managing conflicts of interest

Performance Audit and
Sunset Review

September 2021
Report 21-114

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General

ARIZONA AuditorGeneral
Making a Positive Difference

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September 24, 2021

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Debbie Johnson, Executive Director
Arizona Office of Tourism

Transmitted herewith is the Auditor General's report, *A Performance Audit and Sunset Review of the Arizona Office of Tourism*. This report is in response to a September 19, 2018, resolution of the Joint Legislative Audit Committee. The performance audit and sunset review was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience.

As outlined in its response, the Arizona Office of Tourism agrees with all the findings and plans to implement or implement in a different manner all the recommendations.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

Report Highlights

Arizona Auditor General
Making a positive difference

Arizona Office of Tourism

Office met some of its statutory objective and purpose, but did not comply with some State requirements for spending public monies for promotional activities we reviewed, accounting for some tourism revenues it distributed for Maricopa County tourism promotion, and managing conflicts of interest

Audit purpose

To determine whether the Office complied with State requirements for spending public monies for promotional activities, events, and projects conducted jointly with other tourism entities; accounting for Maricopa County tourism tax revenues it distributed to other tourism entities; and managing conflicts of interest. This report also provides responses to the statutory sunset factors.

Key findings

The Office:

- Is responsible for promoting tourism State-wide and distributing monies to other tourism entities throughout the State for tourism advertising, marketing, and promotion.
- Did not follow State requirements when spending $81,239 on promotional activities, events, and projects conducted jointly with other tourism entities, such as conference sponsorships and trade shows, which placed these public monies at potential risk of misuse.
- Distributes tourism revenues to Maricopa County destination marketing organizations (DMOs) for tourism promotion and marketing projects within Maricopa County, but 5 changes to DMOs' fiscal year 2020 tourism promotion and marketing spending plans were not reviewed and approved as required by its guidelines. The Office also approved some inaccurate fiscal year 2021 spending plans, which placed these public monies at potential risk of misuse, loss, or theft.
- Did not comply with some State conflict-of-interest requirements, including requiring employees to complete a new disclosure form when their circumstances changed and maintaining a special disclosure file of all required disclosures for public review.
- Exceeded its delegated procurement authority of $100,000 and did not comply with additional State Procurement Code requirements in fiscal year 2020 when procuring approximately $500,000 in services.

Key recommendations

The Office should:

- Comply with State requirements for spending public monies for promotional activities, events, and projects and accounting for Maricopa County tourism tax revenues it distributes.
- Develop and implement a formal change request process and standardized reporting templates.
- Continue to develop and implement conflict-of-interest policies to help ensure it complies with State conflict-of-interest requirements.
- Comply with statutory procurement requirements, including following applicable competitive procurement requirements and adhering to its delegated procurement threshold.

See Performance Audit and Sunset Review Report 21-114, September 2021, at www.azauditor.gov.

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Office's noncompliance with State requirements increased risk that employees and Council and Committee members did not disclose substantial interests that might influence or affect their official conduct

Office lacked a conflict-of-interest policy but developed a conflict-of-interest policy and process during the audit that aligns with some State requirements and recommended practices

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INTRODUCTION

The Arizona Auditor General has completed a performance audit and sunset review of the Arizona Office of Tourism (Office). This performance audit and sunset review determined whether the Office complied with State requirements for spending public monies for promotional activities, events, and projects conducted jointly with other tourism entities, accounting for Maricopa County tourism tax revenues it distributed to other tourism entities, and managing conflicts of interest. This report also provides responses to the statutory sunset factors.

Mission and responsibilities

The Office was established in 1978 to perform various duties related to State-wide tourism research, promotion, and development. The Office's mission is to "strengthen and grow Arizona's economy through travel and tourism promotion." Its statutory responsibilities include:

- Encouraging all local, State, regional, and federal governmental agencies and private persons and enterprises to participate and cooperate in promoting tourism in the State (see textbox for additional information about the tourism entities the Office works with to promote the State).
- Providing requested information and advice to local, State, and federal agencies and private citizens and businesses on tourism-related matters.
- Conducting comprehensive tourism-related research to establish the Office as the State's central repository and clearinghouse for all tourism-related data, determining a long-range tourism development plan for the State, and advising the Governor and the Legislature on tourism-related matters.
- Conducting an annual State-wide tourism symposium to discuss tourism promotion efforts, problems, and matters of interest to the tourism industry.
- Formulating policies, plans, and programs designed to promote tourism in the State.
- Cooperating with the Arizona-Mexico Commission and researchers at Arizona's universities to collect data and conduct projects in the United States and Mexico.[1]

Examples of tourism promotion entities in the State

Destination Marketing Organization (DMO)—An incorporated, not-for-profit organization or governmental unit established by a local jurisdiction that is responsible for promoting tourism in a designated area, such as a city, town, or region, on a year-round basis. Examples include convention centers and visitors' bureaus, such as the Sedona Chamber of Commerce and Tourism Bureau.

Rural DMO—A DMO located outside of Maricopa and Pima Counties or a DMO located in Ajo, Gila Bend, or Why, Arizona. Examples include Visit Yuma, the Navajo Tourism Department, and the City of Prescott.

State-wide tourism association—Not-for-profit or membership-based organizations that represent entities that rely on tourism-related businesses, such as the Arizona Lodging and Tourism Association.

Regional tourism partnership—An entity that comprises multiple rural and/or tribal DMOs to promote communities as a single regional tourist destination, such as the Cochise County Tourism and Economic Council.

Source: Auditor General staff review of Office-provided information and tourism promotion organizations' websites and publications.

[1] The Arizona-Mexico Commission is a nonprofit organization whose purpose is working to improve economic prosperity, quality of life, trade relations, and information-sharing through bilateral collaboration.

Organization and staffing

As of April 2021, the Office reported it had 26 filled full time-equivalent positions (FTEs) and 2 vacancies assigned to its various divisions and programs. The Office comprises the following divisions:

- **Administration and Operations Division (8 FTEs and 1 vacancy)—**This division comprises the executive office, human resources, and finance departments and is responsible for the Office's general operations and accounting functions.
- **Marketing Division (6 FTEs and 0 vacancies)—**This division is responsible for creating a research-based strategic marketing program that includes advertising, digital media, social media, website material, and sponsorships. Additionally, this division is responsible for distributing and monitoring the use of Maricopa County tourism tax revenues by Maricopa County DMOs and other tourism revenues by rural DMOs.
- **Communications Division (3 FTEs and 0 vacancies)—**This division is responsible for providing information to the Office's tourism industry partners, government officials, business leaders, the media, and the public.
- **Media Relations and Travel Trade Division (6 FTEs and 1 vacancy)—**This division works with travel media newspapers, magazines, broadcast stations, and digital publications to promote travel experiences in the State. Additionally, this division is responsible for coordinating with travel agents and tour companies to host journalist tours in the State, participates in domestic and international tourism trade shows to promote the State, and is also responsible for working with Native American tribes in the State.
- **Research Division (3 FTEs and 0 vacancies)—**This division is responsible for collaborating with other entities to gather and report tourism-related data, including data to estimate the economic impact of the tourism industry to the State's economy.

Additionally, statute establishes the Office-supported Tourism Advisory Council (Council), which comprises 15 governor-appointed members who serve 5-year terms.[2] Members must represent recreational and tourist attractions; lodging, restaurant, transportation, and other tourism industries; and the public. Members must also represent different counties. The Council acts in an advisory capacity and is responsible for assisting the Office's Director in preparing the Office's budget and establishing policies and programs that promote and develop tourism in the State. As of June 2021, the Office reported that the council had 4 vacancies.

Revenues, distributions to tourism entities and other expenditures, and fund balance

Office receives revenues from 3 primary sources—As shown in Table 1 (see pages 3 and 4), in fiscal year 2021, the Office's revenues totaled approximately $24.3 million, and its primary revenue sources were the State General Fund, a share of tribal gaming contributions, and Maricopa County tourism taxes. In addition to its State General Fund revenues, the Office receives a portion of tribal gaming contributions in accordance with the distribution priorities outlined in A.R.S. §5-601.02. The Arizona Sports and Tourism Authority also distributes a portion of the Maricopa County hotel bed tax and car rental surcharge revenues it receives to the Office, as required by A.R.S. §5-835. Statute requires that these tourism tax revenues be used to promote tourism within Maricopa County.[3] The Office's tribal gaming and tourism tax revenues decreased in fiscal year 2021 because of the COVID-19 pandemic. Specifically, fiscal year 2021 tribal gaming revenues decreased by approximately $352,000, or 5 percent, and tourism tax revenues decreased by approximately $4.4 million, or 47 percent, from fiscal year 2020.

The Office projected that its fiscal year 2021 revenues would decrease 31 percent from the prior fiscal year as a result of the COVID-19 pandemic. As shown in Table 1, the Office received less revenue in fiscal year 2021 from 2 revenue sources—tribal gaming contributions and tourism taxes—as a result of the COVID-19 pandemic.

[2] A.R.S. §41-2304 establishes the Tourism Advisory Council, membership, and duties.

[3] A.R.S. §41-2306.

However, the Office received approximately $371,000 more in State General Fund monies in fiscal year 2021 than it received in fiscal year 2020 and also received $4 million in federal pandemic aid revenues from the Governor's Office. As a result, the Office's total revenues decreased by only 2 percent between fiscal years 2020 and 2021.

Table 1
Schedule of revenues, expenditures, and changes in fund balance
Fiscal years 2018 through 2021
(Unaudited)

	2018	2019	2020	2021
Revenues				
State General Fund appropriations[1]	$7,112,000	$7,112,000	$7,964,000	$8,335,100
Tribal gaming contributions[2]	6,712,088	6,988,317	7,265,067	6,913,434
Tourism taxes[3]	8,344,831	9,083,248	9,497,977	5,052,336
Intergovernmental				
Federal pandemic aid[4]				4,000,000
Other[5]			950,000	
Other	1,223			
Total revenues	**22,170,142**	**23,183,565**	**25,677,044**	**24,300,870**
Expenditures				
Payroll and related benefits	2,365,536	2,483,931	2,454,470	2,568,546
Professional and outside services[6]	3,835,287	3,976,979	3,892,628	2,437,571
Travel	188,769	179,361	126,325	8,690
Aid to organizations[7]	7,510,299	8,174,924	8,548,179	4,495,026
Other operating				
Advertising[6]	6,407,406	6,283,514	6,595,869	5,784,697
Sponsorships[8]	324,710	898,082	920,272	967,321
Subscriptions and publications[9]	59,263	210,092	439,337	147,886
Postage and delivery	334,851	247,266	213,244	203,347
Entertainment and promotional items	129,807	163,261	187,815	14,065
Dues	100,845	117,693	102,819	94,245
Conference registration and attendance fees	44,282	75,171	81,748	10,880
Printing[10]	20,159	217,913	52,611	16,089
Photography	122,443	61,835	61,298	33,969
Computer programming and data processing	107,881	80,540	36,992	36,686
Other[11]	366,869	292,168	376,978	358,716
Furniture and equipment	95,795	43,076	183,000	61,328
Other[12]			221,574	4,000,162
Transfers to the Arizona Department of Transportation[13]				721,759
Total expenditures and transfers	**22,014,202**	**23,505,806**	**24,495,159**	**21,960,983**
Net change in fund balance	155,940	(322,241)	1,181,885	2,339,887
Fund balance, beginning of year	3,606,797	3,762,737	3,440,496	4,622,381
Fund balance, end of year	**$ 3,762,737**	**$ 3,440,496**	**$ 4,622,381**	**$ 6,962,268**

1 State General Fund appropriations increased in fiscal years 2020 and 2021 primarily because the Office received additional monies for tourism promotion purposes. Specifically, in each of these fiscal years, the Office received an additional $1 million to use for marketing, advertising, and tourism promotion and an additional $100,000 dedicated for marketing and promotion of the Arizona wine industry.

2 Tribal gaming contribution revenues were the portion of revenues the Office receives in accordance with A.R.S. §5-601.02(H)(3)(b)(iv) for State-wide tourism promotion.

3 Tourism tax revenues were a portion of the Maricopa County hotel bed tax and car rental surcharge the Office receives in accordance with A.R.S. §5-835(B)(2) for Maricopa County tourism promotion.

Table 1 continued

4 Federal pandemic aid revenues received in fiscal year 2021 comprised monies received from the federal Coronavirus Relief Fund to pay for necessary expenditures incurred because of the public health emergency caused by the COVID-19 pandemic (see footnote 12 for additional information). The Coronavirus Relief Fund was established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

5 Other intergovernmental revenues were monies the Office received through interagency service agreements with State agencies for State-wide marketing campaigns. Specifically, the Office entered into an agreement with the Arizona Department of Transportation for a marketing campaign to raise awareness about acceptable forms of identification for domestic air travel. The Office also entered into an agreement with the Arizona Departments of Child Safety, Health Services, Housing, Public Safety, and Transportation for a marketing campaign to raise awareness about the importance of completing the 2020 census.

6 Professional and outside services expenditures comprised expenditures to various vendors who provided services to the Office, including some marketing services. Similarly, advertising expenditures were paid to various vendors for advertising services. In fiscal years 2020 and 2021, over half of the professional and outside services expenditures and over 90 percent of advertising expenditures were paid to 1 vendor that the Office contracts with for marketing and advertising services that provided or acquired services for the Office, such as project management, content development, marketing, and advertising.

7 Aid to organizations was the amount of tourism tax revenues distributed to Maricopa County DMOs for Maricopa County tourism promotion and marketing in accordance with A.R.S. §41-2306(A)(2).

8 Sponsorship expenditures represented the Office's spending to sponsor certain activities, events, or organizations. For example, in fiscal years 2019 through 2021, the Office paid $500,000 each year to the Arizona Super Bowl Host Committee for the 2023 Super Bowl that Arizona will host. The Office has committed $2 million in total for this sponsorship.

9 The Office paid for various subscription services, publications, and data sources, including local news, lodging data, and travel-related data tracking subscription services that, according to the Office, were required for its marketing programs and campaigns. For example, in fiscal years 2019 and 2020, the Office paid its marketing agency vendor $53,000 and $63,500, respectively, for travel tracking services to obtain data regarding tourists' behavior, location visits, and points-of-interest recommendations and $67,300 and $75,500, respectively, to various vendors for domestic media-tracking services, travel-tracking services, and research study subscriptions. In fiscal year 2020, it also paid its marketing agency vendor $15,000 for a social media trend application, $127,500 for a data subscription that provides measurement tools to better understand how people travel, and $77,200 for materials related to the COVID-19 pandemic's impact on the travel industry.

10 Printing expenditures included various charges for printing, binding, and quick copy services and varied between fiscal years based on the Office's needs. For example, in fiscal year 2019, the Office paid 2 vendors a total of approximately $184,000 to print the Office's top visitor resources—the *Arizona Official State Travel Guide* and Arizona Outdoor Recreation maps and brochures.

11 The other category of other operating expenditures comprised various expenditures, including rent and telephone costs.

12 Other expenditures were from the Office's interagency agreements with other State agencies (see footnotes 4 and 5 for information on these revenues). The amount increased significantly in fiscal year 2021 because of the Office's interagency agreement with the Governor's Office for COVID-19-related expenditures. According to Office records, the $4 million it received was spent for qualifying marketing expenses related to COVID-19 tourism matters, including the "Rediscover Arizona Recovery Marketing Campaign," which promoted various Arizona destinations that individuals can rediscover and provided information related to travel advisories and health and safety measures. The Office also spent monies to implement its State-wide strategic recovery plan (see Sunset Factor 2, page 22, for additional information about this plan).

13 The transfer to the Arizona Department of Transportation was a return of unspent monies from a marketing campaign to raise awareness about acceptable forms of identification for domestic air travel (see footnote 5).

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for fiscal years 2018 through 2021, the State of Arizona *Annual Financial Report* for fiscal years 2018 through 2020, and Office-provided information.

Office's expenditures were primarily for personnel, advertising and marketing services, and distributions to tourism entities in the State for tourism promotion—As shown in Table 1 (see pages 3 and 4), for fiscal years 2018 through 2021, the Office's personnel costs, which include payroll and employee-related benefits, averaged more than $2.4 million annually. Additionally, in fiscal years 2020 and 2021, the Office spent approximately $6.6 million and $5.8 million, respectively, on advertising campaigns. According to the Office's fiscal year 2020 advertising effectiveness report, it spent approximately $3.2 million of this amount on national and target market cities' advertising campaigns, including the "[un]Real Arizona" campaign (see Sunset Factor 2, page 21, for more information about target market cities advertising). This advertising campaign paired images of the Grand Canyon and Monument Valley with images of less well-known locations from around the State to promote tourism.

The federal pandemic aid the Office received was restricted to pay for qualifying tourism and marketing expenses according to its interagency service agreement with the Governor's Office. According to Office records, the Office spent the $4 million in federal pandemic aid monies it received for the "Rediscover Arizona Recovery Marketing Campaign" and to implement its State-wide strategic recovery plan (see Sunset Factor 2, page 22, for additional information about this recovery plan). This campaign promoted various Arizona destinations that individuals could rediscover and provided information about COVID-19-related travel advisories and health and safety measures.

The Office also distributes monies to other tourism entities throughout the State for advertising, marketing, and tourism promotion through the following 2 marketing programs:

- **Proposition 302 Maricopa County Marketing Program—**The Office distributes approximately 90 percent of the Maricopa County tourism tax revenues it receives from the Arizona Sports and Tourism Authority to Maricopa County DMOs for tourism promotion and marketing projects on a monthly basis. To participate in this marketing program, DMOs are required to submit an application, a marketing plan that includes projected expenditures, and expense reports to the Office for review and approval. The Office retains approximately 10 percent of the tourism tax revenues it receives for its costs for this marketing program. As shown in Table 2, in fiscal year 2020, the Office distributed approximately $8.5 million of the nearly $9.5 million in Maricopa County tourism tax revenues it received to 11 Maricopa County DMOs for tourism promotion and marketing. In fiscal year 2020, these DMOs used tourism tax revenues for activities such as digital, broadcast, magazine, and billboard advertising campaigns encouraging individuals to visit Maricopa County. The Office retained approximately 10 percent, or $950,000, and spent it for tourism promotion within Maricopa County, such as promoting Cactus League spring training.

  However, as a result of the COVID-19 pandemic and reduction in the amount of tourism taxes it received to be distributed for this purpose, the Office distributed approximately $35,000 less than projected to Maricopa County DMOs in fiscal year 2020. In fiscal year 2021, the Office distributed a total of approximately $4.5 million to DMOs, which was approximately $4 million less than in fiscal year 2020. In response to the COVID-19 pandemic, the Office approved several DMOs to carry forward approximately $1.3 million unspent in fiscal year 2020 to use in fiscal year 2021 for approved tourism promotion and marketing expenses (see Finding 2, pages 12 through 15, for additional information).

  To help it administer this marketing program, the Office has also established the Proposition 302 Maricopa County Marketing Program Committee (Committee). The Committee comprises the Office Director and Committee members who represent different aspects of the tourism industry, including a DMO, hotel accommodations, car rental, and airport representatives. In consultation with the Office, the Committee is responsible for reviewing and approving DMOs' applications, projected expenditures and marketing plans, and DMOs' requests to modify or change their marketing plans during the year. As of April 2021, the Committee

Table 2

Office distributed $8.5 million to 11 Maricopa County DMOs for Maricopa County tourism promotion in fiscal year 2020

(Unaudited)

Greater Phoenix Convention and Visitors Bureau	$3,780,432
Scottsdale Convention and Visitors Bureau	2,232,528
Tempe Convention and Visitors Bureau	727,878
Mesa Convention and Visitors Bureau	610,597
City of Chandler	369,709
Wickenburg Chamber of Commerce[1]	267,729
City of Glendale	214,388
Town of Gilbert	113,605
City of Surprise	106,510
City of Peoria	88,559
Town of Fountain Hills	36,244
Total distributions	**$8,548,179**

[1] The Wickenburg Chamber of Commerce represents Avondale, Goodyear, Litchfield Park, Tolleson, and Wickenburg.

Source: Auditor General staff review of Office-provided information.

had 8 members and 0 vacancies. See Finding 2, pages 12 through 15, for our findings and recommendations related to the Office's processes for distributing and accounting for the use of these tourism tax revenues.

- **Rural Cooperative Marketing Program—**The Office also provides matching funds from its State General Fund appropriation to tourism entities operating in rural communities and regions throughout the State that apply for funding for specific types of tourism promotion and marketing projects, including digital and print advertising, participation in travel industry trade shows, and brand development. This marketing program's goal is to increase domestic and international visitation and visitor spending to rural Arizona destinations. Eligible rural DMOs, Tribal Nations, State-wide tourism associations, and regional tourism partnerships can apply annually to receive up to $50,000 in matching monies from the Office to use for advertising purposes.[4] Eligible rural DMOs interested in participating in this marketing program are required to submit an application, proof of a tourism promotion website to be included in any advertisements, and the content—such as a brochure or visitor guide—that promotes the region to be included in the advertising campaign.

  In fiscal year 2020, the Office spent approximately $1 million through its marketing and advertising vendor as part of this marketing program. The Office distributed approximately $679,000 of these monies to 32 rural tourism entities in the State, and Figure 1 (see page 7) summarizes the distribution of these monies by tourism promotion region. For example, the Office distributed approximately $195,000 to 6 entities in the State's northern region, which includes Flagstaff and the Grand Canyon. The Office also distributed approximately $96,000 to 3 Tribal Nations as part of this marketing program. The Office spent approximately $224,000 for some advertising-related expenditures for this marketing program and administrative purposes. For example, in fiscal year 2020, the Office purchased advertising space in a magazine and participated with rural DMOs in a group advertisement.

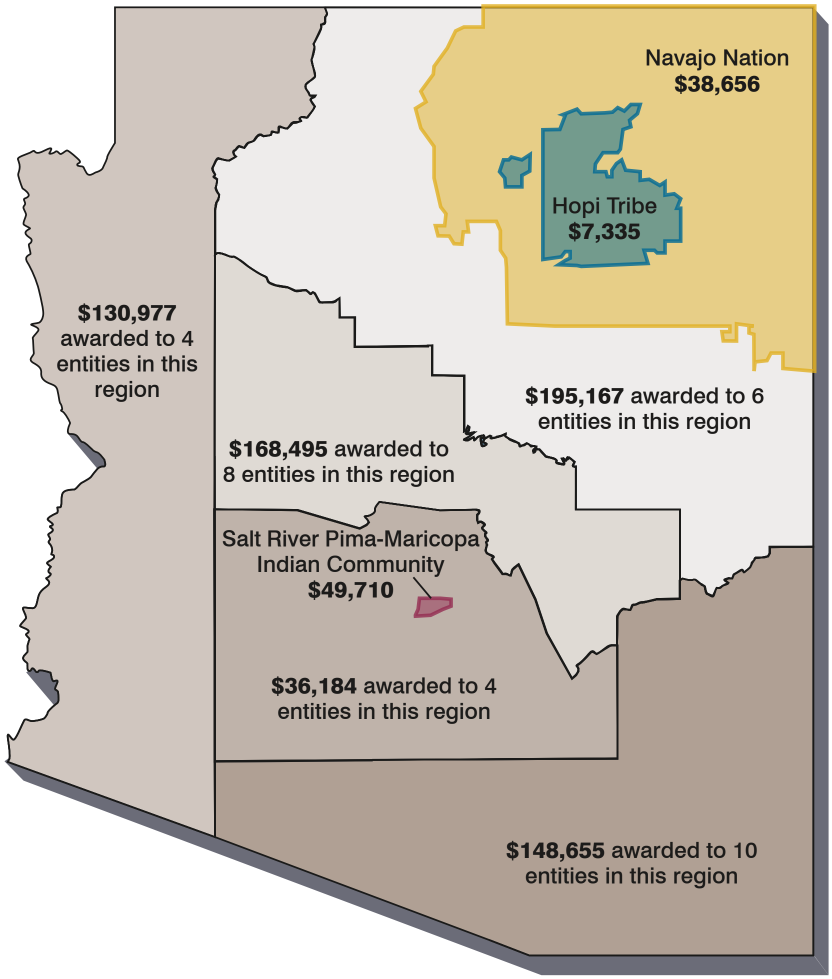
Fund balance increased from $4.6 million at the end of fiscal year 2020 to nearly $7 million at the end of fiscal year 2021 as a result of spending changes—As shown in Table 1 (see pages 3 and 4), the Office's total fiscal year 2021 expenditures and transfers were approximately $2.5 million less than in fiscal year 2020, which contributed to an estimated fiscal year-end 2021 fund balance of nearly $7 million, an increase of 51 percent from the prior year. This reduction in spending primarily resulted from reduced advertising and marketing spending. Additionally, in fiscal year 2021, the Office used federal pandemic aid monies to pay for some advertising and marketing costs. For example, as previously discussed, the Office spent a portion of the $4 million in federal pandemic aid monies it received from the Governor's Office for the "Rediscover Arizona Recovery Marketing Campaign." According to the Office, using this revenue source to pay for advertising and marketing expenses in fiscal year 2021 allowed it to save a portion of its State General Fund appropriation to use for advertising and marketing expenses in fiscal year 2022.

[4] Maricopa County tourism entities are not eligible for this marketing program.

Figure 1

Office distributed approximately $775,000 to 32 tourism entities and 3 Tribal Nations through Rural Cooperative Marketing Program in fiscal year 2020

(Unaudited)



Source: Auditor General staff summary of Office information.

Office spent $81,239 on promotional activities, events, and projects conducted jointly with other tourism entities without required justification and documentation, which placed these public monies at potential risk of misuse

State accounting manual requires public monies to be used for valid public purposes, justified, and documented

The Arizona Department of Administration, General Accounting Office's *State of Arizona Accounting Manual* (SAAM) specifies the requirements that State agencies should follow when using or spending public monies (see textbox for key SAAM requirements). For example, agencies must determine and document a valid public purpose for an expenditure, and the cost related to the expenditure should not exceed the benefit to the State. These requirements exist to properly safeguard public monies, help ensure they are used for valid public purposes and do not violate the State Constitution's prohibition on gifting public monies, and reduce the risk of misuse, loss, or theft.[5]

Key SAAM requirements related to the use of public monies

Public money—An expenditure of public money must be for a valid public purpose, must be consistent with the agency's enabling statutes, and must be reasonable, justified, prudent, and documented.

Sponsorships—A State agency considering sponsoring an event/activity must conduct, document, and retain an anticipated cost-benefit analysis that demonstrates that the anticipated benefit of the sponsored event/activity is demonstrably equal to but preferably outweighs its cost, including clearly documenting how the sponsorship under consideration is expected to directly advance agency objectives. Legal counsel must review potential sponsorship agreements.

Food and beverages—A State agency must determine in writing that the provision of food and/or beverages serves a public purpose and does not violate the Arizona Constitution's gift clause before providing the food and/or beverages. Further, the cost of any food and/or beverages provided cannot exceed the State's per-person, per-meal reimbursement limits, and State monies cannot be used to purchase alcohol.

Travel—Any travel-related expenditure must be for a valid public purpose and be required to conduct the business of the State. Employee and nonemployee travel must be conducted and reimbursed according to SAAM requirements and rates, regardless of the funding source that pays for the travel. State agencies are required to reimburse nonemployees for valid travel costs after the expense has been incurred and the travel has been completed, based on original, detailed receipts, and these travel costs cannot be paid for in advance.

Source: Auditor General staff review and summary of SAAM requirements.

[5] The Arizona Constitution's gift clause, Art. IX, §7, requires that payment of public monies is for a public purpose and the value to be received by the public is not far exceeded by the consideration being paid by the public. See also *Wistuber v. Paradise Valley Unified School Dist*., 141 Ariz. 346, 687 P.2d 354 (1984), *Turken v. Gordon*, 223 Ariz. 342, 224 P.3d 158 (2010), and *Schires v. Carlat*, 250 Ariz. 371, 480 P.3d 639 (2021).

Office did not follow State requirements when spending $81,239 of public monies for promotional purposes and nonemployee travel, which placed these monies at potential risk of misuse

As previously described in the Introduction (see page 1), the Office works with tourism promotion entities throughout the State to perform its responsibilities. However, all 21 of the Office's promotional activities, events, and/or projects it conducted jointly with other tourism entities in the State in fiscal years 2019 and 2020 that we identified and for which the Office spent more than $81,000 in public monies did not comply with 1 or more SAAM expenditure requirements that help ensure these expenditures had a valid public purpose, were justified, and that the benefit of these expenditures to the State exceeded the cost (see Table 3 for information on the 21 expenditures).[6] This promotional spending included sponsorships and trade shows, journalist tours, food and beverages, international promotion projects, and promotional items for event attendees.

Table 3
Office spent $81,239 for all 21 promotional activities, events, or projects conducted jointly with other tourism promotion entities that we identified
Fiscal years 2019 and 2020
(Unaudited)

Activity, event, or project (number of activities, events, or projects)	Items paid for	Expenditures
Sponsorships and trade shows (6)	Food and beverage, promotional items for event attendees, and transportation costs for conference attendees.	$63,561
Journalist tours (12)	Journalist and other nonemployees travel and tour costs, including food and beverage, hiking gear, and tour guide services and gratuities.	15,076
Miscellaneous projects (3)	Food and beverage and international promotion.	2,602
Total		**$81,239**

Source: Auditor General staff review of Office documentation.

Specifically, the Office spent:

- **$63,561 for expenses related to tourism conference sponsorships and trade shows that did not comply with SAAM requirements for completing a cost-benefit analysis, obtaining legal counsel review, and maintaining required documentation—**For all 5 Office sponsorships with tourism-related entities we reviewed, the Office failed to complete a required cost-benefit analysis demonstrating that the anticipated benefit of the sponsored activity or event outweighed its cost prior to making the expenditure, document the public benefit of the event, maintain detailed receipts indicating how these public monies were spent, and obtain legal counsel review prior to entering into the sponsorship agreement. Although the Office had invoices for each of these expenditures, the invoices did not provide a detailed breakdown of the items or services paid with public monies, as required by the SAAM, to help ensure various expenditure requirements and restrictions were followed. The Office spent the following amounts for these sponsorships:
    - Approximately $39,400 to sponsor a travel writers conference and provide additional items—dinner, promotional items, and ground transportation—which, according to the Office's documentation, were purchased to enhance the conference experience for approximately 42 conference attendees. According to this expenditure's 2 invoices, the Office spent $27,500 on sponsorship fees, more than $5,000 on dinner, approximately $5,000 on airport transfers and transportation, and approximately $1,900 on "turndown

[6] We reviewed the Office's records for spending on promotional activities, events, and projects conducted jointly with other tourism entities in the State and identified 21 such expenditures conducted with 5 other tourism entities totaling approximately $81,000 in fiscal years 2019 and 2020. However, additional monies may have been expended on promotional activities outside of the expenditures we reviewed.

amenities." However, the Office was not able to provide receipts showing a detailed breakdown of these costs to ensure that SAAM meal and transportation reimbursement limits were not exceeded.

- $15,000 for sponsorship costs of 2 sponsored events in Sonora, Mexico—a chef festival and a wine festival—including the pavilion design, promotional videos, advertising, and other expenses.
- More than $2,000 to purchase promotional items, including cocktail mixers, gift bags, and drink recipe cards for event attendees and $3,500 for flower arrangements for an awards dinner it sponsored.
- $150 to preregister as a lunch sponsor to promote State travel destinations to local media; however, Office staff did not attend this function. According to the Office, it received a list of media that attended this event.

- **$15,076 for expenses related to journalist tours that did not comply with SAAM requirements for nonemployee travel-related expenditures and maintaining detailed receipts—**According to the Office, in order to promote Arizona as a tourist destination and obtain positive media coverage, it paid for 5 journalists' airfare and/or ground transportation to travel to and stay in Arizona. The Office also paid for the costs of food, events, and tours for an additional 13 individuals, including journalists and tourism industry representatives, to visit scenic destinations in the State. However, the Office did not comply with the following SAAM requirements for these travel-related expenditures:

    - Documenting the valid public purpose for this travel and determining that the expenditure's benefit to the State, such as the amount of positive media coverage generated from the expense, outweighed the cost of paying for this travel, prior to making the expenditure. Additionally, although the Office tracks the media coverage journalists produce after visiting the State, it reported that journalists' trips to the State may not result in media coverage. Based on our review of the Office's fiscal year 2019 tracking tool, 29 of 184 trips and tours the Office tracked did not result in media coverage.
    - Entering into written agreements stipulating the State's responsibilities, any liability to the State for providing these travel services, and expectations for these journalists to provide positive media coverage.
    - Retaining detailed receipts to explain how public monies were spent and ensure employees' and nonemployees' travel and meal costs were reimbursed consistent with SAAM rates. Specifically, the Office had invoices for each of these expenditures and the required receipts for airfare and rental cars for the 5 instances when it paid for journalists' airfare and ground transportation. However, the Office was not able to provide receipts or a detailed breakdown of the food, hotel stays, promotional items, and other services paid with public monies for employees', journalists', and other nonemployees' tours to visit scenic destinations, as required by SAAM.

    These travel and tour expenses also included the transportation and tour costs for Office staff who accompanied the journalists on scenic destination tours around Arizona. Specifically, 3 staff attended a tour of Canyon de Chelly National Monument, 2 staff attended a tour of the Grand Canyon, and 1 staff attended a tour of the Superstition Mountains.

    Further, for 1 tour that involved 6 journalists and 2 Office staff, the Office paid a $1,500 gratuity to a tour company, which represented approximately 40 percent of the Office's spending on this tour, even though the SAAM limits gratuities for travel-related incidental items to 15 percent. According to the Office's correspondence with the tour company when planning this tour, the tour company estimated that the tour's total cost would be approximately $7,000. The correspondence indicates that the Office and tour company agreed to each pay 50 percent of this estimated cost, or, $3,500 each, and that after the tour, the tour company would bill the Office for any additional expenses, including gratuity. Accordingly, the Office received an invoice from the tour company that included the agreed upon $3,500 tour fee, an additional $500 charge for an unplanned restaurant dinner because extreme weather prevented a planned meal from occurring, and a $1,500 gratuity for 2 tour guides and a photographer who assisted the guides. Office correspondence indicates that an accounting employee questioned the appropriateness of this gratuity because it exceeded the SAAM's 15 percent limit and indicated that the Office should notify the tour company that a new invoice was needed.

However, Office management directed the accounting employee to pay the $1,500 gratuity because the Office had initially agreed in its correspondence with the tour provider to pay the tour's gratuity costs. Further, the Office was not able to provide a detailed receipt showing that SAAM meal reimbursement limits were not exceeded for the $500 dinner.

- **$2,602 for miscellaneous projects that did not comply with SAAM requirements for maintaining detailed receipts—**The Office paid for other miscellaneous projects to promote international travel to the State, such as $448 for a dinner for a national tourism association, $500 as part of an effort to compile a list of tour operators in France to promote Arizona as a destination, and more than $1,600 for an Arizona travel section to be included on a German tour operator's website. However, the Office failed to document the public benefit of these expenditures prior to making them or maintain detailed receipts for the expenditure of these public monies to ensure expenditures complied with SAAM requirements.

Office reported these expenditures help fulfill its statutory duty to promote tourism, but it lacks policies and procedures to ensure compliance with State requirements for using public monies

Although the Office acknowledged that it lacked the required documentation for these expenditures, it stated that it is a unique government agency, and its statutory responsibilities to promote tourism and work with other tourism entities around the State permit it to use public monies on sponsorships, trade shows, journalist tours, and promotional items. However, these responsibilities do not absolve the Office of being aware of, understanding, and adhering to State requirements for spending public monies. The Office reported that based on our inquiries, it plans to seek further guidance from the Arizona Department of Administration, General Accounting Office, regarding how to document its informal cost-benefit analyses and justifications to help it better comply with SAAM requirements. Further, the Office would benefit from developing and implementing policies, procedures, guidelines, and supervisory review processes to help ensure it complies with the SAAM requirements. During the audit, effective beginning in fiscal year 2021, the Office adopted a new form and process for planning journalist tours. This form documents the proposed dates of the journalist's trip and anticipated travel costs, the purpose of the visit, the anticipated positive media coverage of the State that will be produced, and the estimated date the positive media coverage will be published.

Recommendations

The Office should:

1. Comply with SAAM requirements for spending public monies for promotional purposes, such as sponsorships, promotional items, travel, and food and beverages.
2. In consultation with the Arizona Department of Administration, General Accounting Office, develop and implement policies, procedures, and guidelines for spending public monies for promotional purposes that incorporate supervisory review and include:
    a. Defining the appropriate use of public monies, including whether public monies can be used for promotional items, travel, and food and beverages.
    b. Requiring Office staff to document the public purpose and benefit of these expenditures prior to making the expenditure.
    c. Requiring tourism-related entities to submit detailed invoices and receipts for expenditures that are reviewed by Office staff prior to processing payments.
    d. Prohibiting payment for journalist and other nonemployee travel without a written agreement.
    e. Requiring a cost-benefit analysis of potential sponsorships and review by legal counsel prior to entering into sponsorship agreements.

Office response: As outlined in its response, the Office agrees with the finding and will implement the recommendations.

Five changes to fiscal year 2020 DMO spending plans were not approved, and Office approved inaccurate fiscal year 2021 spending plans, which placed public monies distributed to tourism entities at potential risk of misuse, loss, or theft

Statute, Office guidelines, and SAAM outline requirements for spending tourism tax revenues to help ensure public monies are used in accordance with statutory requirements and accounted for properly

A.R.S. §41-2306 requires that Proposition 302 Maricopa County tourism tax revenues (tourism revenues) be spent to promote tourism within Maricopa County, and as previously explained in Finding 1 (see page 8), the SAAM specifies the requirements that State agencies must follow when using public monies, including tourism revenues. Each month the Office receives tourism revenues from the Arizona Sports and Tourism Authority and distributes these monies to Maricopa County DMOs for Maricopa County tourism promotion and marketing projects (see the Introduction, page 5, for additional information).

To help ensure compliance with the statutory requirement for using tourism revenues for Maricopa County tourism promotion only, and that these monies are properly accounted for, the Office has established guidelines that outline the requirements DMOs must follow to receive and spend these monies. For example, these guidelines require the Office to approve Maricopa County DMOs' annual proposed tourism promotion marketing plans, which include projected spending. The guidelines also require the DMOs to submit semiannual expense reports and any proposed changes to their approved marketing and spending plans (i.e., change requests) for review and approval prior to changing any spending plans. Additionally, as previously described in the Introduction (see page 5), the Office has established the Proposition 302 Maricopa County Marketing Program Committee (Committee) to help it administer this program. The guidelines require both the Office and Committee to review and approve the DMOs' marketing and spending plans and any change requests. The Office is responsible for providing the information the DMOs submit to the Committee for its review and approval.

Some DMO spending plan changes were not reviewed and approved as required, and Office approved inaccurate DMO spending plans

Our review of a judgmental sample of 4 DMOs' fiscal year 2020 spending plans, change requests, and fiscal year-end reports found that the Office and/or Committee did not review and approve change requests totaling approximately $40,700, as required by the Office's guidelines.[7] Further, the Office did not regularly reconcile

[7] The Office distributed $8,548,179 to 11 DMOs in fiscal year 2020. We reviewed a judgmental sample of 4 of 11 DMOs that received a total of $6,263,592 in Maricopa County tourism revenue distributions from the Office. We reviewed all change requests for these 4 DMOs.

DMOs' spending to its distribution and accounting records in fiscal year 2020 and approved inaccurate fiscal year 2021 carryforward spending plans for 3 of 4 DMOs we reviewed. Specifically:

- **Two DMOs modified their fiscal year 2020 planned expenditures and spent approximately $4,700 without submitting change requests to the Office and Committee for review and approval—**Although the Office reported that it would have approved these changes had a change request been submitted, it was unaware that the DMOs had changed their approved marketing and spending plans until we brought it to Office staff's attention. According to 1 of these DMOs, its understanding was that a change request is required only when a project is canceled and not in instances when a DMO determines to spend additional money on an approved project and reduce spending on a different project in order to do so. The other DMO reported that it was unclear on the Office's expectations for when change requests were required and indicated that it regularly needed to contact the Office for information/guidance.

- **Office approved 3 DMOs' change requests totaling approximately $36,000 without involving the Committee—**Specifically, the Office approved 2 separate DMOs' change requests—1 request for approximately $20,000 and the other for approximately $15,000—without providing these change requests to the Committee for its review and approval, contrary to Office guidelines. Specifically, the Office's guidelines state that all funding allocated must be spent on approved marketing activities, and any change requests to marketing plans must be emailed to the Office, with approval from the Committee provided in 7 to 10 business days. The guidelines also state that DMOs cannot transfer funds from 1 specific project to another project without prior written approval from the Office. According to the documentation we reviewed, 1 of these DMOs expected Committee review and requested that the Office notify it of the Committee's decision. Finally, the Office approved a third change request without providing it to the Committee for review and approval from a DMO that had already spent approximately $1,000 on a new video project that was not reflected in its previously approved marketing and spending plan. In the documentation we reviewed, this DMO acknowledged its noncompliance with the Office's guidelines by submitting the change request for review and approval after it had spent the monies.

- **Office did not regularly reconcile DMOs' spending during fiscal year 2020, approved inaccurate fiscal year 2021 carryforward spending plans, and had not accounted for some monies it distributed—**The SAAM requires State agencies to regularly review and reconcile expenditures and take action to resolve any discrepancies, and implement procedures for properly closing out distributions at the end of the fiscal year to identify and resolve any discrepancies between distributions and spending. However, the Office did not regularly reconcile DMOs' spending throughout fiscal year 2020. As a result, it approved inaccurate requests from 3 DMOs to retain fiscal year 2020 monies to use in fiscal year 2021 for Office- and Committee-approved tourism promotion and marketing purposes that they did not spend because of the COVID-19 pandemic.[8] These errors included 2 DMOs that requested to spend approximately $19,000 of fiscal year 2020 program monies in fiscal year 2021 they did not have, which put these DMOs at risk of overspending. In addition, Office records did not account for approximately $12,000 that it had distributed to 1 DMO, which the DMO had not spent in fiscal year 2020, returned to the Office, or included in its fiscal year 2021 spending request.

Office lacks clear and comprehensive policies, procedures, reporting templates, and training for program administration

The Office has not put into place clear and comprehensive policies, procedures, and reporting templates for this marketing program, nor trained its employees, Committee members, and participating DMOs to help ensure compliance with statutory and SAAM requirements for spending tourism revenues. Specifically, the Office lacks:

[8] As previously explained in the Introduction (see page 5), the Office distributed approximately $8.5 million in tourism revenues to Maricopa County DMOs for tourism and marketing promotion in fiscal year 2020. In response to the COVID-19 pandemic, the Office authorized 10 of 11 DMOs to carryforward approximately $1.3 million of this amount to use in fiscal year 2021. Fiscal year 2021 was the first year that participating DMOs were authorized to carry forward monies.

- A clearly defined change request procedure outlining the requirements for DMOs, Office staff, and Committee members in the submission, review, forwarding, and approval of DMOs' requests to modify their approved spending plans. As previously described on page 13, the DMOs we interviewed reported different understandings and expectations of the change request process. Further, Office staff and Committee members we interviewed also reported different understandings and expectations of the change request process. Specifically, Office management reported that Committee approval was required for change requests exceeding $25,000, but this reported threshold was not reflected in Office guidelines or procedures, which may have contributed to the DMOs' different understandings and expectations. Additionally, 2 Committee members reported that all change requests require Committee review and approval and a third Committee member reported that the Committee reviews and approves change requests forwarded by the Office but that minor changes do not require Committee approval.

- Standardized mid-year or end-of-year expense reporting templates to help ensure DMOs consistently and accurately report spending and use tourism revenues as approved. Instead, the DMOs submit reports in various formats, which hampers the Office's ability to consistently and timely review these reports.

- Policies and procedures for regularly reconciling DMOs' spending against approved marketing and spending plans and the Office's distribution and accounting records.

- A timely close-out process at the end of the fiscal year. Although the Office requires DMOs to submit year-end expense reports within 1 month of the end of the fiscal year, the Office had not adopted a process to timely review and close out spending at the end of the fiscal year and as of January 2021, was still in the process of closing out fiscal year 2020 spending.

During the audit, in January 2021, the Office adopted a new procedure that establishes a goal of reviewing DMOs year-end expense reports within 1 to 2 weeks of the reporting deadline. Additionally, during the June 2021 Committee meeting, Office staff and Committee members discussed that Committee approval is required for change requests that exceed $25,000 only and that the Office's director is authorized to approve change requests that are less than $25,000. This threshold was not reflected in the Office's fiscal year 2022 marketing program guidelines distributed to participating DMOs, and the Office reported it did not include this information because it expects DMOs to submit all change requests for review and approval.

Recommendations

The Office should:

3. Comply with SAAM requirements for spending public monies.

4. Continue to develop and implement change request policies and procedures that include:

    a. Requirements for DMOs to submit a change request, time frames for submitting change requests, and the information that should be provided to explain the reason for the change and how spending will be reallocated.

    b. Office staff's responsibilities for reviewing and approving DMOs' change requests.

    c. The circumstances that require Committee review and approval of change requests, Office staff's responsibilities for providing change requests and other necessary information to the Committee to facilitate its review, and Committee members' responsibilities for reviewing and approving change requests.

5. Develop and implement standardized mid-year and end-of-year expense reporting templates for DMOs to help ensure spending information is consistently and accurately reported.

6. Develop and implement policies and procedures for reconciling DMOs' spending against approved marketing plans and the Office's distribution and accounting records and timely closing out spending at the end of the fiscal year.

7. Train DMOs, Office staff, and Committee members on these policies, procedures, and reporting templates.

Office response: As outlined in its **response**, the Office agrees with the finding and will implement or implement in a different manner the recommendations.

Office did not comply with some State conflict-of-interest requirements, increasing risk that employees and public officers had not disclosed substantial interests that might influence or could affect their official conduct

Statute addresses conflicts of interest for public agency employees and public officers

Arizona law requires employees of public agencies and public officers to avoid conflicts of interest that might influence or affect their official conduct. To determine whether a conflict of interest exists, employees/public officers must first evaluate whether they or a relative has a "substantial interest" in (1) any contract, sale, purchase, or service to the public agency or (2) any decision of the public agency.

If an employee/public officer or a relative has a substantial interest, statute requires the employee/public officer to fully disclose the interest and refrain from voting upon or otherwise participating in the matter in any way as an employee/public officer.[9,10] The interest must be disclosed in the public agency's official records, either through a signed document or the agency's official minutes. To help ensure compliance with these statutory requirements, the Arizona Department of Administration's (ADOA) State Personnel System employee handbook and conflict-of-interest disclosure form (disclosure form) require State employees to disclose if they have any business or decision-making interests, secondary employment, and relatives employed by the State at the time of initial hire and anytime there is a change. The ADOA disclosure form also requires State employees to attest that they do not have any of these potential conflicts, if applicable, also known as an "affirmative no." In addition, A.R.S. §38-509 requires public agencies to maintain a special file of all documents necessary to memorialize all disclosures of substantial interest, including disclosure forms and official meeting minutes, and to make this file available for public inspection.

Key terms

- **Substantial interest—**Any direct or indirect monetary or ownership interest that is not hypothetical and is not defined in statute as a "remote interest."
- **Remote interest—**Any of several specific categories of interest defined in statute that are exempt from the conflict-of-interest requirements. For example, an employee or public officer who is reimbursed for actual and necessary expenses incurred while performing official duties.

Source: Auditor General staff review of A.R.S. §38-502 and the *Arizona agency handbook*. Arizona Office of the Attorney General. (2018). *Arizona agency handbook*. Phoenix, AZ. Retrieved 4/9/2019 from https://www.azag.gov/outreach/publications/agency-handbook.

9 See A.R.S. §§38-502 and 38-503(A) and (B).

10 A.R.S. §38-502(8) defines "public officer" as all elected or appointed officers of a public agency established by charter, ordinance, resolution, State constitution, or statute. According to the *Arizona Agency Handbook*, public officers include directors of State agencies and members of State boards, commissions, and committees, whether paid or unpaid.

In response to conflict-of-interest noncompliance and violations investigated in the course of our work, such as employees/public officers failing to disclose substantial interests and participating in matters related to these interests, we have recommended several practices and actions to various school districts, State agencies, and other public entities.[11] Our recommendations are based on guidelines developed by public agencies to manage conflicts of interest in government and are designed to help ensure compliance with State conflict-of-interest requirements by reminding employees/public officers of the importance of complying with the State's conflict-of-interest laws.[12] Specifically, conflict-of-interest recommended practices indicate that all public agency employees and public officers complete a disclosure form annually and that the form include a field for the employee/public officer to provide an "affirmative no," if applicable. These recommended practices also indicate that agencies develop a formal remediation process and provide periodic training to ensure that identified conflicts are appropriately addressed and help ensure conflict-of-interest requirements are met.

Office had not complied with some State conflict-of-interest requirements, and its conflict-of-interest process was not fully aligned with recommended practices

Prior to our review, the Office had not complied with some State conflict-of-interest requirements, and its conflict-of-interest process was not fully aligned with recommended practices designed to help ensure that employees/public officers comply with State requirements. Specifically:

- **Four employees had not completed a disclosure form and 2 other employees' disclosure forms were not updated when employees' circumstances changed, as required by ADOA—**According to the ADOA disclosure form, State employees are required to complete a disclosure form when hired and a new disclosure form any time there is a change. However, as of December 2020, the Office did not have a completed disclosure form for 4 of 26 employees. Additionally, 2 office employees did not complete a new conflict-of-interest disclosure form when they transferred to the Office from another State agency. For these 2 employees, the Office provided the disclosure forms from their initial State agency employer—the Arizona Department of Economic Security and the ADOA—which had been completed in 2003 and 2012, respectively. Office staff reported that the Office viewed the State of Arizona as a single employer, and therefore, it did not require employees new to the Office but previously employed at a different State agency to complete a new disclosure form when they started employment with the Office. Because each State agency has distinct responsibilities, functions, and areas of regulation or involvement, completing a new disclosure form specific to the employee's new role is important to help ensure any potential or actual conflicts are disclosed.

- **Disclosure form did not address all statutorily required disclosures—**The ADOA disclosure form Office employees completed during new employee onboarding prior to June 2020 required employees to disclose any substantial financial interest; however, it did not require disclosure of substantial interest in Office decisions, as required by statute.[13] In June 2020, the ADOA updated its conflict-of-interest disclosure form to include decision-making disclosures and to require an affirmative statement indicating whether or not a conflict exists.

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[11] See, for example, Auditor General Reports 21-402 *Higley Unified School District—Criminal Indictment—Conspiracy, Procurement Fraud, Fraudulent Schemes, Misuse of Public Monies, False Return, and Conflict of Interest*, 19-105 *Arizona School Facilities Board—Building Renewal Grant Fund*, and 17-405 *Pine-Strawberry Water Improvement District—Theft and misuse of public monies*.

[12] Recommended practices we reviewed included: Organization for Economic Cooperation and Development (OECD). (2003). *Recommendation of the council on guidelines for managing conflicts of interest in the public service*. Paris, France. Retrieved 4/16/2020 from https://legalinstruments.oecd.org/public/doc/130/130.en.pdf; Ethics & Compliance Initiative (ECI). (2016). *Conflicts of interest: An ECI benchmarking group resource.* Arlington, VA. Retrieved 4/16/2020 from https://www.ethics.org/knowledge-center/conflicts-of-interest-report/; and Controller and Auditor General of New Zealand (2020). *Managing conflicts of interest: A guide for the public sector*. Wellington, New Zealand. Retrieved 3/4/2021 from https://oag.parliament.nz/2020/conflicts/docs/conflicts-of-interest.pdf.

[13] A.R.S. §38-503.

- **Office lacked a special disclosure file as required by statute**—The Office did not have a special disclosure file to store disclosures of substantial interest for public inspection, as required by statute.[14] Instead, according to the Office, it housed some completed conflict-of-interest disclosure forms in each individual employee's personnel file.

Also, the Office had not fully aligned its conflict-of-interest process with recommended practices. Specifically, although not required by statute or the ADOA, the Office did not require its employees to annually complete a disclosure form and did not have a disclosure form on file for its Tourism Advisory Council (Council) and Proposition 302 Maricopa County Marketing Program Committee (Committee) members. The Office had not required the 15 Council members who are public officers or the 7 volunteer Committee members who represent the tourism industry to complete a disclosure form (see the Introduction, pages 2 and 5, for additional information about these entities). Additionally, the Office had not developed and implemented a remediation process for disclosed conflicts or periodic training for its employees, Council, and Committee members related to their unique programs, functions, or responsibilities.

Office's noncompliance with State requirements increased risk that employees and Council and Committee members did not disclose substantial interests that might influence or affect their official conduct

The Office's conflict-of-interest process, which did not fully align with recommended practices, and its noncompliance with State conflict-of-interest requirements increased the risk that Office employees and public officers did not disclose substantial interests that might influence or affect their official conduct. Specifically, by not requiring any of its Council and Committee members to complete a disclosure form or complying with the ADOA requirement that employees complete a new disclosure form when their circumstances changed, the Office could not ensure that its public officers and employees disclosed both financial and decision-making substantial interests and refrained from participating in any manner related to these interests, as required by statute. Consequently, the Office might have been unaware of potential conflicts and the need to take action to mitigate those conflicts.

For example, Committee members, in consultation with Office employees, review and approve DMOs' applications and proposed marketing plans to spend Maricopa County tourism tax revenues. Without completed conflict-of-interest disclosure forms, the Office could not ensure that the 7 Committee members who represent industry are free from both financial and decision-making substantial interests as it pertains to their review and approval of DMOs' proposals and applications. The Office reported that 1 Committee member recused himself from decision-making in some instances but could not provide written documentation of these recusals through either a signed disclosure form or official minutes, as required by statute.

Finally, because the Office did not store completed forms disclosing substantial interests in a special file or have a listing of employees who completed disclosure forms, the Department lacked a method to track which and how many employees disclosed an interest and make this information available in response to public requests.

Office lacked a conflict-of-interest policy but developed a conflict-of-interest policy and process during the audit that aligns with some State requirements and recommended practices

Two factors contributed to the noncompliance noted previously. Specifically:

- The Office indicated that it believed that the ADOA and Governor's Office of Boards and Commissions handled conflict-of-interest disclosures for State employees and board and committee members, respectively, and that it was not the Office's responsibility to do so. Specifically, the ADOA onboards new employees when they

[14] A.R.S. §38-509.

enter State service. Therefore, the Office relied on the ADOA to ensure that its new employees completed the ADOA State Personnel System employee conflict-of-interest disclosure form. However, the Office did not obtain a copy of completed disclosure forms from the ADOA for its employees and needed to request them based on our inquiries.

- Prior to our review and inquiries, the Office lacked a conflict-of-interest policy and reported that it did not provide conflict-of-interest training to employees or its public officers.

As of January 2021, the Office developed a new conflict-of-interest policy that aligns with some State requirements and recommended practices. Specifically, this policy requires all employees to annually complete the ADOA's conflict-of-interest disclosure form. According to the policy, completed disclosure forms are saved by the Office's human resources office. In addition, as of February 2021, the Office reported it worked with its Assistant Attorney General to develop separate conflict-of-interest disclosure forms for its Council and Committee members. These new disclosure forms mirror the ADOA form applicable to State employees, including the affirmative no, and state that Council and Committee members are required to complete the form annually. As of September 2021, all Office employees, 11 Council members, and 7 Committee members had completed an annual disclosure form.[15]

However, the Office's new conflict-of-interest policy does not include a requirement that all disclosures of substantial interest—including employee and Council and Committee member disclosure forms and any applicable official minutes from Council and Committee meetings—be stored in a special file available for public inspection. Additionally, the Office could further align its conflict-of-interest policy with recommended practices by including a process for reviewing and remediating any disclosed conflicts and establishing training requirements for employees and public officers.

Recommendations

The Office should:

8. Continue to develop and implement conflict-of-interest policies to help ensure compliance with State conflict-of-interest requirements, including:

    a. Reminding employees/public officers at least annually to complete a new disclosure form when their circumstances change, such as by requiring its employees and members of the Tourism Advisory Council and Proposition 302 Maricopa County Marketing Program Committee to complete an annual conflict-of-interest disclosure form, including attesting that no conflicts exist, if applicable.

    b. Storing all disclosures of substantial interest, including disclosure forms and meeting minutes, in a special file available for public inspection.

    c. Establishing a process to review and remediate disclosed conflicts.

9. Develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure forms to its employees and Council and Committee members on how the State's conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

Office response: As outlined in its **response**, the Office agrees with the finding and will implement the recommendations.

[15] As of June 2021, 1 individual and the Office's Director were members of both the Council and Committee and, as previously discussed in the Introduction (see page 2), the Council had 4 vacancies.

Pursuant to A.R.S. §41-2954(D), the legislative committees of reference shall consider but not be limited to the following factors in determining the need for continuation or termination of the Office. This sunset factor analysis includes 2 additional findings and recommendations not discussed earlier in the report.

Sunset factor 1: The objective and purpose in establishing the Office and the extent to which the objective and purpose are met by private enterprises in other states.

The Office was established in 1978 to promote and develop tourism in the State. The Office's responsibilities include encouraging collaboration with public and private partners to market Arizona as a tourist destination, conducting research to maintain a central repository of State tourism data and support long-range tourism planning, and providing information to the Governor, Legislature, tourism industry, and public.

According to the U.S. Travel Association, all 50 states fund tourism promotion to varying extents, and state tourism promotion entities can be public or private nonprofit entities. We contacted 8 states and reviewed the organizational structure of their state tourism promotion entities.[16] Six of these states' tourism entities—Colorado, Idaho, Nevada, Utah, Washington, and Wyoming—are governmental entities, California's tourism entity is a nonprofit destination marketing organization (DMO) that works with that state's governor's office to promote tourism, and Oregon's tourism entity is a semi-independent state agency that is overseen by a governor-appointed board and funded by a hotel tax and is not subject to all of that state's laws and requirements that other executive branch agencies are required to follow.

Sunset factor 2: The extent to which the Office has met its statutory objective and purpose and the efficiency with which it has operated.

The Office has generally met its statutory objective and purpose for some areas we reviewed, but it should improve in other areas. Examples of where the Office has met its statutory objective and purpose include:

- **Measuring the effectiveness of its marketing and advertising efforts—**The Office assesses its performance in promoting and developing tourism in the State through a variety of measures, including:
    - Contracting for an annual advertising effectiveness survey, which measures the effectiveness of advertising campaigns based on consumer survey responses and helps to direct the Office's future advertising efforts. This survey assesses industry standard metrics, such as advertising awareness, influenced trips by campaign, and return on investment. For example, the fiscal year 2020 survey determined that advertising reached approximately 40 million households and influenced approximately 683,000 Arizona trips. According to the survey, the number of households reached in fiscal year 2020 was fewer than the number reached in fiscal years 2016, 2017, 2018, and 2019. However, the number of Arizona trips influenced was more than in fiscal years 2016, 2017, and 2018. The survey attributed this decline in visitation and travel to the COVID-19 pandemic and the Office's decision to stop advertising in March 2020.
    - Using monthly scorecards to track its performance related to various activities and functions, such as the number of subscribers who open and read its weekly eNewsletter and the number of individuals who

[16] We judgmentally selected California, Colorado, Idaho, Nevada, Oregon, Utah, Washington, and Wyoming for review based on their geographic location and comparable tourism industries. We reviewed information from the U.S. Travel Association and the National Conference of State Legislatures and contacted tourism entity staff in each of these states.

engage with the Office's social media profiles.[17] For example, the Office's June 2019 scorecard indicated that the number of subscribers opening and reading its eNewsletter was declining and that the Office determined it needed to adjust the eNewsletter's content.

- ○ Developing and using aggregate performance indicators that measure the overall economic impact of tourism in the State, such as lodging taxes collected, hotel revenues, domestic and international visitor spending, and total travel spending across Arizona. The Office uses this information to plan its future marketing and advertising campaigns and reports this information to the public, the Tourism Advisory Council, and to the Governor's Office as part of its annual budget requests. We also identified 2 western states—Colorado and Utah—that use similar key performance indicators to measure the economic impact of tourism in their states and use 2 of the same vendors as the Office to collect information on these measures.

- **Selecting target cities for marketing campaigns and adapting this effort in response to the COVID-19 pandemic—**Annually, the Office selects major cities and metropolitan areas to focus its advertising and marketing efforts to encourage individuals from these cities and areas to travel to Arizona. The Office considers various factors when selecting cities and metropolitan areas for these marketing efforts, such as the number of visitors from various cities and the amount of money these visitors spend when they visit Arizona destinations. Once the Office selects the cities and metropolitan areas it will target for its tourism-related marketing campaigns, the Office measures the return on investment for its advertising and marketing efforts in each of these cities through its annual advertising effectiveness survey (see page 20 for additional information about this survey). For fiscal year 2020, the Office selected New York, Chicago, San Francisco, Minneapolis, Dallas, and Denver to focus its tourism-related marketing campaigns and spent approximately $1.3 million on these campaigns.

  According to the fiscal year 2020 advertising effectiveness survey's results, the Office's marketing campaigns were successful in increasing advertising-influenced travel to Arizona from all the cities it selected except for Denver. Specifically, the survey identified that Denver was the only target market city where the Office's investments did not result in increased travel during fiscal year 2020. The survey attributed this lack of increased travel to Denver being a new market for the Office's targeted advertising and marketing campaigns. Based on the survey's results, the contractor that conducted the survey indicated that if the Office continued to advertise in Denver, it needed to continue to monitor its advertising's effectiveness in the Denver area. However, starting in March 2020, in response to the COVID-19 pandemic and travel restrictions, the Office suspended its marketing campaigns in these cities and instead directed its efforts to marketing within the State and to neighboring states. These marketing campaigns encouraged Arizona residents to travel within the State to "Rediscover Arizona" and individuals in neighboring states to drive to Arizona destinations. The Office resumed its target city marketing campaigns as of November 2020 and selected San Francisco, Minneapolis, Chicago, Seattle, and Salt Lake City for this advertising based on its analysis of travel trends during the COVID-19 pandemic and its prior advertising effectiveness.

However, we also identified 1 area where the Office can better meet its objective and purpose:

- **Office did not incorporate long-term economic, sociocultural, and environmental impacts of increased tourism in its strategic planning efforts, consistent with recommended industry practices—**As required by statute, the Office has conducted some strategic planning efforts and most recently completed a long-term strategic plan for fiscal years 2017 through 2021, but it has not incorporated various long-term tourism impacts into its strategic planning efforts as indicated by recommended industry practices.[18] Specifically, the Organization for Economic Co-operation and Development (OECD) suggests that tourism agencies should plan and implement strategies that promote sustainable tourism and that address

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[17] The Arizona Management System is an initiative from the Arizona Governor's Office that is based on the principles of continuous improvement and is used to monitor the overall progress and performance of State agencies. Scorecards are a visual tool that State agencies, including the Office, use to manage and measure agency performance metrics and are updated monthly over the course of a fiscal year.

[18] A.R.S. §41-2305 requires the Office to perform research necessary to determine a long-range tourism development plan for the State, and A.R.S. §35-122 requires State agencies to develop and annually update 5-year strategic plans.

the needs of visitors, the industry, the environment, and host communities.[19] The OECD also recommends that tourism entities consider the long-term challenges and impacts associated with increased tourism activity and rapid tourism growth as part of their planning efforts (see textbox for information about the 3 types of long-term impacts). Implementing strategies that address these impacts can help tourism entities ensure productive growth, maximize emerging opportunities, and mitigate long-term challenges.

Long-term tourism impacts

Economic impacts—High levels of seasonal visitation can lead to employment and real estate pressures during peak periods.

Sociocultural impacts—Increased demand and visitation can impede the day-to-day activities of residents who rely on public spaces and public transportation.

Environmental impacts—High levels of congestion and overcrowding can lead to the deterioration of or damage to tourism-related infrastructure, facilities, wildlife, and sensitive natural and historical sites.

Source: Auditor General staff review of information from the OECD.

However, the Office's fiscal years 2017 through 2021 strategic plan did not address long-term economic, sociocultural, or environmental impacts, as defined by OECD. For example, the strategic plan did not include strategies to mitigate sociocultural or environmental impacts such as increased traffic congestion or preventing deterioration or damage to natural and historical sites associated with hosting large events and increasing visitation. Such considerations are critical as the State continues to host MLB Cactus League spring training and prepares to host other large events, such as the 2023 Super Bowl, that will bring many visitors to the State. Assessing long-term impacts to the State that result from tourism and specific events that promote tourism would not only help ensure the Office maximizes the tourism experience in the State but plans for and pursues solutions to help address the potential impacts of tourism, such as visitor overcrowding and pressure on existing infrastructure.

In contrast and in response to the COVID-19 pandemic, in July 2020, the Office issued a temporary, 12- to 18-month strategic recovery plan outlining its priorities, strategic areas of focus, and action steps to mitigate pandemic-related concerns and support the State's tourism industry. In addition to specifying its tourism promotional efforts and activities during this time frame, the plan identified action steps the Office plans to take related to the environmental impacts of tourism, such as informing individuals about their impacts on outdoor destinations and supporting efforts by the federal government to develop a prioritized list of national park trails in Arizona that have deferred maintenance and would benefit from federal investments.

As of June 2021, the Office reported that it was working with a contractor to develop a new 3-year strategic plan and a 10-year destination sustainability plan, which provides the Office with an opportunity to incorporate long-term impacts into its strategic planning efforts to help ensure productive growth, maximize emerging opportunities, and mitigate long-term challenges.

Additionally, as discussed in Findings 1 and 2:

- The Office spent $81,239 on promotional activities, events, and projects conducted jointly with other tourism entities without required justification and documentation, which placed these public monies at potential risk of misuse (see Finding 1, pages 8 through 11).
- Some changes to DMOs' fiscal year 2020 spending plans were not reviewed and approved as required, and the Office approved inaccurate fiscal year 2021 spending plans, which placed these public monies distributed to other tourism entities at potential risk of misuse, loss, or theft (see Finding 2, pages 12 through 15).

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[19] Organization for Economic Cooperation and Development (OECD). (2020). *OECD tourism trends and policies 2020*. Paris, France. Retrieved 11/16/2020 from http://www.oecd.org/cfe/tourism/oecd-tourisd ffcvm-trends-and-policies-20767773.htm.

Recommendation

10. The Office should identify and incorporate economic, sociocultural, and/or environmental impacts in its strategic planning efforts.

Office response: As outlined in its **response**, the Office agrees with the finding and will implement the recommendation.

Sunset factor 3: The extent to which the Office serves the entire State rather than specific interests.

The Office serves the entire State by directly promoting tourism and working with other tourism promotion entities throughout the State to do so. Additionally, as previously described in the Introduction (page 5), the Office distributes tourism tax revenues to Maricopa County DMOs for tourism promotion and marketing efforts within the County through its Maricopa County Marketing Program and other monies to rural DMOs for tourism promotion for the State's rural areas through its Rural Cooperative Marketing Program.

However, the Office did not comply with some State conflict-of-interest requirements, including requiring all employees to complete a new conflict-of-interest disclosure form when their circumstances changed and maintaining a special disclosure file of all required disclosures of substantial interest—including disclosure forms and any applicable official minutes from Council and Committee meetings—for public review. We recommended that the Office continue to develop and implement conflict-of-interest policies to help ensure it complies with State conflict-of-interest requirements (see Finding 3, pages 16 through 19).

Sunset factor 4: The extent to which rules adopted by the Office are consistent with the legislative mandate.

A.R.S. §41-2305 provides the Office with general rulemaking authority, allowing it to adopt necessary rules; however, no specific rules are required by the Office's statutes. According to the Office, it has established the rules it deems necessary to meet its legislative mandate.

Sunset factor 5: The extent to which the Office has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.

As of November 2020, the Office had not initiated any rulemakings in the last 5 years, and therefore, it has not needed to encourage input from the public for this purpose. In addition, as discussed in the Introduction (see page 2), statute establishes the Office-supported Tourism Advisory Council to assist and advise the Office in promoting and developing tourism in the State. Statute does not prescribe when or how often the Tourism Advisory Council should meet, and it did not meet during the time we conducted our audit; therefore, we did not assess its compliance with various open meeting law requirements.[20] Additionally, statute requires public bodies to post a statement on their websites indicating where all public meeting notices will be posted. Although the Office's website did not include this required disclosure statement for the Tourism Advisory Council when we began our work, after we made it aware of this requirement, the Office added this disclosure statement to its website as of September 2021.

Sunset factor 6: The extent to which the Office has been able to investigate and resolve complaints that are within its jurisdiction.

This factor does not apply because the Office is not a regulatory agency and does not have statutory authority or responsibility to investigate and resolve complaints. According to the Office, it has not received any complaints related to its key statutory objectives and purposes.

Sunset factor 7: The extent to which the Attorney General or any other applicable agency of State government has the authority to prosecute actions under the enabling legislation.

The Attorney General serves as the Office's legal advisor and provides legal services as the Office requires, according to A.R.S. §41-192(A)(1).

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[20] A.R.S. §38-431 et seq. contains the State's open meeting laws.

Sunset factor 8: The extent to which the Office has addressed deficiencies in its enabling statutes that prevent it from fulfilling its statutory mandate.

The Office reported considering a statutory change to A.R.S. §41-2305, which allows the Office to charge reasonable fees for services and publications, to allow the Office to create and sell marketing promotional items and establish a fund to deposit the revenues from these sales. However, as of June 2021, no such legislation had been introduced.

Sunset factor 9: The extent to which changes are necessary in the laws of the Office to adequately comply with the factors listed in this sunset law.

This performance audit and sunset review did not identify any statutory changes that are necessary to help the Office adequately comply with the factors listed in this sunset law.

Sunset factor 10: The extent to which the termination of the Office would significantly affect the public health, safety, or welfare.

Terminating the Office would not significantly affect public health, safety, or welfare. Although the Office is the only State agency responsible for promoting tourism State-wide, as previously described in the Introduction (see page 1), several other public and private entities promote tourism for their respective destinations and attractions around the State.

Sunset factor 11: The extent to which the level of regulation exercised by the Office compares to other states and is appropriate and whether less or more stringent levels of regulation would be appropriate.

The Office is not a regulatory agency; therefore, this factor does not apply.

Sunset factor 12: The extent to which the Office has used private contractors in the performance of its duties as compared to other states and how more effective use of private contractors could be accomplished.

The Office contracts with various vendors for several functions and services, including advertising and marketing, international public relations, research and data collection on the Office's marketing effectiveness and the impact of tourism to the State's economy, call center services, and technical services, such as website design. In fiscal year 2020, the Office spent approximately $13.4 million on contracted goods and services, or 55 percent of the Office's total expenditures that fiscal year. For example, as previously reported in Table 1 in the Introduction (see pages 3 and 4), in fiscal year 2020 the Office spent approximately $7 million for contracted advertising and marketing services and research and data collection services. We compared the Office's use of vendors and private contractors to 8 other states' tourism offices—California, Colorado, Idaho, Nevada, Oregon, Utah, Washington, and Wyoming—and found that most of these offices contract for similar services.[21]

However, although the Office has been delegated procurement authority to conduct procurements up to $100,000, it did not comply with this delegated authority and additional State Procurement Code requirements in fiscal year 2020 when procuring approximately $500,000 in services.[22] The State Procurement Code—which is a compilation of statutes and rules that govern State agency purchasing and contracting—includes requirements for how contracts may be established to help the State obtain the best value from contracts by fostering competition among contractors. It also includes requirements for handling purchases based on the dollar threshold of the planned purchase and requires State agencies to obtain approval from the State Procurement Office (SPO) prior to proceeding with contracts that limit competition. Specifically:

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[21] We selected these states for review based on their geographic location and comparable tourism industries.

[22] The Arizona Department of Administration's State Procurement Office (SPO) delegates specific authority to State agencies to conduct procurements and enter into contracts up to an authorized dollar amount without prior SPO approval, i.e., an agency's delegated procurement authority. The dollar amount delegated is based on the expertise, knowledge, experience, and performance of the State agency's chief procurement officer; the qualifications, certification, training, and experience of the agency's purchasing staff; the impact of the delegation on the agency's purchasing efficiency and effectiveness; and the agency's compliance with State procurement requirements. SPO retains final procurement authority for responsibilities delegated to State agencies and can revoke, suspend, or modify delegations of procurement authority for failure to comply with State procurement requirements.

- The Office spent $300,000 on visual displays and banners that were displayed in and around a New York City department store without following State Procurement Code requirements. Specifically, the department store approached the Office with an offer to develop a marketing program, which constituted an unsolicited proposal.[23] The Office then used its existing marketing and advertising vendor to accept and pay for the offer and reimbursed this vendor for the $300,000 it paid the department store for the marketing program. However, by doing so, the Office did not adhere to State Procurement Code requirements for an unsolicited proposal (see textbox for these requirements). Specifically, the Office did not (1) submit a written request to SPO containing required information regarding the unsolicited proposal and (2) obtain written SPO approval prior to proceeding with the unsolicited proposal. Additionally, this $300,000 unsolicited procurement exceeded the Office's delegated procurement authority.

- The Office also exceeded its $100,000 delegated procurement authority on a separate procurement for $180,000 to sponsor a season and 1 additional episode that promoted the State's wine industry of the Arizona Highways television show. As required by the State Procurement Code, the Office should have submitted the procurement to SPO so it could conduct the procurement and help ensure compliance with State requirements and promote competitive procurements.

State Procurement Code requirements for requesting and awarding a State contract based on an unsolicited proposal

An agency shall submit a written request to SPO prior to proceeding with an unsolicited proposal that contains the following:

- The names of the agency and the vendor.
- A description of the proposal, including its innovative and unique features and duration.
- A statement and explanation that the proposal is in the State's best interest.
- The proposed contract terms and conditions.

SPO shall:

- Issue written approval, defining any conditions or restrictions for awarding a contract; request additional information from the agency; or deny the request.

Source: Auditor General staff summary of requirements in A.R.S. §41-2557 and Arizona Administrative Code R2-7-G303.

Additionally, statute and State procurement policies require procurement personnel to annually sign a conflict-of-interest disclosure statement and any State employee with a significant role that participates in a procurement, including developing a scope of work or evaluating a contract, to sign a conflict-of-interest disclosure statement when that procurement begins. Although the Office's 2 procurement officers completed the required annual procurement disclosure statement in fiscal year 2020, other Office staff involved in procurements, including those who developed scopes of work or identified vendors, did not complete the required procurement disclosure statement. Based on our inquiries, the Office reported that as of July 2021, it plans to begin requiring staff involved in a procurement who have a significant procurement role to complete the required procurement disclosure statement.

We did not identify any additional areas where the Office should consider using private contractors.

Recommendation

11. Comply with statutory procurement requirements, including:

    a. Following applicable competitive procurement requirements.

    b. Adhering to its delegated procurement authority threshold.

    c. Obtaining annual procurement disclosure statements from all staff with a significant procurement role.

Office response: As outlined in its response, the Office agrees with the finding and will implement the recommendation.

[23] A.R.S. §41-2531(16) defines an unsolicited proposal as a written proposal that is submitted on the initiative of the offeror for the purposes of obtaining a contract with the State and that is not in response to a formal or informal request from the State.

SUMMARY OF RECOMMENDATIONS

Auditor General makes 11 recommendations to the Office

The Office should:

1. Comply with SAAM requirements for spending public monies for promotional purposes, such as sponsorships, promotional items, travel, and food and beverages (see Finding 1, pages 8 through 11, for more information).

2. In consultation with the Arizona Department of Administration, General Accounting Office, develop and implement policies, procedures, and guidelines for spending public monies for promotional purposes that incorporate supervisory review and include:

    a. Defining the appropriate use of public monies, including whether public monies can be used for promotional items, travel, and food and beverages.

    b. Requiring Office staff to document the public purpose and benefit of these expenditures prior to making the expenditure.

    c. Requiring tourism-related entities to submit detailed invoices and receipts for expenditures that are reviewed by Office staff prior to processing payments.

    d. Prohibiting payment for journalist and other nonemployee travel without a written agreement.

    e. Requiring a cost-benefit analysis of potential sponsorships and review by legal counsel prior to entering into sponsorship agreements (see Finding 1, pages 8 through 11, for more information).

3. Comply with SAAM requirements for spending public monies (see Finding 2, pages 12 through 15, for more information).

4. Continue to develop and implement change request policies and procedures that include:

    a. Requirements for DMOs to submit a change request, time frames for submitting change requests, and the information that should be provided to explain the reason for the change and how spending will be reallocated.

    b. Office staff's responsibilities for reviewing and approving DMOs' change requests.

    c. The circumstances that require Committee review and approval of change requests, Office staff's responsibilities for providing change requests and other necessary information to the Committee to facilitate its review, and Committee members' responsibilities for reviewing and approving change requests (see Finding 2, pages 12 through 15, for more information).

5. Develop and implement standardized mid-year and end-of-year expense reporting templates for DMOs to help ensure spending information is consistently and accurately reported (see Finding 2, pages 12 through 15, for more information).

6. Develop and implement policies and procedures for reconciling DMOs' spending against approved marketing plans and the Office's distribution and accounting records and timely closing out spending at the end of the fiscal year (see Finding 2, pages 12 through 15, for more information).

7. Train DMOs, Office staff, and Committee members on these policies, procedures, and reporting templates (see Finding 2, pages 12 through 15, for more information).

8. Continue to develop and implement conflict-of-interest policies to help ensure compliance with State conflict-of-interest requirements, including:

    a. Reminding employees/public officers at least annually to complete a new disclosure form when their circumstances change, such as by requiring its employees and members of the Tourism Advisory Council and Proposition 302 Maricopa County Marketing Program Committee to complete an annual conflict-of-interest disclosure form, including attesting that no conflicts exist, if applicable.

    b. Storing all disclosures of substantial interest, including disclosure forms and meeting minutes, in a special file available for public inspection.

    c. Establishing a process to review and remediate disclosed conflicts (see Finding 3, pages 16 through 19, for more information).

9. Develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure forms to its employees and Council and Committee members on how the State's conflict-of-interest requirements relate to their unique programs, functions, or responsibilities (see Finding 3, pages 16 through 19, for more information).

10. Identify and incorporate economic, sociocultural, and/or environmental impacts in its strategic planning efforts (see Sunset Factor 2, pages 20 through 23, for more information).

11. Comply with statutory procurement requirements, including:

    a. Following applicable competitive procurement requirements.

    b. Adhering to its delegated procurement authority threshold.

    c. Obtaining annual procurement disclosure statements from all staff with a significant procurement role (see Sunset Factor 12, pages 24 through 25, for more information).

Scope and methodology

The Arizona Auditor General has conducted this performance audit and sunset review of the Office pursuant to a September 19, 2018, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the sunset review process prescribed in A.R.S. §41-2951 et seq.

We used various methods to answer the audit's objectives. These methods included reviewing Office statutes, rules, policies, and procedures; interviewing Office staff; and reviewing information from the Office's website. In addition, we used the following specific methods to meet the audit's objectives:

- To determine whether the Office complied with State requirements for spending public monies on promotional activities, events, and projects when working with some tourism promotion entities throughout the State, we reviewed the Office's records for this promotional spending. We identified 21 such expenditures conducted with 5 other tourism entities totaling approximately $81,000 in fiscal years 2019 and 2020.[24]

- To determine whether the Office complied with State requirements for spending and accounting for the use of Maricopa County tourism tax revenues, we reviewed the Office's guidelines and distribution records, and interviewed Office staff, members of the Maricopa County Marketing Program Committee, and some participating DMOs. Additionally, we reviewed documentation for a judgmental sample of 4 of 11 DMOs that received a total of $6,263,592 in distributions from the Office of the total $8,548,179 in Maricopa County tourism tax revenues the Office distributed to DMOs in fiscal year 2020, including these DMOs' application materials, all change requests these 4 DMOs submitted in fiscal year 2020 totaling $176,000, these DMOs' requests to retain unspent fiscal year 2020 distributions to use in fiscal year 2021, various invoices and proof of payment records, and these DMOs' year-end expense reports.

- To assess the Office's compliance with State conflict-of-interest requirements and alignment with recommended practices, we reviewed statutes, recommended practices, the conflict-of-interest disclosure forms used by the Office, and the Office's conflict-of-interest policy and practices.[25]

- To obtain information for the Introduction, we reviewed the Office's fiscal year 2020 annual report; Office-provided staffing, budget, marketing program, and financial information; and information about other tourism promotion entities in the State with which the Office works. Additionally, we compiled and analyzed unaudited financial information from the Arizona Financial Information System *Accounting Event Transaction File* for fiscal years 2018 through 2021, the State of Arizona *Annual Financial Report* for fiscal years 2018 through 2020, and Office-provided information.

- To obtain additional information for the Sunset Factors, we judgmentally selected and contacted 8 states based on their geographic location and comparable tourism industries—California, Colorado, Idaho, Nevada, Oregon, Utah, Washington, and Wyoming—and reviewed their tourism promotion entities' organizational

[24] Additional monies may have been expended on promotional activities outside of the expenditures we reviewed.

[25] Recommended practices we reviewed included: Organization for Economic Cooperation and Development (OECD). (2003). *Recommendation of the council on guidelines for managing conflicts of interest in the public service*. Paris, France. Retrieved 4/16/2020 from https://legalinstruments.oecd.org/public/doc/130/130.en.pdf; Ethics & Compliance Initiative (ECI). (2016). *Conflicts of interest: An ECI benchmarking group resource.* Arlington, VA. Retrieved 4/16/2020 from https://www.ethics.org/knowledge-center/conflicts-of-interest-report/; and Controller and Auditor General of New Zealand (2020). *Managing conflicts of interest: A guide for the public sector*. Wellington, New Zealand. Retrieved 3/4/2021 from https://oag.parliament.nz/2020/conflicts/docs/conflicts-of-interest.pdf.

structures and use of private contractors. Additionally, we reviewed information we received from the National Conference of State Legislatures and the U.S. Travel Association's fiscal year 2018 report on state tourism office funding. We also reviewed information related to the Office's strategic planning efforts, recommended industry practices for tourism strategic planning, and model strategic planning practices for State agencies.[26] Finally, we reviewed information related to the Office's use of vendors and private contractors.

- Our work on internal controls included reviewing the Office's policies and processes for safeguarding and properly accounting for public monies, disclosing conflicts of interest, complying with State procurement requirements, and, where applicable, testing the Office's compliance with these requirements. Our conclusions on these internal controls and the efforts the Office needs to take to improve them are reported in Findings 1 through 3 and Sunset Factors 2 and 12.

We selected our audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

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.

We express our appreciation to the Office's Director and staff for their cooperation and assistance throughout the audit.

[26] OECD. (2020). *OECD tourism trends and policies 2020*. Paris, France. Retrieved 11/16/2020 from http://www.oecd.org/cfe/tourism/oecd-tourism-trends-and-policies-20767773.htm; State of Arizona, Governor's Office of Strategic Planning and Budgeting. (2011). *Managing for results handbook: Strategic planning guide for State agencies*. Phoenix, AZ. Retrieved 11/16/2020 from https://www.azospb.gov/documents/pdf/Handbook_ManagingResults_FY2012.pdf.

APPENDIX B

Auditor General's comments on Office response

We appreciate the Office's response. However, the Office has included certain statements in its response that necessitate clarification.

The Office makes the following statements related to Finding 2 in its response explanations for Recommendations 4b and 6 (see Office's response, pages 3 through 4):

"AOT created an Arizona Management System (AMS) Standard Work process that provides detail of its staff responsibilities for the internal Prop 302 review procedures and change request process. This document was shared with the audit team on February 24, 2021."

As discussed in Finding 2 (see pages 13 through 14), the Office has not developed and implemented clear and comprehensive policies and procedures for its staff, Committee members, and Destination Marketing Organizations (DMOs) for the Proposition 302 Maricopa County Marketing Program. Our report acknowledges that during the audit, in January 2021, the Office adopted a new procedure, which is the standard work process the Office indicates sharing with the audit team on February 24, 2021. This new procedure establishes a goal for staff to review DMOs' year-end expense reports within 1 to 2 weeks of the reporting deadline. Despite establishing this new procedure, we further recommended that the Office develop and implement additional policies and procedures for reviewing and approving DMOs' change requests, reconciling DMOs' spending against the Office's distribution and accounting records, and timely closing out spending at the end of the fiscal year.

OFFICE RESPONSE

ARIZONA
OFFICE OF TOURISM

September 22, 2021

Ms. Lindsey Perry, Auditor General
Office of the Auditor General
2910 N. 44th St., Suite 410
Phoenix, AZ 85018

Dear Ms. Perry:

The Arizona Office of Tourism (AOT) appreciates the opportunity to discuss the goals, objectives and statutory requirements of the state agency with the Audit Team. AOT is extremely cognizant of its important role as a state agency and the use of taxpayers monies to produce the best return on investment for the State's economy and its residents.

As a result of the audit, AOT has already updated several internal processes and procedures to improve our efficiency. The Office is committed to implementing the recommendations provided in the findings.

AOT respectfully submits its response to the performance audit and sunset review.

Sincerely,

Debbie Johnson

Debbie Johnson
Executive Director
Arizona Office of Tourism

Finding 1: Office spent $81,239 on promotional activities, events, and projects conducted jointly with other tourism entities without required justification and documentation, which placed these public monies at potential risk of misuse.

Recommendation 1: The Office should comply with SAAM requirements for spending public monies for promotional purposes, such as sponsorships, promotional items, travel, and food and beverages.

Office response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Although the Arizona Office of Tourism (AOT) disagrees that the Office put any public monies at the "potential risk of misuse," it will implement the Auditor General's recommendation. AOT is extremely cognizant of its role as a state agency and the use of taxpayers monies to produce the best return on investment for the State's economy and its residents. AOT currently prepares justification memos for purchases, creates purchase orders and tracks ROI on events and marketing programs. At the Auditor General recommendation, we are working with the General Accounting Office (GAO) to ensure we are meeting all SAAM requirements.

Recommendation 2: In consultation with the Arizona Department of Administration, General Accounting Office, the Office should develop and implement policies, procedures, and guidelines for spending public monies for promotional purposes that incorporate supervisory review and include:

Recommendation 2a: Defining the appropriate use of public monies, including whether public monies can be used for promotional items, travel, and food and beverages.

Office response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: AOT acknowledges the Auditor General's finding and agrees to review its current internal processes. The Office is working with the General Accounting Office to further define how public monies can be used for marketing-related purposes including promotional items, travel, and food and beverages.

Recommendation 2b: Requiring Office staff to document the public purpose and benefit of these expenditures prior to making the expenditure.

Office response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: AOT acknowledges the Auditor General's finding and is reviewing its current internal processes to further document the public purpose and benefit of expenditures. In Fiscal Year 2021, the Office adopted a new justification documentation and process for planning journalist tours, which includes the proposed dates, and purpose of the trip and anticipated travel costs, the anticipated positive media coverage of the State, and the estimated date the positive media coverage will be published.

Recommendation 2c: Requiring tourism-related entities to submit detailed invoices and receipts for expenditures that are reviewed by Office staff prior to processing payments.

Office response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: AOT acknowledges the Auditor General's finding and agrees to enhance its existing accounting process that requires tourism-related entities to submit detailed invoices and receipts for expenditures that are reviewed prior to processing payments.

Recommendation 2d: Prohibiting payment for journalist and other nonemployee travel without a written agreement.

Office response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: AOT acknowledges the Auditor General's finding and agrees to review its current internal process regarding payment for journalist and non employee travel. The Office is working with the General Accounting Office on an updated procedure to ensure it stays in compliance.

Recommendation 2e: Requiring a cost-benefit analysis of potential sponsorships and review by legal counsel prior to entering into sponsorship agreements.

Office response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: AOT acknowledges the Auditor General's finding and is reviewing its current internal process requiring a cost-benefit analysis of potential sponsorships. The Office is working with the General Accounting Office and the Attorney General's Office to update its procedures.

Finding 2: Five changes to fiscal year 2020 DMO spending plans were not approved and Office approved inaccurate fiscal year 2021 spending plans, which placed public monies distributed to tourism entities at potential risk of misuse, loss, or theft.

Recommendation 3: The Office should comply with SAAM requirements for spending public monies.

Office response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Although the Arizona Office of Tourism disagrees that the Office put any public monies at the "potential risk of misuse, loss or theft," it will implement the Auditor General's recommendation. AOT is extremely cognizant of its role as a state agency and the use of taxpayers monies to produce the best return on investment for the State's economy and its residents. AOT will review its internal management process to ensure the Office continues to comply with SAAM requirements.

Recommendation 4: The Office should continue to develop and implement change request policies and procedures that include:

Recommendation 4a: Requirements for DMOs to submit a change request, time frames for submitting change requests, and the information that should be provided to explain the reason for the change and how spending will be reallocated.

Office response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: AOT acknowledges the Auditor General's recommendation and updated the Change Request policies and procedures for the Prop 302 program.

Recommendation 4b: Office staff's responsibilities for reviewing and approving DMOs' change requests.

Office response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: AOT acknowledges the Auditor General's recommendation. AOT created an Arizona Management System (AMS) Standard Work process that provides detail of its staff responsibilities for the internal Prop 302 review procedures and change request process. This document was shared with the audit team on February 24, 2021

Recommendation 4c: The circumstances that require Committee review and approval of change requests, Office staff's responsibilities for providing change requests and other necessary information to the Committee to facilitate its review, and Committee members' responsibilities for reviewing and approving change requests.

Office response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: AOT acknowledges the Auditor General's recommendation. During the Office's Prop 302 June 2021 Committee meeting, AOT staff and committee members reviewed staff and committee responsibilities for Change Requests. Committee approval is required for change requests that exceed $25,000 and the Office's director is authorized to approve change requests that are less than $25,000. Additionally, each participating DMO is aware of the current Change Request process and the Office requires DMOs to submit all change requests for review and approval. The Office is committed to continuing a clear communication process for its staff, committee members and participating DMOs.

Recommendation 5: The Office should develop and implement standardized mid-year and end-of-year expense reporting templates for DMOs to help ensure spending information is consistently and accurately reported.

Office response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: AOT acknowledges the Auditor General's recommendation and is reviewing the current reporting policies and procedures for the Prop 302 program. AOT will make changes as needed.

Recommendation 6: The Office should develop and implement policies and procedures for reconciling DMOs' spending against approved marketing plans and the Office's distribution and accounting records and timely closing-out spending at the end of the fiscal year.

Office response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: AOT acknowledges the Auditor General's recommendation and is reviewing the current process for reconciling DMO spending against approved marketing plans, the Office's distribution and accounting records and timely close-out of spending. AOT developed an AMS standard work process and submitted that document to the Audit Team on February 24, 2021.

Recommendation 7: The Office should train DMOs, Office staff, and Committee members on these policies, procedures, and reporting templates.

Office response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: AOT acknowledges the Auditor General's recommendation and is reviewing the current policies and procedures regarding training for the Prop 302 program. As part of its current training process, AOT hosts two annual meetings focused on training prior to the release of the next fiscal year's application to review policies, procedures and reporting templates. One meeting is held for the Prop 302 Program Committee Members to discuss and approve guidelines changes, and the second is a workshop-style meeting held for Prop 302 participants to provide an overview of the program and to review updates or changes in the program. The Office is committed to continuing its clear communication process for staff, committee members and participating DMOs. AOT will make any updates to its training process as needed.

Finding 3: Office did not comply with some State conflict-of-interest requirements, increasing risk that employees and public officers had not disclosed substantial interests that might influence or affect their official conduct.

Recommendation 8: The Office should continue to develop and implement conflict-of-interest policies to help ensure compliance with State conflict-of-interest requirements, including:

Recommendation 8a: Reminding employees/public officers at least annually to complete a new disclosure form when their circumstances change, such as by requiring its employees and members of the Tourism Advisory Council and Proposition 302 Maricopa County Marketing Program Committee to complete an annual conflict-of-interest disclosure form, including attesting that no conflicts exist, if applicable.

Office response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: AOT acknowledges the Auditor General's recommendation. AOT complies with Arizona Department of Administration (ADOA) requirements for shared services agencies and has already implemented an annual Conflict of Interest process for staff, Tourism Advisory Council and Prop 302 Committee members.

Recommendation 8b: Storing all disclosures of substantial interest, including disclosure forms and meeting minutes, in a special file available for public inspection.

Office response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: AOT is following protocol established by ADOA.

Recommendation 8c: Establishing a process to review and remediate disclosed conflicts.

Office response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: AOT is following protocol established by ADOA.

Recommendation 9: The Office should develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure forms to its employees and Council and Committee members on how the State's conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

Office response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: AOT is following protocol established by ADOA.

Sunset Factor 2: The extent to which the Office has met its statutory objective and purpose and the efficiency with which it has operated.

Recommendation 10: The Office should identify and incorporate economic, socio-cultural, and/or environmental impacts in its strategic planning efforts.

Office response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: AOT has a long history of strategic planning and is currently building a 3-year strategic plan and 10-year sustainability plan that incorporates economic, socio-cultural, and environmental impacts.

Sunset Factor 12: The extent to which the Office has used private contractors in the performance of its duties as compared to other states and how more effective use of private contractors could be accomplished.

Recommendation 11: The Office should comply with statutory procurement requirements, including:

Recommendation 11a: Following applicable competitive procurement requirements.

Office response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: AOT will continue following applicable competitive procurement requirements.

Recommendation 11b: Adhering to its delegated procurement authority threshold.

Office response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: AOT will continue following applicable competitive procurement requirements.

Recommendation 11c: Obtaining annual procurement disclosure statements from all staff with a significant procurement role.

Office response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: AOT will continue obtaining annual procurement disclosure statements from procurement staff and from additional staff with a significant procurement role.

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