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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

November 25, 2009

The Honorable Thayer Verschoor, Chair
Joint Legislative Audit Committee

The Honorable Judy Burges, Vice Chair
Joint Legislative Audit Committee

Dear Senator Verschoor and Representative Burges:

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

- 2 have been implemented;
- 1 has been partially implemented; and
- 3 are in the process of being implemented

Our Office will conduct an 18-month followup with the Authority on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Melanie M. Chesney, Director
Performance Audit Division

MMC:Mcv
Attachment

cc: Mr. Tom Sadler, CEO
Arizona Sports and Tourism Authority

ARIZONA SPORTS AND TOURISM AUTHORITY

Auditor General Report No. 09-04

6-Month Follow-Up Report

Recommendation

Status/Additional Explanation

Finding 1: Authority should continue to address its financial situation

1.1 The Authority should revise its cash flow projections to incorporate capital repair and replacement costs and to reflect NFL income tax revenues at historical growth rates.

Partially Implemented

The Authority has revised its cash flow projections to reflect NFL income tax revenues at historical growth rates, but has not incorporated capital repair and replacement costs. The Authority reported that because of worsening projected deficits, it does not have the monies available to fund the capital repair and replacement reserves, and to include these reserves in its projections provides no value for decision-making purposes.

1.2 The Authority and its Board of Directors should continue to take steps to address its financial shortfall by increasing revenues and/or decreasing expenses. In doing so, the Authority should study the various options available to increase facility revenues and decrease facility expenses to address its projected deficits and fund its required reserve accounts.

Implementation in Process

The Authority continues to take steps to address its financial shortfall. These steps include reducing facility operating expenses by a reported \$3.5 million since the beginning of calendar year 2009 and attracting 4 mega-events that offer the potential for greater revenues.

Finding 2: Authority should enhance its oversight of the facility manager

2.1 The Authority should continue with its plans to review its incentive fee structure and revise its management agreement to include an incentive fee structure based on the performance of the facility manager, such as whether the facility manager increased revenues or reduced operating expenses. The Authority should also ensure that any changes it makes to the management fee structure conform to U.S. Internal Revenue Service regulations.

Implementation in Process

In August 2009, the Authority renewed its contract with the facility manager for an initial term of 9 months with the possibility of two additional extensions. As part of the contract renewal, the Authority revised the incentive fee structure. During the initial renewal period, the facility manager can receive up to a \$50,000 incentive fee based on its performance as determined by the Arizona Cardinals and the Fiesta Bowl. The renewed contract indicates that if there is a second renewal term, two-thirds of the incentive fee will be based on objective financial criteria determined by the Authority and facility manager, while one-third of the incentive fee will be subjectively determined. Since the Authority reported that it is currently reviewing the financial terms for the two proposed extensions, auditors will continue to follow up on Authority efforts to revise the incentive fee structure.

Recommendation**Status/Additional Explanation**

2.2 The Authority should develop and implement a formal contract-monitoring plan detailing the activities that its staff will perform to adequately monitor the facility manager's performance in several key areas, such as the facility manager's financial activities, event settlements, and preventative maintenance.

Implementation in Process

The Authority reported that it has added a requirement that the facility manager provide the Authority with a quarterly preventative maintenance report, along with the monthly financial review document. Also, on a quarterly basis, the Authority reported that it will perform and document random reviews of several event settlements completed by the facility manager during the previous quarter. The Authority reported that these additional monitoring activities will begin with the completion of the first quarter ending September 30, 2009.

2.3 The Authority should ensure that the facility manager establishes a written agreement with the Arizona Cardinals for box office services.

Implemented at 6 months**Finding 3: Minor improvements needed to better fulfill mission**

3.1 The Authority should update its written YAS policies and procedures to integrate selection criteria, which are now incorporated into application materials, and to eliminate the outside committee review of YAS grant applications, which no longer occurs.

Implemented at 6 months