



State of Arizona  
Office  
of the  
Auditor General

PERFORMANCE AUDIT

**ARIZONA  
OFFICE  
OF  
TOURISM**

Report to the Arizona Legislature  
By Debra K. Davenport  
Auditor General

August 2000  
Report No. 00-11

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DEBRA K. DAVENPORT, CPA  
AUDITOR GENERAL

STATE OF ARIZONA  
OFFICE OF THE  
AUDITOR GENERAL

August 23, 2000

Members of the Legislature

The Honorable Jane Dee Hull, Governor

Mr. Mark McDermott, Director  
Arizona Office of Tourism

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Arizona Office of Tourism. This report is in response to a June 16, 1999, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the Sunset review set forth in A.R.S. §41-2951 et seq. I am also transmitting with this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in the last page of its response, the agency states that it agrees with and will implement 15 of the 16 report recommendations. However, given the positions outlined in the body of the agency response, it is clear that the agency does not accept this report's findings, including those involving statutory violations. Further, the agency response contains some statements that are inaccurate or misleading. To ensure that our readers are fully informed of all the facts, we have included brief comments on the agency response immediately preceding the response.

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

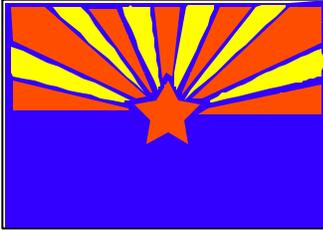
This report will be released to the public on August 24, 2000.

Sincerely,

A handwritten signature in cursive script that reads "Debbie Davenport".

Debbie Davenport  
Auditor General

Enclosure

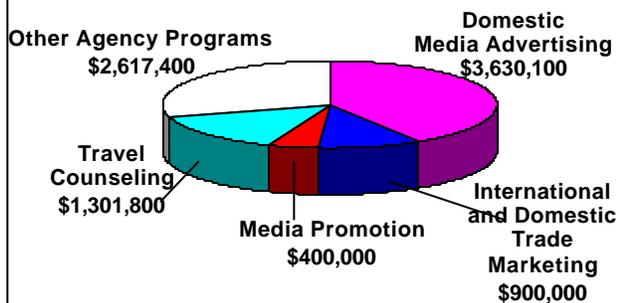


# Arizona Office of Tourism

**Services:** This report addresses four closely related programs that in fiscal year 2000 became subprograms of the Tourism Promotion program:

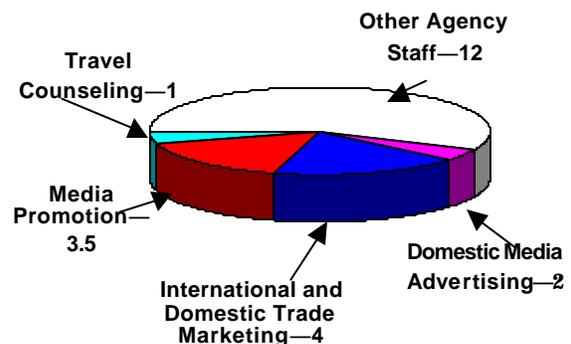
- **Domestic Media Advertising**, which creates and places advertisements in print and broadcast media promoting Arizona;
- **Travel Counseling and Direct Mail Marketing**, which operates a contracted call center that responds to requests for Arizona travel planning information;
- **International and Domestic Trade Marketing**, which promotes Arizona as a travel destination to tour operators and travel agents and assists them in creating pre-packaged tours; and
- **Media Promotion and Communications**, which assists media contacts in developing articles and broadcasts about Arizona.

**Revenue:** \$8,849,300 (Fiscal Year 2000 est.)



All agency funding is from the General Fund.

**Personnel:** 22.5 full-time staff (Fiscal Year 2000)



**Programs— Mission and Goal:**

**Domestic Media Advertising:**

**Mission:**

“To create awareness of Arizona as well as stimulate interest and motivation levels of travelers in key target markets, demographic groups, geographic regions and interest categories regarding travel to and throughout Arizona.”

**Facilities:** All four programs occupy space within the office suite leased by the Arizona Office of Tourism at 2702 North Third Street in Phoenix.

**Equipment:** All four programs own or lease only typical office equipment.

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**Programs—Mission and Goal (cont'd)****Domestic Media Advertising:****Goal:**

“To shape a positive image of Arizona which affirmatively motivates travelers to experience the diversity of the state.”

**Travel Counseling and Direct Mail Marketing:****Mission:**

“To convert awareness generated by the Domestic Media Advertising program into interest and motivation to travel to Arizona.”

**Goal:**

“To efficiently and effectively assist travelers in making plans to visit Arizona by providing compelling information to induce extended length of stay throughout the state.”

**International and Domestic Trade Marketing:****Mission:**

“To direct and coordinate Arizona’s public and private sector tourism entities in an effort to inform and motivate travel agents, tour operators, and air and ground transportation companies regarding opportunities to create and market individual and group tour packages for vacations throughout Arizona.”

**Goal:**

“To create a well-informed travel industry (i.e. agents, operators, and wholesalers) that actively promotes Arizona to domestic and international tourists and travelers.”

**Programs—Mission and Goal (concl'd)****Media Promotion and Communications:****Mission:**

“To generate positive media coverage of Arizona (e.g. printed articles and broadcast features on travel destinations and tourism attractions) in an effort to increase public interest in the state and enhance Arizona’s overall image as a premier tourist destination.”

**Goal:**

“To develop extensive media contacts and foster relationships between representatives of print and broadcast media and Arizona tourism partners to stimulate positive media coverage for Arizona destinations.”

**Adequacy of Performance Measures:**

The Domestic Media Advertising’s economic impact measures are based upon inappropriate methodology. Also, all of Advertising’s performance measures are slightly overstated due to mathematical errors in the calculations used to arrive at the measures.

Domestic Media Advertising’s performance measures neglect to:

- Address whether AOT’s advertising is successful in directly motivating consumer travel to the State, or
- If advertising is affecting key target markets.

Trade Marketing’s measures do not convey the extent to which the travel industry actively promotes Arizona to its clients.

Although all program goals appear to be aligned with the program missions, AOT has not developed specific objectives for any of the programs.

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## SUMMARY

The Office of the Auditor General has conducted a performance audit of the Arizona Office of Tourism (AOT). This audit was completed in response to a June 16, 1999, resolution of the Joint Legislative Audit Committee, which required a review of four programs within AOT: (1) Domestic Media Advertising, (2) Travel Counseling and Direct Mail Marketing, (3) International and Domestic Trade Marketing, and (4) Media Promotion and Communications.<sup>1</sup> The audit was conducted as part of the Sunset review set forth in A.R.S. §41-2951 et seq.

Created by the Legislature in 1978, AOT is charged with promoting tourism and encouraging tourism development throughout the State.

### **Many of AOT's Contracting Practices Violate State Procurement Requirements (See pages 9 through 18)**

AOT's contracting practices have violated state procurement statutes and rules in several ways.

- **Purchases not made through the State Procurement Office or bid competitively**—Since fiscal year 1997, AOT has made at least 16 purchases totaling approximately \$1.2 million that exceeded its purchasing authority. For example, in 1998, AOT paid more than \$102,000 for marketing activities in Canada without going through the State Procurement Office. Further, AOT did not competitively bid these services.

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<sup>1</sup> As of fiscal year 2000, the four program areas became subprograms within the Tourism Promotion program of the Arizona Office of Tourism.

- **Services improperly obtained under joint ventures—** Although AOT has authority to enter into joint ventures with private corporations for promotional activities, state procurement requirements still apply. Since fiscal year 1997, AOT paid more than \$440,000 into joint ventures that did not meet these requirements or AOT's own rules.
  
- **Use of advertising contract circumvents and violates procurement requirements—** AOT circumvented procurement requirements and threatened the fairness of the bid process by directing its advertising contractor to sign with specific vendors. AOT also made significant modifications to the contract without formally amending the contract and without required authorization. Without formal contract amendments, the State has no protection if the contractor decides not to comply with those changes.

AOT used these practices for reasons such as greater flexibility and limited staff time to handle contract administration. However, these practices threaten the fairness of the procurement process and expose the agency and the State to risks. Complicating matters further, AOT's contract records and procurement coordination are inadequate.

### **AOT's Membership in a Limited Liability Company Violated State Constitution and Statutes (See pages 19 through 23)**

AOT's membership in a limited liability company violated the state constitution and statutes. In 1997, AOT and three other Arizona tourism promotion organizations formed the company to purchase and share the Internet address for AOT's travel information Web site. The company spent approximately \$34,000 for the Internet address and over \$13,000 in legal fees. When the company dissolved in 1999, AOT assumed it was the owner of the address. However, as of June 2000 the company was still the registered owner of the address and AOT lacked an operating contract with the current Web site service provider.

AOT's membership in the company violated the state constitution and statutes in several ways.

- **First**, the Constitution forbids state agencies from being a shareholder or joint owner of a company.
- **Second**, AOT received only approximately 50 percent of the company's financial assets when it dissolved, despite contributing 67 percent of the financial assets. This violated statutes governing limited liability companies and was an unconstitutional gift of public monies.<sup>1</sup>
- **Third**, AOT received services from a private legal firm despite the statutory requirement that state agencies use only the Attorney General's Office for such services.
- **Fourth**, in becoming a member of the company, AOT exceeded its statutory authority to participate in joint ventures.
- **Finally**, AOT exceeded its \$10,000 expenditure authority when it provided \$60,000 to the company.

**Additional Performance  
Measures Needed to  
Demonstrate Effectiveness  
(See pages 25 through 32)**

AOT needs to develop additional performance measures to capture the agency's accomplishments. AOT currently attempts to measure its performance in large part by estimating the impact its tourism efforts are having on the State's economy. However, the methodology and assumptions used are seriously flawed and overstate its economic impact. Improving the methods is important if it continues to measure economic impact as an indicator of the agency's performance. Further, AOT should develop additional measures to demonstrate its effectiveness in working with tourists, the travel industry, and communities to facilitate tourism.

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<sup>1</sup> According to AOT officials, AOT's remaining share of the financial assets was used to purchase the Internet address from the other partners; however, this was not documented until June 2000.

**AOT Should Conduct Required  
Long-Range Planning  
(See pages 33 through 36)**

Despite a mandate in A.R.S. §41-2305(A) to “perform research necessary to determine a long-range tourism development plan” for Arizona, AOT does not have a long-range state tourism plan. Instead, AOT has focused its planning and research on short-term marketing issues. Genuine long-range planning would enable AOT to respond to strategic issues that AOT itself has identified as challenges and make better resource allocation decisions. In developing a long-range tourism plan for Arizona, AOT should work with the Tourism Advisory Council and other industry stakeholders.

**Other Pertinent Information  
(See pages 37 through 43)**

During the audit, other pertinent information was collected regarding how Arizona and other states structure and fund their tourism promotion efforts. A few states have developed public/private partnerships, while most have maintained more traditional organizational structures within other state agencies. Twenty-one states fund tourism with traditional tourism revenue sources, such as general fund appropriations, while 19 states use dedicated taxpayer-funded appropriations to support tourism promotion.

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# INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a Sunset review of the Arizona Office of Tourism and a performance audit of the Arizona Office of Tourism’s Domestic Media Advertising, Travel Counseling and Direct Mail Marketing, International and Domestic Trade Marketing, and Media Promotions and Communications programs pursuant to a June 16, 1999, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the Sunset review set forth in Arizona Revised Statutes §41-2951 et seq.

## AOT’s Responsibilities

The Legislature created the Arizona Office of Tourism (AOT) in 1978 and charged it with performing many duties related to statewide tourism research, development, and promotion. These duties include:

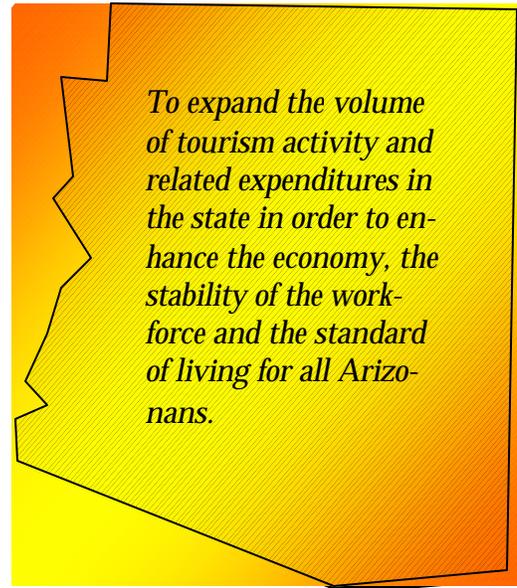
- Promoting and developing tourism business and planning;
- Developing a campaign of information, advertising, promotion, exhibition, and publicity relating to statewide recreational, scenic, and historical attractions and all communities and regions of the State;
- Undertaking a comprehensive research program designed to establish the Office as the central repository and clearinghouse for all tourism-related data;
- Performing the research necessary to determine a long-range tourism development plan for Arizona; and
- Conducting research at the request of the Governor, Legislature, or state and local agencies and providing information and advice as requested by local, state, and federal agencies as well as private citizens and businesses.

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*AOT is responsible for statewide tourism promotion.*

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The Arizona Office of Tourism's mission is :



## **Organization and Staffing**

To carry out its responsibilities, for fiscal year 1999 the Arizona Office of Tourism was divided into seven programs. This audit reviewed the following four programs, each of which contracts for many services and is provided additional administrative support by other AOT programs.<sup>1</sup> In fiscal year 2000, the following four programs became subprograms within the Tourism Promotion program:

- **Domestic Media Advertising (2 FTE)**—This is a comprehensive program of paid media placements (for example, television, print) in targeted markets to promote Arizona as a travel destination. The majority of this program's activities are performed by a contracted Arizona advertising agency.

In 1999, the National Council of State Tourism Directors awarded three first-place prizes to AOT's most recent advertisement campaign.

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*AOT's advertising recently won awards.*

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<sup>1</sup> The three AOT programs not reviewed are Tourism Development and Funds Sharing, Welcome Center Operations, and Business Administration, the latter two of which received Program Authorization Reviews in 1998.

- **Travel Counseling and Direct Mail Marketing (1 FTE)**— This program responds to calls, requests for information, and requests for travel planning assistance and provides travel planning materials by mail to encourage new and repeat travelers to spend more time in Arizona. Travel planning materials include *The Arizona Journeys* state travel guide, the accommodations guide, the visitor map, and destination brochures. Requests for travel planning materials are handled through a contracted call center that receives on average 47,000 requests monthly.
- **International and Domestic Trade Marketing (4 FTE)**— This program promotes Arizona to travel agents and tour operators through participation in trade shows and trade marketing organizations by educating tour operators on Arizona's range and extent of destinations and attractions. Further, this program assists tour operators in developing and promoting prepackaged tours for groups and individual travelers. This program contracts with trade marketing representatives located in Canada, Germany, Japan, Mexico, and the United Kingdom for international representation.
- **Media Promotions and Communications (3.5 FTE)**— This program develops media publicity for Arizona (for example, magazine stories and newspaper articles) domestically and internationally to increase public awareness and interest in the State, and to position Arizona's image as a year-round tourist destination. Activities include assisting media contacts, coordinating tours for travel journalists throughout the State, and serving as a central resource for in-state tourism promoters. This program contracts with media representatives located in Canada, Germany, Japan, Mexico, and the United Kingdom for international representation.

The Office of Tourism's statutes also establish a 15-member governor-appointed tourism advisory council. The Council's duty is to assist and advise the director in preparing the budget and establishing policies and programs that promote and develop tourism in the State. The council includes representatives from all over the State who represent recreational and tourist attractions, lodging, restaurants, and other tourism businesses, and the general public.

## **Funding and Budget**

The Office of Tourism is funded through a biennial General Fund appropriation. Approximately 31 percent of AOT's fiscal year 2000 \$8.8 million General Fund appropriation is derived from a portion of the state lodging tax. As is illustrated in Table 1 (see page 5), the Domestic Media Advertising program is the program with the highest expenditures. In fiscal year 2000, this program's expenditures are estimated to be \$3.6 million, or 41 percent, of AOT's total expenditures. Further, a majority of AOT's budget is expended for contractors. For fiscal year 2000, AOT estimates that \$7.3 million, or 83 percent, of total expenditures will be for contractors.

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*Recent law changes increase AOT's revenues.*

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Recent law changes will impact AOT's future revenues. Laws 2000, Chapter 375 provides dedicated lodging tax revenues to AOT that are estimated to be \$9.2 million for fiscal year 2002. Moreover, Laws 2000, Chapter 372, the stadium bill passed during the 2000 session, places an initiative on the November 2000 ballot which, if approved by voters, will provide additional dedicated revenues to AOT.

## **1994 Report and Update**

Auditor General staff revisited the concerns identified in AOT's 1994 performance audit (see Report No. 94-4). Below is a summary of the 1994 report's major recommendations and their current status:

**Staffing-related statutory changes needed**—Due to concerns with director turnover and political patronage, the report recommended that the Legislature should consider amending AOT's statutes to add minimum qualifications and possibly establish a term of office for the AOT director, establish a search committee process for selecting the director, and place all clerical and administrative support positions under the state personnel system.

**Table 1**  
**Arizona Office of Tourism**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Years Ended or Ending June 30, 1999 and 2000**  
**(Unaudited)**

	1999 (Actual)					Agency Total
	Programs					
	Domestic Media Advertising	Travel Counseling and Direct Mail Marketing	International and Domestic Trade Marketing	Media Promotion and Communications	Other <sup>1</sup>	
Revenues <sup>2</sup>	\$3,630,100	\$1,422,790	\$ 894,000	\$286,100	\$2,595,050	\$8,828,040
Expenditures:						
Personal services and employee related					1,010,227	1,010,227
Professional and outside services	88,656	425,012	429,045	240,129	302,419	1,485,261
Travel	12,144		46,758	12,955	27,905	99,762
Other operating and equipment <sup>3</sup>	<u>3,527,283</u>	<u>996,563</u>	<u>415,191</u>	<u>32,960</u>	<u>1,420,286</u>	<u>6,392,283</u>
Total expenditures	<u>3,628,083</u>	<u>1,421,575</u>	<u>890,994</u>	<u>286,044</u>	<u>2,760,837</u>	<u>8,987,533</u>
Excess of revenues over expenditures	2,017	1,215	3,006	56	(165,787)	(159,493)
Other financing uses <sup>4</sup>	<u>75</u>	<u>1,254</u>	<u>3,006</u>	<u>56</u>	<u>4,671</u>	<u>9,062</u>
Excess of revenues over (under) expenditures and other uses	<u>\$ 1,942</u>	<u>\$ (39)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (170,458)</u> <sup>5</sup>	<u>\$ (168,555)</u>
	2000 (Estimated)					
	Programs					
	Domestic Media Advertising	Travel Counseling and Direct Mail Marketing	International and Domestic Trade Marketing	Media Promotion and Communications	Other <sup>1</sup>	Agency Total
Revenues <sup>2</sup>	\$3,630,100	\$ 1,301,800	\$900,000	\$400,000	\$2,617,400	\$8,849,300
Expenditures:						
Personal services and employee related					1,000,000	1,000,000
Professional and outside services	75,000	480,000	475,000	330,000	250,000	1,610,000
Travel	8,000		50,000	20,000	35,000	113,000
Other operating and equipment <sup>3</sup>	<u>3,547,100</u>	<u>821,800</u>	<u>375,000</u>	<u>50,000</u>	<u>1,332,400</u>	<u>6,126,300</u>
Total expenditures	<u>3,630,100</u>	<u>1,301,800</u>	<u>900,000</u>	<u>00,000</u>	<u>2,617,400</u>	<u>8,849,300</u>
Excess of revenues over expenditures		0	0	0	0	0
Other financing uses						0
Excess of revenues over expenditures and other uses	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

<sup>1</sup> Includes the Tourism Development and Funds Sharing, Welcome Center Operations, and Business Administration programs that were not within the scope of this audit.  
<sup>2</sup> Less than 1 percent of the amount is miscellaneous revenue collected by the Office. The rest is State General Fund appropriations.  
<sup>3</sup> Includes \$4.44 and \$4.45 million expended or estimated to be expended on advertising in 1999 and 2000, respectively.  
<sup>4</sup> Includes reversions and remittances to the State General Fund and net operating transfers.  
<sup>5</sup> Deficiency covered by approximately \$170,500 of beginning fund balances from the Office's donation accounts.

Source: The Arizona Financial Information System *Accounting Event Extract File* and *Status of Appropriations and Expenditures* reports for the year ended June 30, 1999; and Division-prepared estimates of financial activity for the year ending June 30, 2000.

**Current Status:** In 1996, the Legislature amended AOT's statutes to require the director to have minimum qualifications, including at least five years of management experience in the tourism and travel industry and experience in marketing or public relations. Further, the Governor's Office used a search committee to select the current director. Legislation was never introduced to place AOT's clerical and administrative support positions under the state personnel system.

- **Agency restructuring options**—If the Legislature felt stronger action was needed to reduce concerns with director turnover and political patronage, the report recommended that the Legislature consider restructuring the agency under a number of options including a tourism commission, combining AOT with the Department of Commerce, or merging AOT with the *Arizona Highways Magazine* under a single office.
- **Current Status:** AOT is still a separate agency. This report presents some information on Arizona's and other states' structures and funding mechanisms for state tourism efforts (see Other Pertinent Information, pages 37 through 43).
- **Recovery of misspent contracting monies recommended**—The report recommended that AOT take steps to recover misspent contract funds. First, it recommended that AOT request the Attorney General's Office to review the feasibility of recovering misspent funds. If recovery was possible, it was recommended that AOT contract for an independent audit to identify all monies improperly paid to its former advertising firm.

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*AOT previously misspent advertising monies.*

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**Current Status:** AOT sought advice from the Attorney General's Office, which recommended taking no action to seek a refund. This report identified different problems with AOT's contracting practices (see Finding I, pages 9 through 18).

## **Audit Scope and Methodology**

Audit work focused on AOT's contracting practices, performance measures, and long-term planning efforts. This perform-

ance audit and Sunset review includes findings and recommendations in four areas:

- The need for the Office to comply with state procurement laws and regulations when procuring contracts. A copy of this report has been forwarded to the Attorney General's Office (see Finding I, pages 9 through 18) ;
- The need for the Office to work with the Attorney General's Office to address outstanding issues related to its membership in a limited liability company (see Finding II, pages 19 through 23).
- The need for the Office to abandon its current method of calculating economic impact performance measures and develop more appropriate measures that demonstrate AOT's role in facilitating statewide tourism efforts (see Finding III, pages 25 through 32); and
- The need for the Office to develop a long-term tourism plan (see Finding IV, pages 33 through 36).

In addition, this report contains an other pertinent information section regarding tourism office funding, and restructuring in other states, and legislation passed during the 2000 session that impacts AOT's funding (see pages 37 through 43). Finally, the report presents responses to the 12 statutory Sunset Factors (see pages 45 through 51).

Auditors used a number of research methods for this review. Specifically,

- **To determine the extent to which the Office complies with procurement laws and regulations**—Auditors interviewed AOT staff, representatives of the State Procurement Office, and representatives from the AOT advertising contractor. Additionally, auditors reviewed state procurement rules and regulations, the state accounting handbook, AOT contract/subcontract documents, AOT expenditure records, and contract files located at the State Procurement Office pertaining to the evaluation and award process and rejected proposals.

- **To determine the appropriateness of AOT's membership in a limited liability company**—Auditors interviewed AOT staff, former company officials, AOT's former Attorney General representative, and Corporation Commission staff. Additionally, auditors reviewed the state constitution, statutes, and AOT rules as well as the company's corporate documents, financial records, contracts, and legal invoices.
- **To determine the appropriateness of AOT's performance measures**—Auditors reviewed audit reports from Florida and Georgia and interviewed tourism office representatives in California, Florida, Illinois, South Carolina, Texas, Vermont, and Virginia to determine how other states developed performance measurements. Additionally, auditors interviewed AOT staff, tourism experts, and a representative from the U.S. Department of Commerce regarding tourism promotion and accountability. Finally, auditors conducted a literature review.
- **To determine the extent of AOT's planning efforts**—Auditors interviewed tourism stakeholders, tourism research firms, AOT's advertising contractor, and representatives from California, Connecticut, Florida, Illinois, Nevada, Oregon, Texas, and Washington's tourism offices regarding research and planning efforts. Finally, auditors performed a literature review pertaining to long-term planning, particularly in relation to tourism marketing.
- **Finally, to provide information regarding tourism programs in other states and the Arizona Office of Tourism**—Auditors reviewed professional journals, other literature, and audit reports to identify innovative partnerships between states and the tourism industry. Auditors also reviewed legislation pertaining to AOT proposed during the 2000 Arizona legislative session.

This audit was completed in accordance with government auditing standards.

The Auditor General and staff express appreciation to the director and staff of the Arizona Office of Tourism for their cooperation and assistance throughout the audit.

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## FINDING I

# MANY OF AOT'S CONTRACTING PRACTICES VIOLATE STATE PROCUREMENT REQUIREMENTS

AOT has engaged in many contract practices that violate state procurement statutes and guidelines. For example, AOT has exceeded its delegated purchasing authority, failed to seek competitive bids, and paid for services before they were provided. Additionally, AOT circumvented procurement requirements by subcontracting for a variety of services under a broad and largely open-ended contract. Such practices expose the agency and the State to risks the procurement process was designed to protect against. Complicating matters further, AOT's contract records and contract procurement coordination are not adequate. The agency needs to make substantial changes in its contracting practices to ensure maximum competition and fairness, protect the State's liability, and avoid the appearance of impropriety.

### **Procurement Requirements Are Designed to Promote Fairness and Prevent Fraud**

Procurement requirements are designed to ensure that the State purchases the highest-quality product or service at the most economical price, to ensure fair competition, and to prevent fraudulent activities while, at the same time, protecting state agencies from the appearance of fraud. Violations of procurement requirements can carry serious penalties. Further, failing to follow procurement requirements can put both the State and vendors at risk, because the validity of improperly procured contracts can be challenged.

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*Procurement requirements exist to ensure fair competition and prevent fraud.*

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## **Procurement Requirements Were Not Followed in Many Contracts and Joint Ventures**

AOT entered into many of its contracts and joint venture agreements in violation of state procurement requirements. The agency awarded contracts noncompetitively that should have been awarded through the State Procurement Office. It also failed to follow procurement requirements in joint ventures with visitors' bureaus and other organizations.

***Many purchases exceeded AOT's purchasing authority and were not bid competitively***—Auditor General staff identified 16 purchases since fiscal year 1997 in which AOT exceeded its purchasing authority for procuring services without seeking competitive bids.<sup>1</sup> These expenditures totaled approximately \$1.2 million. All AOT purchases worth more than \$10,000 must be procured competitively through the State Procurement Office, unless the procurement office delegates authority to AOT or determines in advance that competition is not practicable or that only one provider is available. However, AOT did not comply with this requirement, making the 16 purchases on its own and not seeking competitive bids in doing so. For example:

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*AOT spent approximately \$1.2 million without complying with procurement requirements.*

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- ✓ AOT paid more than \$102,000 for Canadian market advertising and other services but did not seek competitive bids before signing the contract. This contract should have been procured through the State Procurement Office.
- ✓ Over three fiscal years, AOT paid \$120,000 for tourism research through its Arizona tourism organization membership dues without going through the State Procurement Office. AOT paid this amount to the tourism organization, which then contracted with independent research firms for approximately \$51,600 of research and professional fees. AOT considers this expenditure part of its membership dues; however, all other members paid dues ranging from

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<sup>1</sup> Auditors checked AOT's compliance with procurement requirements only for purchases for which the agency provided documentation to the auditors by June 2000 and that exceeded the agency's \$10,000 purchasing authority.

## ***Finding I***

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\$100 to \$5,000 each year. AOT should pay no more than the basic membership dues to this organization and purchase its research through proper procurement procedures.

***AOT improperly procured and paid for services under its joint venture rules***—AOT also violated state procurement requirements and its own rules when procuring over \$440,000 worth of services through joint ventures. AOT’s statutes and rules allow it to enter joint ventures with private corporations for promotional activities in order to extend the value of the State’s investment. However, these joint ventures are still subject to state procurement requirements.

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*AOT violated procurement requirements and its own rules.*

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- In fiscal year 1999, AOT paid over \$98,000 toward two joint ventures with a partnership of chambers of commerce, city convention and visitors’ bureaus, and Sky Harbor International Airport for international representation in the United Kingdom and Germany. These joint ventures violated state procurement and joint venture requirements in four ways.
  - ✓ AOT’s shares of the joint ventures exceeded AOT’s purchasing authority and should have been procured through the State Procurement Office.
  - ✓ AOT paid its advertising agency to sign contracts for international representation and to provide billing services for the joint venture agreements. However, according to AOT, these services are separate from the advertising contract. If so, they should have been procured as a separate contract.
  - ✓ AOT paid for services before they were provided. These pre-payments violate the *Arizona Accounting Manual*, section II-H-1, which requires an agency to pay for services *after* they are received. Additionally, AOT’s rules regulating joint ventures specifically state that “the state shall pay no monies before receipt of the services.”
  - ✓ AOT did not document the steps it took to enter these joint ventures as required by its rules. For example, AOT did not document proposals from the private corporations that are required by rule before entering joint ventures. These proposals should contain such information

as the benefit to the State for engaging in a joint venture activity as well as the project's estimated budget and length.

State law permits AOT to participate in joint ventures with private corporations; however, it is not clear that any of AOT's partners are "private corporations." Two of AOT's partners are not registered with the Corporation Commission, and the others are registered as nonprofit corporations.

### **AOT Used Large Advertising Contract to Circumvent Procurement Requirements**

For fiscal year 2000 it is estimated that nearly half of AOT's budget will be spent on an advertising contract that AOT uses mainly to obtain advertising services, but also to obtain many other types of services from other contractors. Although this contract was procured through the State Procurement Office, it does not specifically define all tasks to be done and does not limit the ultimate cost the State can pay. By using it as a mechanism to subcontract for other services, AOT circumvented procurement requirements and threatened the fairness of the bid process. AOT also made modifications to the contract that it was not authorized to make. Several changes are needed to prevent further misuse of this contract and to ensure fair competition.

***Advertising contract used to subcontract for many other services***—In fiscal year 2000, AOT estimates it will pay approximately \$3.8 million of its \$8.85 million budget to its advertising contractor. The majority of the contract involves the creative development and purchasing of advertising by the contracted advertising firm. However, AOT has also used the advertising contract to purchase at least 18 subcontracted goods and services ranging from \$4,500 for modeling the economic impact of tourism on Arizona to over \$500,000 for representation in international markets.

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*AOT spends almost half of its annual budget on its advertising contract.*

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AOT staff said they used this subcontracting approach because the agency did not have enough staff resources to contract for so many services. The agency believes the approach was acceptable because of two main features in the contract:

## ***Finding I***

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- The contract does not specifically identify all of the services to be provided. Specifically, the contract's scope of work states that the contractor shall provide those services customarily performed by an advertising/marketing agency necessary for the development, preparation, and placement of advertising. AOT believes this means it can purchase any marketing-related goods or services through the contract.
- The contract does not place a cap on the amount AOT can pay the contractor. The contractor does not collect a set fee for its services, but rather charges a percentage markup on its costs for fulfilling the contract. Without a cap, AOT is not restricted to a dollar limit that could help prevent AOT from adding the expense of additional subcontracted services to the contract.

***Subcontracting approach violates procurement code***—AOT has used its broad advertising contract to circumvent procurement requirements by directing its advertising contractor to sign specific vendors as subcontractors, and directing services provided by those subcontractors. For example:

- AOT asked its advertising contractor to subcontract with a former employee of AOT's Canadian representation firm rather than subcontracting with the firm again. The advertising contractor did as directed and since then AOT has overseen the services provided by that representative.
- In another case, a subcontractor signed at AOT's request was given AOT office space and equipment and receives an hourly wage for work done at the direction of AOT's director of media relations.

AOT's circumvention of the procurement process violates the procurement code and is problematic for other reasons as well:

- **AOT is choosing vendors to provide services without requiring them to submit competitive bids.** Selecting vendors without competition increases the potential for fraudulent activities and denies many vendors the opportunity to bid on state projects.

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*Selecting vendors without competition increases the potential for fraud.*

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- **Directing subcontractors could complicate AOT’s liability, according to the State Procurement Office.** Normally, a contractor is liable for the performance of subcontractors it signs; however, AOT could be held liable for problems that arise when it directs those subcontractors.
- **AOT unnecessarily pays the advertising contractor a markup on the costs of the subcontracts.** Once the contractor signs some of the subcontracts for goods or services, the contractor’s role is limited to handling payments to the subcontractor; however, the contractor continues to charge AOT a markup on the cost of the subcontractors.

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*Formal contract amendments protect the State.*

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***AOT made unauthorized modifications to its advertising contract***—Additionally, AOT has made unauthorized modifications to its advertising contract. The standard terms and conditions of all state contracts prohibit contractors from entering into any subcontract without the procurement officer’s approval. Because the State Procurement Office procured the advertising contract, it has the sole authority to approve contract modifications, through formal amendments. These provisions protect the State from undesirable subcontractors, prevent fraudulent activities, and ensure that the contractor will be accountable for the subcontractors’ work.

AOT has made two types of modifications without formal contract amendments approved by the State Procurement Office.

- **Fees for outside services reduced**—AOT verbally agreed with the contractor to reduce the markup it pays its advertising contractor for some subcontracted services. AOT now pays a markup ranging from 5.26 to the contracted 17.65 percent for most outside services.
- **Many subcontractors added or changed**—Since the contract was signed in 1996, many subcontractors not specified in the original contract have been added and all but one of the five original subcontractors have been changed.

While these changes were made to improve services and save AOT money, they fail to protect the State and compromise the fair treatment of both past and potential bidders.

- **First**, AOT’s verbal agreements to lower prices do not protect the State to the extent formal contract amendments would because the State has no assurance this price reduction will continue.
- **Second**, adding or changing subcontractors not specified in the original contract and thereby increasing the number of services provided by the contract is unfair to past bidders because if such significant deviations from the original proposal had been known during the bidding and selection processes, the original contract award may have been granted to another bidder.
- **Third**, these modifications are unfair to potential future bidders because without formal amendments they are likely unaware of the services provided or the actual fees charged by the current advertising contractor. Further, future bidders may find it difficult to provide such a wide range of services. According to the State Procurement Office, the inappropriate practice of purchasing several dissimilar services under one contract is called “bundling” and limits competition to only the largest vendors.

***Changes needed to prevent misuse of advertising contract—*** Several changes are needed to prevent future misuse of the advertising contract.

- **First**, to better control the size and scope of the contract, the next request for proposal should specifically identify the services expected, require bidders to quote their fees for those services, and limit the total amount AOT can pay the contractor. AOT will soon have this opportunity since the current advertising contract will expire in 2001.
- **Second**, AOT must discontinue using its advertising contract to purchase subcontracted goods and services in a manner that circumvents the procurement code. AOT should select its vendors by following state procurement guidelines and directly contract with vendors independent of any other contract if it plans to oversee and direct those vendors’ activities.

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*AOT should ensure future advertising contracts follow procurement requirements.*

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- **Third**, to better protect the State and ensure fairness to past and future bidders, AOT should obtain formal contract amendments approved by the State Procurement Office for any modifications of contracts that the Office has procured.

### **Poor Contract Procurement and File Management Exacerbated Problems**

Further exacerbating the contracting violations, AOT management has provided inadequate oversight over contract procurement and file management. Auditors identified problems in the following areas:

- **AOT lacks a central procurement coordinator**—Rather than having a central procurement coordinator, each division director procures and oversees contracts necessary for his or her division. This decentralized system may make it difficult for AOT management to be aware of all its contract obligations and to ensure that procurement requirements are followed. Good business practices suggest that organizations should segregate responsibilities between individuals who work directly with contractors and a procurement coordinator who verifies that the proper procurement procedures are followed. AOT should designate a central procurement coordinator, who should receive training in proper state procurement requirements and consult with the procurement office when areas are beyond his or her expertise.
- **AOT lacks central contract files**—AOT does not maintain a set of central contract files. Rather, each AOT division director is responsible for maintaining his or her contract files. During the audit:
  - ✓ AOT was unable to provide many important contracting documents. For example, AOT had no documentation to show what markups the advertising agency was charging for its various subcontracts. This information had to be obtained from the advertising agency.

## ***Finding I***

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- ✓ Further, due to the lack of central contract files auditors had to request copies of all AOT contracts and subcontracts from each AOT program. Auditors are still uncertain whether all have been provided since, throughout the audit, they continued to discover contracts that had not been given to them before.

Centralized contract files better enable an agency to monitor its contracts. These files should contain documentation for all of AOT's contracts, including subcontracts held by AOT contractors and contracts procured through the State Procurement Office.

- **AOT does not adequately maintain records**—The *Arizona Accounting Manual* states that all state agencies must keep official agency copies of contracts for six years. However, during the audit, some AOT contracts were unavailable for review. For example, AOT could not provide contract documents for the 1999 Governor's Conference on Tourism. AOT should follow state requirements for the retention of contracting documents.

## **Recommendations**

1. AOT should make any purchases that exceed its \$10,000 purchasing authority through the State Procurement Office or obtain appropriate delegation.
2. AOT should pay no more than the basic membership fee in tourism associations and appropriately follow procurement requirements for any additional services it receives from those associations.
3. AOT should comply with state procurement laws and regulations when procuring contracts as part of joint ventures.
4. AOT should comply with rule R20-3-104(2) and section II-H-1 of the *Arizona Accounting Manual* and discontinue paying for joint venture services in advance.
5. In the request for proposal for the 2001 advertising contract, AOT should specifically state the services it expects the awarded contractor to provide, request the bidders to quote their fees for those services, and set a limit on the total amount it will pay.
6. AOT should ask the Attorney General's Office what entities it may participate with as private corporations in joint ventures.
7. To ensure compliance with procurement requirements and to avoid paying unnecessary markups, AOT should select vendors through a competitive bid process for services it plans to oversee and direct.
8. AOT should obtain formal contract amendments approved by the State Procurement Office for any modification of contracts procured by the State Procurement Office. Modifications include changes in subcontractors, services added to the original contract performed by the contractor or by subcontract, and any changes to the proposed pricing schedule.
9. AOT should designate a staff member as a central procurement coordinator. That staff member should consult with and receive training from the State Procurement Office.
10. AOT's new procurement coordinator should establish and maintain central contract files.
11. AOT should follow *Arizona Accounting Manual* requirements for the retention of contracting documents.

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## FINDING II

# AOT'S MEMBERSHIP IN A LIMITED LIABILITY COMPANY VIOLATED STATE CONSTITUTION AND STATUTES

AOT violated the state constitution and statutes through its membership in a limited liability company (company). AOT became a member of the company as a means to purchase the Internet address and further develop the Web site AOT previously developed to provide travel information. However, AOT's involvement with the company was unconstitutional, violated statutes, and caused public monies to be misspent. Further, AOT failed to execute the necessary agreements to own and operate the Internet address and Web site once the company dissolved.

### Company Formed for Internet Activities

In 1997, AOT became a member of a company, Arizona Tourism Internet Partners, that included three other Arizona tourism promotion organizations in order to purchase an Internet address and share a Web site. Following is an overview of the company's history:

- **Creation:** The company was created to purchase and share the Internet address for a Web site, "arizonaguide.com." In 1996 AOT had contracted with a publishing company that owned that address to develop AOT's travel information Web site. When the publisher no longer wanted to operate the site, AOT's options were to purchase the address, purchase or partner with another existing Arizona travel Web site, or spend less than \$100 to register a new address. In continuing its Internet efforts, AOT decided

A **limited liability company (LLC)** is a relatively new and flexible business structure that offers limited personal liability and a choice of being taxed as a corporation or a partnership. LLC participants are filed with the Corporation Commission as "Member."

to work with three of Arizona's larger tourism promotion organizations to pool resources and purchase the address as well as potentially generate more Internet activity. The partners created the company so a single entity would represent the group's interests. Initially, AOT contributed 50 percent of the company's funding (\$30,000), which is also the maximum percentage permissible for AOT's joint venture projects. AOT later contributed another \$30,000 as an annual membership fee; however, none of the other partners made further contributions.

- **Expenditures:** The majority of the company's expenditures were for the Internet address purchase and legal fees. The company purchased the Internet address for approximately \$34,000. This price was set by the owner, who charged what the market would bear. In addition, the company spent almost \$13,000 in legal fees associated with the company's creation and Internet address purchase and almost another \$1,000 for its dissolution. The majority of one approximately \$2,500 bill was for "seeking different alternatives to the participation of the Arizona Office of Tourism." Table 2 (see page 21) illustrates the contributions, expenditures, and final distribution of the company's financial assets.
  
- **Dissolution:** The company dissolved in 1999. According to a former company official, some members were dissatisfied with the way the current service provider operated the Web site and wanted to pursue their individual interests. On dissolution, the company's financial assets were divided among the members based on the understanding that AOT would continue with the site. However, as of June 12, 2000, the company was still the registered owner of the Internet address.

Table 2

**Arizona Office of Tourism  
Arizona Tourism Internet Partners, LLC (ATIP)  
Schedule of Funding Sources and Uses  
For the Period July 1997 through November 1999  
(Unaudited)**

	Amount	Percentage Contributed and Returned
<b>Sources:</b>		
Contributions:		
Office of Tourism	\$60,000	67%
Member 2	10,000	11
Member 3	10,000	11
Member 4	<u>10,000</u>	<u>11</u>
Total contributions	90,000	<u>100%</u>
Interest income	<u>2,328</u>	
Total sources	<u>92,328</u>	
<b>Uses:</b>		
Internet address	\$33,975	
Attorney fees	13,793	
Data entry	<u>750</u>	
Total uses	<u>48,518</u>	
<b>Net sources available at dissolution:</b>	<u>\$43,810</u>	
<b>Return of contributions on dissolution:</b>		
Office of Tourism	\$21,901	49%
Member 2	7,303	17
Member 3	7,303	17
Member 4	<u>7,303</u>	<u>17</u>
Total return	<u>\$43,810</u>	<u>100%</u>

Source: Auditor General staff analysis of the Arizona Tourism Internet Partners Final Accounting provided by the Office of Tourism.

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**AOT Violated the  
Constitution and Statutes**

AOT's participation in the limited liability company violated the state constitution and statutes in several ways:

- **First**, Article 9, §7 of the Arizona Constitution prohibits state agencies from providing funds to and being a shareholder in a company or corporation.

- **Second**, the Limited Liability Company Act requires a company's assets to be distributed in the same proportion they were contributed, unless the company's operating agreement specifies otherwise. The company had no operating agreement. However, AOT received only approximately 50 percent of the company's financial assets when it dissolved, despite having contributed 67 percent of the financial assets. Therefore, the monies that AOT should have received could be considered a gift of public monies to the other members, which is also unconstitutional.<sup>1</sup>
  
- **Third**, A.R.S. §41-192(E) prohibits state agencies from employing legal counsel other than the state Attorney General, except in specific circumstances. AOT did not seek the Attorney General's Office's advice regarding its involvement with the company. In addition, company records indicate that AOT received advice from the company's private law firm regarding its involvement with the company.
  
- **Fourth**, although AOT has the statutory authority to enter into joint ventures with private corporations, the company was not a joint venture. Therefore, AOT exceeded its joint venture statutory authority in creating the company. Further, if this company had been a joint venture, AOT's rules would limit its financial participation to 50 percent.
  
- **Finally**, AOT violated procurement requirements on two occasions when it exceeded the limits of its \$10,000 expenditure authority by providing two \$30,000 payments to the company.

### **AOT Failed to Protect the State's Interest**

In addition to the constitutional and statutory violations resulting from AOT's participation in the company, little benefit was realized.

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<sup>1</sup> According to AOT officials, AOT's remaining share of the financial assets was used to purchase the Internet address from the other partners. However, this was not documented until June 2000.

- **Principally**, when the company was dissolved, the Internet address asset was not distributed to any one of the members. When auditors researched the Internet address registration in June 2000, it was still registered with the company, eight months after the company had dissolved.
- **Further**, AOT lacks an agreement with the service provider that currently operates the Web site. AOT is working with the State Procurement Office and the Attorney General's Office to develop an agreement.

### **Recommendations**

1. AOT should work with the Attorney General's Office and the State Procurement Office to develop an appropriate Web site operating agreement.
2. AOT should seek the Attorney General's advice prior to entering into significant agreements that obligate the State, such as AOT's agreement with the original Web site publisher and AOT's membership in the limited liability company.

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## FINDING III

# ADDITIONAL PERFORMANCE MEASURES NEEDED TO DEMONSTRATE EFFECTIVENESS

AOT needs to develop additional performance measures to assess the agency's effectiveness. AOT currently attempts to measure its performance in large part by estimating the impact its tourism efforts are having on the State's economy. However, the methodology and assumptions it uses to do so are seriously flawed. AOT needs to develop performance measures that measure its indirect impact, such as the effectiveness of a particular advertising campaign in raising awareness about Arizona.

### **AOT's Performance Measures Call for Measuring Impact on Economy**

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*AOT's performance measures focus on AOT's economic impact.*

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As a way to make state government more accountable, A.R.S. §35-122 requires Arizona agencies to develop performance measures and report how well they are doing with regard to these measures. The performance measures, together with agencies' data on how well they are doing, are included in the *2000-2001 Arizona Master List of State Government Programs*, compiled by the Governor's Office of Strategic Planning and Budgeting. Six of AOT's performance measures focus on the agency's impact on Arizona's economy.<sup>1</sup> As illustrated in Table 3, page 26, three of the economic impact measures are agency-wide measures, while the other three measures are specifically for the domestic media advertising program.

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<sup>1</sup> Although three additional agency-wide performance measures relate to economic impact, these measures pertain to the Lupton Welcome Center, which is not part of this audit.

**Table 3**

**Arizona Office of Tourism  
Economic Impact Performance Measures**

**Agency-wide Performance Measures**

1. Economic impact for Arizona economy related to AOT efforts in media advertising and direct mail marketing.
2. Economic impact per \$1 expended by AOT in media advertising and direct mail marketing.
3. Tax revenues for Arizona related to AOT efforts in media advertising and direct mail marketing.

**Domestic Media Advertising Performance Measures**

1. Average incremental expenditure by travel party receiving AOT materials over average expenditure by all Arizona travel parties.
2. Economic impact for Arizona economy related to AOT efforts in media advertising and direct mail marketing.
3. Tax revenues for the State of Arizona stimulated by AOT efforts.

Source: Auditor General staff summary of performance measures reported in the *2000-2001 Arizona Master List of State Government Programs*.

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*Few travelers obtain  
AOT's travel information  
packet.*

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In the *2000-2001 Arizona Master List of State Government Programs*, AOT reported that in 1998, 242,000 travel parties visited the State after receiving its travel information packet, increasing state tourism revenues by \$193 million. When put in the context of estimated total tourism activity in Arizona, this was about 2.2 percent of the estimated number of travel parties who visited Arizona in 1998 and about 1.8 percent of the estimated amount all travel parties spent that year in Arizona.<sup>1</sup>

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<sup>1</sup> According to the *Arizona Office of Tourism 1998 Summary Report*, compiled by D. K. Shifflet and Associates, an estimated 11 million travel parties visited Arizona in 1998, spending a total of \$10.9 billion. A travel party consists of one tourist or two or more tourists traveling together.

## **AOT's Approach to Measuring Its Impact Is Severely Flawed**

AOT's method for measuring its economic impact on tourism in Arizona has several flaws. **First**, it inappropriately used the results of a study to measure economic impact. **Second**, its dollar estimates are based on assumptions that are not valid. It is especially important to fix these flaws because measuring economic impact is challenging. AOT's promotional efforts are only one of many factors that can affect people's decisions about whether to travel to Arizona.

**AOT's measure overstates economic impact**—To develop its estimate, AOT misused the results of an AOT-contracted "conversion study" conducted in 1994. Travel and tourism research indicates that a conversion study is an appropriate way to calculate the usefulness of a tourism office's travel packets or the effectiveness of a specific advertising campaign. However, some researchers caution against using a conversion study to estimate economic impact because of the risk of overstating impact.

**A conversion study:**  
Estimates what percentage of people who request travel information about a destination end up traveling to that destination.

AOT has overstated its economic impact by reporting the money spent by *all* Arizona travel parties who received its information packet rather than reporting only the money spent by those who said that AOT's packet influenced their decision to visit Arizona. By comparison, California recently used a conversion study to evaluate its travel literature but reported only the economic impact of those travelers influenced by the information. A further problem with AOT's use of this method is that AOT continues to use the 1994 data to measure its current advertising efforts despite the fact that campaigns and information have changed and may have a different impact on people's travel decisions.

**Estimates for dollar amounts are based on invalid comparison of two studies**—AOT makes an invalid assumption about tourist spending with its use of the 1994 conversion study results. The conversion study indicated that the travel parties AOT influenced to travel to Arizona spent almost twice as much as the average Arizona travel party, as determined by another study. This

assumption is flawed. The two studies are not comparable because each has a different purpose, method, and population. To be valid, such a comparison would have to be made against a control group of the same population covered in the conversion study.

***Measuring economic impact is challenging***—It is especially important for AOT to fix these flaws if it continues to measure economic impact because AOT’s impact on tourists cannot be easily isolated from all of the other factors that affect tourists’ decisions about whether to visit the State. For example,

- **AOT is not the only tourism marketer in the State.** Although AOT is the only entity which markets the entire state as a vacation destination, many other organizations and businesses also promote tourism to locations within Arizona. At the regional and local level, convention and visitors’ bureaus and chambers of commerce promote tourism to the areas they represent. For fiscal year 2000, AOT estimates that it will spend nearly \$9 million to promote statewide tourism, whereas the convention and visitors’ bureaus of Phoenix and Tucson together estimate they will spend approximately \$13 million to promote their municipalities. Further, hotels and attractions necessarily promote travel to Arizona when they advertise themselves. With multiple entities promoting different aspects of Arizona, it is difficult to determine how influential any one organization’s marketing efforts are on a consumer’s decision to vacation in Arizona.
- **No direct sales means no direct economic data.** Isolating the impact of AOT’s marketing effectiveness is especially difficult because AOT does not sell a product or service for which sales can be tracked. Unlike hotels and attractions that sell services to tourists and can monitor their sales performance, AOT markets the idea of vacationing in Arizona in order to motivate tourists to travel to the State. As a result, AOT has no direct knowledge of transactions it may have facilitated.

**Additional Measures Needed**

AOT should develop other measures to demonstrate its effectiveness in stimulating statewide tourism. AOT's role is one of a facilitator that connects potential travel consumers with Arizona communities and businesses that make the tourism sales. To better reflect this role, AOT should develop additional performance measures.

**The goal of AOT's Domestic Media Advertising program is:**

*“to shape a positive image of Arizona which affirmatively motivates travelers to experience the diversity of the state.”*

**AOT's role is a facilitator**—AOT's role is a facilitator who shares information with potential tourists, travel agents, tour operators, travel writers, and Arizona businesses and communities. The decision to act on the information and to transact the actual business of tourism rests with those AOT has interacted with, not with AOT itself. For example:

- AOT's advertising and travel information packets provide information about the kinds of sites, attractions, and events available in Arizona. Tourists then deal directly with those sites and attractions if they select Arizona as their vacation destination.
- Further, AOT's trade marketing efforts provide information and tours to tour operators and travel agents who then decide whether to promote Arizona itineraries to their clients.

**More appropriate performance measures needed**—To better demonstrate its effectiveness as a facilitator, AOT should develop more appropriate performance measures. Performance measures are important for indicating how well an agency is fulfilling its role. Further, by gathering performance measure information, an agency can obtain feedback and information that is valuable for improving its operations. Following are examples of some areas where AOT should improve its performance measures:

- **Advertising**—AOT's advertising program can better measure its role in generating consumer awareness and interest in Arizona as a place to vacation. None of the program's current per-

formance measures report the extent to which AOT's advertising increases consumer awareness of Arizona as a vacation destination or the diversity of the State's attractions. AOT should report the percentage increase in consumer awareness and interest in Arizona as a result of AOT advertising.

AOT can measure this kind of effectiveness through pre- and post-studies of its advertising campaigns, as other state tourism offices routinely do. AOT paid approximately \$5,000 for a preliminary study of consumer awareness in key target markets prior to its 2000 advertising campaign. AOT plans to perform a post-test in order to gauge how effective the campaign was in increasing awareness and motivating consumers to travel to Arizona. AOT should consider performing this type of study regularly and report the results as a performance measure.

- **Trade Marketing**—Further, AOT's program in International and Domestic Trade Marketing can better measure its role in generating travel industry awareness and interest in Arizona as a tour destination. This program promotes Arizona travel itineraries to domestic and international tour operators and travel agents in several ways, such as providing tours of the State, exhibiting at trade shows, and contracting with international trade representatives. Despite its various promotional activities, Trade Marketing has only one performance measure that indicates how much AOT pays in relation to its partners in sponsoring tours for travel industry representatives. However, this single measure does not indicate how well the program has familiarized the travel industry with Arizona.

Trade Marketing should adopt an appropriate effectiveness measure for each of its major activities. For example, with little effort AOT could report the number of Arizona communities and businesses with which Trade Marketing shared tour operator contact information obtained at trade shows. With greater effort, Trade Marketing

**The goal of AOT's International and Domestic Trade Marketing program is:**

*"to create a well-informed travel industry (i.e., travel agents, tour operators, and wholesalers) that actively promotes Arizona to domestic and international tourists and travelers."*

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*Trade marketing could measure the success of its tours.*

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could also measure the success of the tours it offers to travel agents and tour operators. Trade Marketing staff could obtain feedback from tour attendees on whether they have created or marketed more trips to Arizona as a result of their tour.

Trade Marketing should also report separate performance measures for international trade marketing efforts. If AOT obtained comparable and consistent data from each of its international trade representatives, AOT could measure the performance of each representative as well as AOT's international trade efforts on the whole. Data from the international representatives could include the number of contacts made with international tour operators and the number of tour itineraries created as a result of representatives' efforts to promote Arizona abroad.

- **Constituent interactions**—Finally, in addition to improving program-specific measures, AOT should adopt measures that indicate the level of interaction it has with individuals and groups throughout the State. For example, in fiscal year 2000, AOT initiated a community outreach effort that involves AOT staff visiting 12 communities in 8 predominantly rural counties in order to help each community develop its own tourism marketing plan. AOT should quantify the amount of interaction its staff has with statewide constituents. AOT already tracks the number of times staff meet with constituents and reports this total on a monthly basis to the Governor's Office. AOT could consider evaluating these numbers at a regional or county level and report the annual number of constituent meetings by region/county as performance measures in order to demonstrate that AOT serves all areas of the State.

## **Recommendations**

1. AOT should discontinue its current method of calculating economic impact performance measures since the methodology and assumptions it uses are flawed. If AOT wants to measure its return on investment for an individual advertising, marketing, or fulfillment project, it should use appropriate methods and assumptions.
2. AOT should develop additional performance measures that reflect its facilitator role. Specifically, AOT should develop additional performance measures in the program areas of advertising and trade marketing, as well as for constituent relations.

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## FINDING IV

# AOT SHOULD CONDUCT REQUIRED LONG-RANGE PLANNING

The Arizona Office of Tourism (AOT) needs to develop a statutorily required long-range tourism plan for the State. The experience of other states shows that long-range planning can help a state tourism agency better focus its marketing efforts. In developing such a plan, AOT should work with tourism stakeholders to identify challenges, determine potential research areas, and develop specific goals and objectives.

### Current Planning Inadequate

Although statute requires AOT to develop a long-range tourism plan, AOT has focused its efforts on other priorities. Lack of a long-range plan limits AOT's ability to respond to strategic issues, such as the State's ability to maintain its share of the tourism market. Other states have experienced positive benefits from their long-range planning efforts.

***AOT lacks a statutorily mandated long-range plan***—AOT has not developed a long-range tourism plan, as statute requires. A.R.S. §41-2305(A) requires AOT to “perform research necessary to determine a long-range tourism development plan for this state.” However, AOT's planning focus has been short-term, focusing on how advertising dollars are spent each year. In addition, AOT has chosen to pursue goals outside of a formal planning process. For example, in recent years AOT's priority has been to increase its funding and obtain dedicated funding through lodging taxes.

***Lack of long-range plan leaves AOT unable to respond to strategic issues***—Without a long-range tourism development plan, AOT is unable to focus its efforts beyond immediate efforts, even though it has identified a need to deal with longer-term issues.

For example:

- In 1994, AOT identified competition from other states as a long-term strategic challenge. AOT still considers this an important issue; however, it has not developed goals and objectives to address the problem.
- In addition, AOT has recently expressed concern that Arizona's tourism market share has declined. However, AOT has not conducted research to determine the cause nor developed goals and action steps to address the problem.
- Further, without established long-term priorities, AOT is not prepared to make the most effective use of the additional revenues it will receive as a result of recent legislative changes. Having established objectives for spending the additional revenues would help ensure that they are spent on areas that would address identified needs.

***Other states experience significant benefits from planning***—In addition, long-range planning has proven beneficial for other states' tourism marketing agencies. In 1999, the National Conference of State Legislatures concluded that states can greatly benefit from establishing comprehensive master plans for tourism development. For example, Connecticut determined that a long-term development plan was necessary because its marketing efforts alone could not ensure that the state would continue to attract repeat visitors. One element of Connecticut's plan involved outlining funding criteria to assist lending institutions in evaluating tourism-related proposals in order to encourage more investment. Further, according to a state tourism official, Washington also benefited from fulfilling its planned enhancement of its travel writers program, experiencing a 60 percent increase in media coverage about the state. In addition, Nevada has successfully fulfilled its long-term goal to draw visitors using Arizona's Grand Canyon.

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*Nevada achieved its goal to draw visitors using Arizona's Grand Canyon.*

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## **Additional Efforts Are Needed**

There are a number of steps AOT should follow to successfully fulfill its statutory mandate to develop a research-based long-range plan.

- First, AOT should work with the Tourism Advisory Council and other tourism stakeholders to identify challenges facing the Arizona tourism industry, and establish agreed-upon priorities. AOT has not taken full advantage of the Tourism Advisory Council as a planning resource.
- The next step in the planning process would be to determine the research needed to identify potential solutions to the challenges facing Arizona's tourism industry. AOT spends approximately \$190,000 on research each year, the majority of which is focused on supporting its research library and providing statistical information. While this work fulfills some of AOT's other statutory research responsibilities, this research does not assist AOT in making strategic decisions. For example, in 1998, AOT provided \$40,000 to an Arizona tourism association for research on topics such as the state of the tourism industry in Arizona, and tourism's impact on Arizona's quality of life. Instead, AOT needs strategic information such as why a type of tourist is not currently visiting the State or the best ways to attract high-spending tourists.
- Finally, AOT and its stakeholders need to use this research to establish specific goals and objectives and timetables for achieving them, as well as a process for monitoring progress. For example, Connecticut's 1997 plan included two major initiatives and 22 action steps. One initiative was to enhance tourism's infrastructure, including transportation, information, and education. An action step associated with this initiative involved increasing the number of tourism educational programs to ensure a qualified workforce. As a result, Connecticut now has a new four-year and several two-year tourism college programs.

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*Strategic research would benefit AOT.*

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## **Recommendations**

1. AOT should develop a long-range tourism plan for Arizona by:
  - a) Working with the Tourism Advisory Council and industry stakeholders to identify challenges and priorities for Arizona tourism;
  - b) Determining research projects to support the development of a long-range plan; and
  - c) Developing specific goals and objectives to address strategic issues and a monitoring process with specific performance measures to assess progress.

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## OTHER PERTINENT INFORMATION

During this audit, other pertinent information was obtained about how tourism promotion is structured and funded in other states and in Arizona. Recently, a number of states restructured tourism offices into innovative public-private partnerships with the tourism industry. Information is also provided regarding the traditional publicly operated structures and funding sources used by the other states. Finally, information is provided about other Arizona agencies with tourism responsibilities and funding.

### **New Public/Private Partnerships**

At least three states, Florida, California, and Colorado, have restructured tourism efforts in recent years to develop innovative partnerships with industry and share responsibility for promoting tourism. These new approaches include contracting a tourism commission to market and operate tourism activities; self-imposed industry financial assessments; and voluntary funding of state tourism efforts by the industry.

- **Visit Florida**—In 1996, Florida restructured its tourism efforts to create a public-private partnership. The Florida legislature abolished the division of tourism within the state department of commerce and replaced it with a 31-member tourism commission. The commission identifies the tourism promotion programs and activities in a four-year marketing plan. The commission then contracts with a state-created, not-for-profit corporation to implement this plan. The Florida Tourism Industry Marketing Corporation operates under the name “Visit Florida.” Visit Florida administers the state’s domestic and international tourism activities, manages its welcome centers, and conducts research on tourism and travel trends.

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*Florida’s state tourism efforts are funded by the state and the private sector.*

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In addition to restructuring, Florida has also incorporated private sector funding into its new organization. Visit Florida

must increase private sector financial support to match state funding on a dollar-per-dollar basis by the end of 2000, its fourth year of existence. Visit Florida encourages tourism industry members to pay annual membership fees in exchange for advertising and promotional opportunities. The corporation also offers advertising opportunities to private businesses, which allows partners to cooperatively market the “Visit Florida” name and logo.

Florida tourism activities are funded by both the state and private sector businesses. The state funds tourism from a trust fund, which is financed by proceeds from a \$2 per day car rental surcharge and from private sector businesses contributing through the corporation. State appropriations for fiscal year 1999 were \$22 million and private sector contributions, including in-kind contributions, totaled \$32.8 million. During fiscal year 1999, “Visit Florida” had operating expenses of \$37.8 million and 87 full-time equivalent positions.

- **The California Tourism Marketing Act**—California has similarly restructured to incorporate private sector funding. In 1995 the California legislature passed the California Tourism Marketing Act in response to a 1993 travel industry proposal to the Governor’s Task Force on Tourism Funding. Travel-related businesses approved the Act in a 1997 referendum. The California Travel and Tourism Commission, created by the Act, consists of 37 members (including the Secretary of Trade and Commerce), 24 elected by the travel industry and 12 appointed by the Governor. The commission determines how state-appropriated and industry-assessed funds will be spent by the California Division of Tourism.

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*California’s state tourism efforts are funded in part by industry financial assessments.*

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The Act includes an industry-imposed financial assessment on four categories of travel-related activities, including accommodations, restaurants and retail, attractions and recreation, and transportation and travel services. The assessment is \$450 for every \$1 million a business generates in travel and tourism revenue. Any business failing to report its revenues is subject to penalties of 10 percent of its assessment plus interest, as well as a civil penalty of up to \$10,000 for filing false information.

For fiscal year 1999, the assessment generated \$5.7 million and the State contributes \$7.3 million annually to fund state tourism marketing efforts. The program's goal is to eventually raise \$25 million annually for state tourism marketing, with the legislature continuing to appropriate the current \$7.3 million annually.

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*Voluntary funding from Colorado's tourism industry was low.*

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- **The Colorado Travel and Tourism Authority**—In contrast to California, Colorado's tourism promotions are funded by voluntary industry assessments and some state funding. The privately funded Colorado Travel and Tourism Authority (CTTA) replaced the state-funded Colorado Tourism Board after residents voted to not reauthorize the state tourism tax that initially funded the Board. The CTTA relied on voluntary funding from tourism-related businesses to replace the \$12 million previously allocated from the tourism tax. However, it was not able to garner the financial support necessary to take over the role of the State Tourism Board as not all businesses were contributing to the cost of promoting tourism. Therefore, in 1997, the Colorado legislature revived the State Tourism Board with a \$2.1 million state appropriation to supplement private sector funding and tasked the board with overseeing the CTTA, which contracts with the state to provide tourism information. In March of 1999 the Colorado legislature approved a \$5 million appropriation for promoting tourism.

### **Traditional Organizational Structures and Funding Mechanisms**

In contrast to the public/private tourism promotion efforts discussed above, most states include tourism functions as a part of another office or agency with related responsibilities and fund tourism through a variety of public appropriations.

***States structure tourism promotion efforts in many ways—***Typically, tourism promotion has been the responsibility of a state agency. States generally structure tourism functions within the state agency responsible for business development or commerce or in another state agency with related responsibilities.

## ***Other Pertinent Information***

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However, there are some states, such as Arizona, that operate tourism offices which are independent of other agencies. In addition, there are several states that operate tourism offices in conjunction with or under the authority of tourism commissions or state tourism corporations.

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*In most states, the agencies responsible for commerce also handle tourism promotion.*

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- **Agency program**—The majority of states include their tourism promotion activities within a larger state agency. Most (32 states) assign tourism responsibilities and staff within the agency responsible for trade, commerce, or economic development. In addition, 5 states operate tourism offices as a part of various other agencies which have related functions such as parks, jobs, recreation, or transportation.
- **Independent agency**—Eight states, including Arizona, operate independent or cabinet-level tourism offices.
- **Corporations**—Virginia and Rhode Island include tourism offices under state-operated nonprofit entities. The Virginia Tourism Corporation is a nonprofit authority which is a political subdivision of the state. Tourism functions in Rhode Island are the responsibility of the Rhode Island Economic Development Corporation, which replaced the Rhode Island Department of Economic Development.
- **Commissions**—Seven states operate tourism commissions in addition to state tourism offices. Tourism commissions in some states advise governors and legislatures on tourism-related issues. The duties performed by commissions vary by state. For example, the Nevada Commission on Tourism operates the state tourism office, and commissions in West Virginia and Oregon appoint the tourism office director.

***Most states fund tourism with traditional revenue sources***—States use a variety of public funding sources to support tourism including various dedicated taxes, legislative appropriations, and lottery/gaming revenues.

- **State General Fund**—Twenty-one states rely on general fund revenues to support publicly funded tourism efforts. One state, Ohio, supplements state funding with revenue received through federal grants.

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*Most states' tourism efforts are publicly funded from specific taxes.*

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- **Dedicated Public Funding from Taxes**—Nineteen state tourism offices receive a portion of their public funding through other dedicated taxpayer-funded appropriations. Twelve of these states fund tourism offices partially or wholly through lodging or room taxes. Until the 2000 legislative session, Arizona funded its office partially through a bed tax. In 1998, total taxes on lodging, when combined with existing state and local taxes, ranged from a high of 15.6 percent in Seattle, Washington, to a low of 4 percent in Bozeman, Montana. As of May 2000, the total tax in Phoenix is 10.67 percent. Four states that do not impose lodging taxes pay tourist office costs by dedicating sales tax or assessing taxes on other businesses such as restaurants, car rentals, and admissions to tourist attractions. Three other states receive part of their funding from road or highway funds.
  
- **Industry Funding, Sales, and Logos**—In addition, six states fund tourism activities with private funding or sales revenues. Three of these states obtain a portion of their budget from the tourism industry and three generate revenue from sales at welcome center vending machines or sales of novelty items and logos.
  
- **Lottery/Gaming Revenues**—Four states use lottery or gaming revenues to fund tourism activities. Lottery revenues in Kansas, Oregon, South Dakota, and West Virginia are used for tourism.

## **Arizona Tourism Past and Future**

Information regarding the Arizona state agencies with tourism responsibilities and recent legislative changes that modified AOT's funding is provided below.

***Several agencies in Arizona involved with tourism***—The Arizona Office of Tourism is not the only agency in the State involved with tourism.

- **Department of Commerce**—Originally one agency was responsible for both tourism and economic development. Tourism duties were transferred from the Governor's Office of

## ***Other Pertinent Information***

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Economic Planning and Development (now the Arizona Department of Commerce) when the Office of Tourism was created. However, A.R.S. §41-1504 directs the Arizona Department of Commerce to establish and oversee export and import trade and tourism offices in the Far East, Mexico, Europe, Japan, and Canada, although the Department does not currently have tourism offices. Additionally, the Arizona Department of Commerce currently operates a Rural Tourism Development (RTD) program to help communities achieve a sustainable tourism industry and assist them with organizing their tourism efforts.

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*Arizona Highways Magazine provides tourist information.*

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■ **Arizona Highways Magazine**—Both the Arizona Office of Tourism and *Arizona Highways Magazine*'s missions include bringing travelers to Arizona. *Arizona Highways Magazine* is a self-funded entity that promotes Arizona through the sale of the magazine, books, calendars, and maps. A 1999 guide published by the National Conference of State Legislatures noted that state magazines are one means to provide information to state visitors. The guide stated that according to the Arizona Department of Transportation, *Arizona Highways*, with a circulation of 400,000, is one of the State's best tools for promoting tourism.

■ **State Parks**—Although not directly charged with promoting tourism, the State Parks Board is responsible for administering and promoting Arizona's state parks. Because many state parks are major tourist attractions, AOT works closely with the State Parks Board. AOT provides information on state parks and Internet links to the Arizona State Parks Internet site. In 1999, the opening of Kartchner Caverns State Park generated significant interest and has resulted in a high demand for tours.

***AOT funding amended***—During the 2000 legislative session, legislation was passed that changed the way the AOT is funded. Legislation included increasing AOT's funding as part of a proposal to build a stadium and designating dedicated sales tax revenues for funding AOT.

■ **The Stadium Proposal**—Legislation was passed to refer to voters a proposal to fund a new stadium that includes an increase in funding to state tourism from a car rental surcharge

## ***Other Pertinent Information***

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and hotel tax revenues collected in Maricopa County. Under this proposal, AOT will receive an estimated additional \$4 million dollars in the first year of funding with 5 percent increases annually. The implementation of this legislation is dependent on a public vote in November 2000.

- **Dedicated Funding**—Two other proposals were introduced in the 2000 legislative session to change AOT’s funding formula. Historically, AOT has received its funding from the General Fund and a portion of the revenues collected through the lodging tax. One proposal passed by the Legislature in the 2000 session eliminates AOT’s general fund appropriations and replaces them with dedicated funding derived from taxes generated from lodging taxes. For fiscal year 2002, it is estimated that AOT will receive \$9.2 million. This legislation will be repealed if the stadium proposal is approved by the voters. The proposal that was not passed by the Legislature also included dedicated funding, but additionally increased the percentage of the taxes AOT would receive, essentially doubling AOT’s budget.

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## SUNSET FACTORS

In accordance with A.R.S. §41-2954, the Legislature should consider the following 12 factors in determining whether the Arizona Office of Tourism (AOT) should be continued or terminated.

**1. The objective and purpose in establishing the agency.**

The purpose of the Arizona Office of Tourism (AOT) is to promote and develop tourism in the State of Arizona. AOT was established by the Legislature in 1978 and its mission is “to expand the volume of tourism activity and related expenditures in the state in order to enhance the economy, the stability of the work force and the standard of living for all Arizonans.”

AOT has a number of statutorily required duties that include promoting and developing tourism business; planning and developing a campaign to promote statewide attractions; and conducting research necessary to 1) establish the Office as the central repository and clearinghouse for all tourism-related data, 2) determine a long-range tourism development plan for Arizona, and 3) provide information to the Governor, the tourism industry, and the public.

**2. The effectiveness with which the agency has met its objective and purpose and the efficiency with which the agency has operated.**

Although AOT has demonstrated its efficiency and effectiveness in some areas, it can improve in others. In 1999, the National Council of State Tourism Directors awarded three first-place prizes to AOT’s most recent advertisement campaign. In addition, AOT has been successful in fostering cooperation within the tourism industry through its support of the Arizona Tourism Alliance, an

association of tourism businesses and organizations. Further, AOT has obtained private sector in-kind contributions to support its efforts. Finally, auditors' interviews with tourism stakeholders indicated that they are generally satisfied with AOT's efforts.

However, this audit identified several ways AOT can improve its efficiency and effectiveness.

- **First**, AOT should improve its contracting practices. Many of AOT's contracting practices violate state procurement statutes, rules, and accounting guidelines. For example, some AOT contracts were never competitively bid. In addition, AOT has used its advertising contract to avoid complying with procurement requirements (see Finding I, pages 9 through 18.)
- **Second**, AOT should adopt additional performance measures to demonstrate its effectiveness in helping market Arizona to tourists. Some of AOT's current performance measures are based on flawed methodologies and assumptions. Improving the methods is important if AOT continues to measure its economic impact. Further, AOT should develop additional performance measures that reflect its effectiveness in working with tourists, the travel industry, and communities to facilitate tourism (see Finding III, pages 25 through 32).
- **Third**, AOT should develop a long-range tourism plan. Long-range planning and research is mandated by state statute; however, AOT's planning efforts have focused on short-term rather than long-term goals. AOT needs to work with tourism stakeholders to identify strategic issues, determine necessary research projects, and establish goals and objectives as part of a formal long-range planning process (see Finding IV, pages 33 through 36).

**3. The extent to which the agency has operated within the public interest.**

AOT operates in the public interest by sharing Arizona tourism information and research with potential tourists, businesses, and Arizona communities. For example, AOT's Trade Marketing Program staff attend national and international tourism trade shows to provide travel agents and tour operators with information about Arizona attractions. AOT then shares the trade show contacts they make with Arizona convention and visitors' bureaus.

In addition, AOT offers the Tourism Investment Funds Sharing Program (TIFS) to assist in the development of tourism promotion projects at the local level. The TIFS program provides matching funds to nonprofit organizations, government organizations, and statewide associations involved in promoting a destination in Arizona.

However, AOT failed to act in the public interest by inappropriately becoming a member of a limited liability company. In fiscal years 1998 and 1999 AOT provided a total of \$60,000 to this limited liability company. The company subsequently purchased a Web site address. AOT's participation exceeded its statutory authority and is unconstitutional. Article 9, §7 of the Arizona Constitution prohibits state agencies from being a shareholder in, and providing monies to, a company or corporation (see Finding II, pages 19 through 23).

In addition, AOT has not operated in the public interest by failing to competitively bid many of its contracts and by using its advertising contract to avoid the procurement process. Because a competitive bidding process was not used for many contracts, AOT may be spending more monies than needed for some services. Further, because AOT has used its advertising contract to avoid the procurement process, past and future bidders may be impacted (see Finding I, pages 9 through 18).

**4. The extent to which rules and regulations promulgated by the agency are consistent with the legislative mandate.**

AOT promulgates rules pursuant to A.R.S. §41-2304(B)(5). Arizona Administrative Code R20-3-101 through R20-3-104 deals with joint ventures including definitions, procedures, standards for participants, and conditions of participation.

In addition, the Governor’s Regulatory Review Council (GRRC), at the request of the Office of the Auditor General, reviewed the Board’s statutes and determined that AOT has promulgated some, but not all, of the rules necessary to carry out its statutory provisions. GRRC determined that the following additional rules may be necessary:

- Rules addressing policies or programs to promote tourism pursuant to A.R.S. §41-2305(A)(5) that require AOT to “formulate policies, plans and programs designed to promote tourism in this state.”
- Rules concerning how an agency or person makes a gift or a grant, or the recording and reporting mechanisms that will be used to track the source and amount of gifts and grants pursuant to A.R.S. §41-2305(B)(6). This statute allows AOT to “accept gifts, grants, matching funds and direct payments from public or private agencies or persons for the conduct of programs which are consistent with the general purposes and objectives of this chapter.”
- Rules regarding the establishment of a monitoring system including who is to report when and in what manner pursuant to A.R.S. §41-2305(B)(10), which requires AOT to “establish a reporting system for public agencies and private persons or enterprises in order to monitor state tourism.”
- Fee rules pursuant to A.R.S. §41-2305(B)(11) that allow AOT to “charge reasonable fees for services and publications.”

- 5. The extent to which the agency has encouraged input from the public before promulgating its rules and regulations, and the extent to which it has informed the public as to its actions and their expected impact on the public.**

The public has not had a recent opportunity to comment on the adoption of rules. On March 4, 1997, the Governor's Regulatory Review Council approved AOT's five-year rules review report, and the proposed rule amendments. The next five-year review report is due in October 2001.

AOT has not adequately complied with Open Meeting Laws regarding posting public meeting notices for the Tourism Advisory Council. Auditors' contact with the Secretary of State's Office in December 1999 revealed that AOT was not in compliance with the Open Meeting Law requirement that boards and commissions file a statement with the Secretary of State's Office providing the location where their public meeting notices will be posted. AOT has since notified the Secretary of State regarding the location where it will post public meeting notices.

- 6. The extent to which the agency has been able to investigate and resolve complaints that are within its jurisdiction.**

This factor is not applicable because AOT does not have investigative or regulatory authority.

- 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.**

This factor is not applicable because AOT is not a regulatory agency with enforcement or oversight responsibilities.

- 8. The extent to which the agency has addressed deficiencies in the enabling statutes that prevent it from fulfilling its statutory mandate.**

AOT has not sought any recent changes to its enabling statutes. However, legislation was passed during the 2000 legislative session that may increase AOT's funding and provided dedicated funding through lodging taxes (see Other Pertinent Information, pages 37 through 43).

- 9. The extent to which changes are necessary in the laws of the agency to adequately comply with the factors listed in the Sunset Laws.**

This audit does not make any recommendations for statutory changes.

- 10. The extent to which termination of the agency would significantly harm the public health, safety, or welfare.**

Terminating AOT would not significantly harm the public health, safety, and welfare of Arizona citizens. Although AOT is the only entity that promotes Arizona statewide, many other public and private entities are involved in promoting tourism. However, all 50 states currently fund some level of tourism promotion. This report provides additional information regarding how Arizona and other states organize and fund their tourism promotion efforts (see Other Pertinent Information, pages 37 through 43).

- 11. The extent to which the level of regulation exercised by the agency is appropriate and whether less or more stringent levels of regulation would be appropriate.**

AOT is not a regulatory agency, thus this factor does not apply.

12. **The extent to which the agency has used private contractors in the performance of its duties and how effective use of private contractors could be accomplished.**

AOT relies on private contractors to a great extent. In fiscal year 2000, AOT estimates that 83 percent of total expenditures, including salaries, will be for private contractors. AOT currently uses private contractors for such services as advertising, marketing Arizona in international markets, the operation of a call center to provide tourism information, research activities, public relations, and production of guidebooks and maps.

This audit identifies several problems and makes recommendations concerning AOT's contracting practices (see Finding I, pages 9 through 18).

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## **Agency Response**

**Auditor General Comments to  
Agency Response**

**Agency Response**

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## **The Auditor General's Comments On the Audit Response from the Arizona Office of Tourism**

The following response from the Arizona Office of Tourism (AOT) contains both inaccurate and misleading statements, particularly with regard to the report's first two Findings. To ensure that the reader has all the information pertaining to the issues in this report, we provide the following comments.

**Finding I:** We identified 16 purchases in which AOT exceeded its purchasing authority without seeking competitive bids. Seven of these purchases exceeded \$100,000. The AOT response attempts to characterize many of these purchasing violations as either payments for trade association dues or as sole source purchases. However, at least two of what AOT appears to characterize as "dues" payments actually were used to primarily purchase research and two "dues" payments were actually AOT's contribution to the Limited Liability Company of which it illegally became a member.

With regard to sole source purchases, the following facts should not be ignored. 1) AOT is not exempt from the State Procurement Law. 2) AOT never received, as required by law, permission from the State Procurement Office to make sole source purchases. 3) Although AOT states that it was "inconsistent" in documenting the need for, and approval to make, sole source purchases, AOT could not provide our Office with **any** such documentation when we requested it during the audit.

With regard to the improper use of subcontracts to circumvent the purchasing process, AOT's response fails to acknowledge that two high-level AOT employees told auditors during the course of the audit that one reason AOT subcontracted services through its advertising contractor was to avoid procurement requirements.

**Finding II:** The AOT response suggests that AOT was included as a member of a Limited Liability Company (LLC) without its consent or knowledge. This position ignores the following facts: 1) billing records from the legal firm serving the LLC show that the firm contacted an AOT employee prior to filing the articles of incorporation and provided him a copy of the articles after they were filed. 2) This same AOT employee was later listed as president of the LLC on company documents. 3) Although we had several conversations and obtained numerous documents from AOT employees during the course of the audit relating to the LLC, no AOT employee raised the issues contained in this response until after receiving the draft report. 4) A former company official stated AOT was aware of and did consent to its membership in the company.

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August 19, 2000

Ms. Debbie Davenport  
Director  
Office of the Auditor General  
State of Arizona  
2910 N. 44<sup>th</sup> Street  
Suite 410  
Phoenix, Arizona 85018

Dear Debbie:

Attached is the Arizona Office of Tourism's final response to the Sunset Review.

I appreciate the opportunity to respond as such, and the courtesies extended by you in the process.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark McDermott", written over a horizontal line.

Mark McDermott  
Director

/mm



**ARIZONA OFFICE OF TOURISM**  
**RESPONSE TO PERFORMANCE AUDIT**

**SUBMITTED TO**  
**OFFICE OF THE AUDITOR GENERAL**

**August 18, 2000**

# Arizona Office of Tourism

## Response to Report Highlights

August 18, 2000

Under Arizona Revised Statutes 41-2952, the Office of the Auditor General (OAG) conducts reviews under the “Sunset Law” for the purpose of providing the Arizona Legislature with information necessary “for determining if the merits of a program justify its continuation rather than termination.” The Arizona Office of Tourism acknowledges and appreciates the efforts of the OAG is conducting this performance review as such.

AOT further appreciates the recommendations for agency improvements in efficiency and effectiveness as presented in the report, and is already proceeding with the implementation of policies and procedures not previously in place. However, AOT considers the OAG’s critical findings to be disconcerting, particularly with regard to the selective use of information that creates inaccurate or misleading conclusions and impressions. AOT appreciates the opportunity to supply other pertinent information in the interest of a balanced interpretation of the issues.

**Our Conclusions:** *It is noted with appreciation that the OAG, in its principally intended focus within this review on AOT’s primary marketing programs, found no issues of inefficiency suitable for documentation in the report.* With regard to the findings that are documented, AOT finds it appropriate to respond as follows:

### Procurement Code Issues Overstated

The OAG has misrepresented AOT’s procurement activity by mis-categorizing sole source providers and by targeting a handful of necessary trade association dues payments where approval to exceed usual purchasing limits was, unfortunately, not fully documented. The OAG’s interpretation of AOT procurement problems avoids review of the complicated circumstances AOT and all other tourism offices must function under, thus providing an unbalanced picture of AOT’s unique procurement needs. While AOT was inconsistent in its efforts to retain procurement documentation concerning these unique industry association memberships and sole-source vendors, the measures to correct this situation are well underway.

While AOT admits to some administrative processing inconsistencies with regard to the items specified in the review, and is taking appropriate corrective action, we note and appreciate that ***there are no items cited which constitute any misuse of funds or other serious fiscal wrongdoing by the agency.*** On the contrary, virtually all of the items cited represent programs of significant effectiveness and value to the State, as elaborated upon in the full response.

AOT appreciates and will heed the OAG's recommendations for fully documenting the basis for all its purchasing and contracting practices under the procurement code, and that it obtain procurement training as necessary. AOT has already initiated discussions with the State Procurement Office to address the findings in this report.

## **“Illegal Company” Incorrect and Misleading**

AOT, and three non-profit community destination marketing organizations joined together in an association to develop a website for the benefit of their common public missions. The association retained legal counsel to assist in the formation of the entity, and, as such, to assure abidance with all state laws in the interests of, and on behalf of, all of the participating partners.

**It is by no means clear as a legal matter that the OAG may assert that AOT acted in violation of the state constitution with its participation in the limited liability company that was formed.** Article 9, Section 7 of the Arizona Constitution, referenced in this finding, is called the “gift clause.” The intent of the gift clause is to prevent “public funds from being used to foster or promote the purely private or personal interests of any individual.” This intent was clearly adhered to in this situation.

The public received a value much greater than what was paid by AOT into this organization, in which case the gift clause was further complied with. The State has gained hundreds of thousands of dollars in net value from AOT's involvement in this venture, and this public gain is continuing. The website's current publisher/host has itself invested over \$500,000 in the project in just the past two years. Additionally, the economic impact benefit provided by visitors to Arizona who are motivated by the website, which receives nearly one million page views per month, is certainly significant.

Furthermore, this finding's allegation that AOT violated statute prohibiting state agencies from employing legal counsel other than the state Attorney General, is factually unfounded. Counsel to the organization in question can verify that it never was employed by AOT.

**When AOT's actions in this matter are considered in view of what the overall goal of the venture was, they can be regarded as completely consistent with its non-profit goals and purposes, and with the intent of the constitution's gift clause. The implication in the finding that AOT took deliberate illegal action in this venture is terribly inappropriate. AOT does acknowledge and appreciate the OAG's recommendation that it should seek the advice of the Attorney General regarding entering such agreements.**

## **Performance Measures**

AOT is constantly seeking ways to improve upon its monitoring procedures, and appreciates the OAG's recommendations for additional performance measures. AOT does not agree, though, that its measurement of economic impact and the related return on investment value of its programs is not reliable or valid. See detailed response document.

## **Long Range Plan Needed...**

*...But the lack of one does not prevent AOT from addressing strategic issues.* See detailed response document.

AOT appreciates the OAG's reference to the importance of long-range planning, but must note that statute does *not* specifically require AOT to develop a long-range tourism development plan, as the report suggests. It does require AOT to "*perform research necessary* to determine a long-range tourism development plan for the state." AOT has been conducting such research in partnership with the state tourism industry for the past three years. This research serves as the necessary preparation for the long-range planning that is currently underway. AOT and its board, the Governor's Tourism Advisory Council, in partnership with the Arizona Tourism Alliance, have cooperatively undertaken this initiative.

Though the OAG's report omits review of AOT's long-range research and planning efforts, AOT acknowledges the recommendation that it should work with the Arizona tourism industry to develop a plan, and notes that it is underway.

# Arizona Office of Tourism

## Response to Performance Audit

August 8, 2000

Under the Sunset review statutes, the Joint Legislative Audit Committee authorized the Office of the Auditor General (the "OAG") to conduct a performance audit of the Arizona Office of Tourism (the "AOT"). At the outset of the process, the OAG advised AOT of its intent to conduct a program review of AOT's main marketing programs including: (1) Domestic Media Advertising, (2) Travel Counseling and Direct Mail Marketing, (3) International and Domestic Trade Marketing and (4) Media Promotion and Communications. According to the OAG, a program evaluation assesses a program's "effectiveness and evaluates whether desired outcomes are being achieved."<sup>1</sup>

At the end of this process AOT notes that the audit report offers minimal evaluation of the Office's core marketing activities. During discussions with the Auditor General and the performance audit staff, it was noted that the Legislature has directed the OAG to principally focus its efforts on the identification of areas of inefficiency, and the delivery of related problem solving recommendations. **Based on this understanding of OAG's mandate and its 10 month review of AOT's operations, we appreciate and are pleased that the performance audit team identified no basis for recommending significant modifications or improvements to AOT's core marketing activities.**

We also appreciate the limited recognition of program effectiveness that the report does expressly provide. AOT received top recognition among all state tourism offices for its most recent marketing campaign, and had received various related awards during the immediate prior years. Additionally, AOT enjoys significant support from the Arizona tourism industry, particularly in terms of wide spread cooperation and participation in its marketing programs, including considerable in-kind private contributions to leverage AOT program funding. This industry support and participation is further reflected in the audit's finding of satisfaction with AOT's marketing activities among tourism stakeholders.

AOT appreciates the constructive spirit of the audit's recommendations for potential improvements, and is implementing those recommendations as appropriate. This response reviews the more critical findings regarding the administrative process surrounding certain vendor relations, organizational memberships, performance measures, and long-term planning initiatives.

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<sup>1</sup> Summary of Performance Audit Division of the Office of the Auditor General located at the Internet address, [www.auditorgen.state.az.us/PAD.htm](http://www.auditorgen.state.az.us/PAD.htm) (January 18, 2000).

## Response to Findings I - IV

### I. Interpretations under Procurement Code and Contractual Language Create Confusion

#### Purchases Covered by Widely Recognized Exceptions to Procurement Code

In reviewing all of the procurements identified by the OAG, most of the contracts represented unique opportunities with a particular vendor exclusively situated to provide the proposed services. For example, six of the contracts represented annual membership dues for participation in industry associations. AOT has long-standing support, participation and cooperation with industry associations including national (e.g. Travel Industry Association of America), regional (e.g. Western States Tourism Policy Council), and state (e.g. Arizona Tourism Association, Arizona Tourism Internet Partners, etc.) tourism organizations. In each of the six instances noted, AOT made payment of annual membership dues to an organization for services simply not duplicated by any other entity.

Another seven contracts included purchases of marketing services from vendors with some combination of unique marketing vehicles, distinct audience, copyrighted research, and/or exclusive channels of distribution. AOT believes that each one of these purchases would have been entirely appropriate within the scope of services expressly recognized by its marketing contract. However, the agency determined that direct contracts for the unique services offered the most cost-effective manner of obtaining the services. Once again, each of the purchases represented a unique mix of services simply not offered by any other vendor.

AOT believed that it appropriately documented the justification for purchases where a vendor was either clearly unique or offered unique marketing services which could have otherwise been procured under AOT's marketing/advertising contract. In any event, under similar circumstances the State Procurement Office (the "SPO") authorizes procurement waivers when appropriate and allowed by law. Procedures have already been put in place by AOT to properly document and obtain competition or appropriate procurement waivers, to address the findings in the report, and otherwise.

**The OAG has misrepresented AOT's procurement activity by mis-categorizing sole source providers and by targeting a handful of necessary trade association dues payments where approval to exceed purchasing authority was, unfortunately, not consistently documented. The OAG's review omits consideration of the complicated circumstances AOT and like tourism offices must function under, thus providing an unbalanced assessment of AOT's unique procurement needs. The great value accrued to the state through AOT's leveraged involvement in many of these programs should not be left unrecognized. Issues such as these suggest that a full review of AOT's unique role as a marketing entity for the state and the related special procurement provisions that should be considered may be in order.**

The finding with regard the AOT's use of its advertising contract is dependent on the interpretation of contract language and the intent at the time of the agreement. AOT notes that marketing agreement was contracted though formal bid procedure conducted by SPO. The

language was developed under the advice of SPO. AOT notes that the advertising agency contract does expressly provide for a broad scope of work, which essentially provides for the advertising agency to serve as a “marketing” agency, conducting all such services for the State as advertising agencies commonly conduct for their clients. AOT notes that the OAG reviewed the original contract with the same agency as part of its sunset audit in 1995. At the time, the OAG concluded that “the agency has substantially clarified the terms of its current contract.” Based on this finding, the revisions the OAG now suggests (e.g. expressly listing all services and sub-contractors, establishing a total limit on contract size, etc.) seem a significant departure from the structure of the current contract.

While AOT acknowledges that the benefit of hindsight always raises the potential for improvements, AOT does not feel that the cited activities of the agency violate procurement policy, given its understandings with SPO as they evolved through the bid process and beyond. The advertising contract is due for re-bidding in the near future. The contract will be reviewed with SPO with the issues raised in this audit included as key considerations.

**As such, AOT does not agree with the finding’s implication that it knowingly “violated” procurement policy. AOT acknowledges inconsistencies with regard to specific administrative procedures within procurement policy, and has implemented internal measures and is working with SPO to correct the problem in this area. However, the agency has in fact conducted its business in the areas cited in compliance with the intent and spirit of state procurement policy, and with integrity. Because of the nature of AOT’s destination marketing mission, the agency has procurement needs unique to state government, particularly with respect to its need for flexibility in order to be able to respond effectively and efficiently in a dynamic and highly competitive marketing environment. AOT is grateful for the opportunity to explain its operations and rebut the severity of the OAG’s conclusion concerning procurement.**

## **II. AOT’s Membership in a Statewide Internet Marketing Association Generated Great Benefit and Value to the State**

With the emergence of the World Wide Web on the Internet in 1994, AOT and other major Arizona tourism marketing organizations recognized the inevitable importance of this new medium as a significant marketing channel for the tourism industry. After strategic discussions through the middle of 1995, the group of marketing organizations collectively concluded that a coordinated presence on the Internet represented the strongest marketing position for all participants involved in marketing travel to the state of Arizona. A single site could aggregate content from every type of travel destination marketing organization (e.g. the state, cities, community chambers of commerce and convention and visitor bureaus, attractions, lodging establishments, etc.) where travelers could find all planning materials for their trips throughout Arizona. Additionally, the tourism marketing organizations recognized that their collective presence would represent critical mass in an otherwise fragmented environment, and anticipated that such coordination would allow them to negotiate free web site development and site hosting services.

As part of a joint procurement process during the summer and fall of 1995, the original six tourism marketing organizations secured a winning bid from a publishing company for free web site development for the initial participants, as well as free web hosting for all initial and future participants in the site. The web site debuted at the web address “ArizonaGuide.com” (the “ArizonaGuide”) in January of 1996. ArizonaGuide enjoyed significant support from the travel industry growing to include more than 20 community marketing organizations by 1997. In addition to free web site hosting for the communities’ chambers of commerce and convention and visitor bureaus, many of their individual industry members participated in the site enjoying free hosting and exposure to ArizonaGuide’s visitors. Visitation to ArizonaGuide on the Internet grew dramatically from initial monthly page views around 100,000 to page views approaching 1,000,000 per month.

During late 1996 and early 1997, the site publisher advised the participants that the burden of providing free web development services and site hosting had not been sufficiently offset by anticipated advertising and other revenue opportunities. During discussions to identify alternative solutions, another publisher was identified as a potential joint venture partner in an effort to create operational efficiencies and forge a viable business model for publication and hosting of ArizonaGuide. Ultimately, the original publisher elected to exit web publishing while the new publisher accepted a delegation of all duties and obligations under the existing contracts. However, the new publisher identified the need for a single organization in order to more efficiently communicate and contract with all participating organizations.

Given the growing importance of the Internet for travel marketing, the participants agreed that a unified entity devoted to Internet marketing issues could prove a valuable resource to the industry. AOT has significant, longstanding involvement with a variety of industry associations including national (e.g. Travel Industry Association of America), regional (e.g. Western States Tourism Policy Council), and state (e.g. Arizona Tourism Alliance) tourism organizations. AOT generally participates in an association’s policy making, governance issues, and marketing activities and commonly pays annual dues in exchange for a “membership” in the association. Typically, such associations are organized as not-for-profit corporations that offer a range of member benefits in return for an annual membership dues payment.

Ultimately, AOT and three other participants in ArizonaGuide agreed to form a statewide association, Arizona Tourism Internet Partners (the “Association”), dedicated to the growing and unique issues surrounding the marketing of travel destinations on the Internet. From the beginning, the Association was conceived as a not-for-profit corporation with “membership” similar to other industry associations. Ultimately, counsel to the Association reviewed the effects of not-for-profit status on the participants in the Association and recommended that a Limited Liability Company (the “LLC”) would offer certain benefits.<sup>2</sup>

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<sup>2</sup> Legal counsel was retained by the Association to advise participating board members on organizational issues, ensuring participation of each organization, contracting, and other administrative issues that face every association from time to time. Inevitably, most associations face organizational issues that require periodic legal advice and ultimately are covered by administrative funds of an association. For this Association, counsel was retained on behalf of the Association, all billings were directed to the Association and paid from Association operating funds.

As AOT sought to ensure its participation consistent with its public purpose and the not-for-profit model, communication ensued with counsel as to the effect of filing the proposed organizational documents. Ultimately, the only express acts AOT ever undertook with the Association were the payment of annual association dues under agreements substantially identical to dues agreements with other non-profit associations.<sup>3</sup>

**All of this notwithstanding, it is by no means clear as a legal matter that the OAG may assert that AOT was in violation of the state constitution in ultimately having been listed as a member in the articles of organization of a limited liability company. Article 9, Section 7 of the Arizona Constitution, referenced in this finding, is called the “gift clause.” The intent of the gift clause is to prevent “public funds from being used to foster or promote the purely private or personal interests of any individual.” This intent was clearly adhered to in this situation. AOT, and three non-profit community destination marketing organizations joined together to develop a website for the benefit of their common public missions.**

**The public received a value much greater than what was paid out by AOT into this organization, in which case the gift clause was further complied with. The State has gained hundreds of thousands of dollars in net value from AOT’s involvement in this venture, and this public gain is continuing. The website’s current publisher/host has itself invested over \$500,000 in the project in just the past two years. Additionally, the economic impact public benefit provided by visitors to Arizona who are motivated by the website, which receives nearly one million page views per month, is certainly significant.**

**Furthermore, this finding’s allegation that AOT violated statute prohibiting state agencies from employing legal counsel other than the state Attorney General, is factually unfounded. Counsel to the organization can verify that it never was employed by AOT.**

**Certainly, in seeking counsel regarding their participation in the association, all participants sought in good faith to rely on counsel’s legal opinion and guidance in complying with all state laws. When AOT’s involvement in this matter is considered in view of what the overall goal of the venture was, its actions are completely consistent with its non-profit goals and purposes, and with the intent of the constitution’s gift clause. Whatever the precise legal interpretations under all applicable laws, the issue became moot with the dissolution of the Association in 1999.**

**Though the implication in the finding that AOT took deliberate illegal action in this venture is terribly inappropriate, AOT acknowledges and appreciates the OAG’s recommendation that it should seek the advice of the Attorney General regarding entering such agreements.**

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<sup>3</sup> The Office never entered into any operating agreement or any other agreement in exchange for an interest of the LLC. The Office never tendered any funds in the form of a capital contribution in exchange for an interest in the LLC

## Significant Benefit Gained By the State

A concise summary of the Association’s operations from Table 2 (of Finding II) presents a broader perspective on the benefits to AOT from participation in the Association. While Table 2 only presents the financial flows of the Association, the summary below fully accounts for distribution of the intellectual property represented by ownership of the web address. The summary clearly demonstrates that AOT received 50 % of the residual financial assets at dissolution and that the agency’s effective share of administrative expenses was only 34 percent. While AOT did proceed with a commitment for second year annual dues payment, diverging priorities began to appear regarding the participants organizational needs given the emerging importance of marketing on the Internet. Ultimately, the second year dues payment was used to allocate full ownership of the web address to AOT, which would continue to operate a web site at “ArizonaGuide.com” on behalf of the state while the other communities would seek their own branded addresses.

	<u>AOT</u>		<u>Total for</u>	
	<u>Contributions of Dues</u>		<u>Other 3</u>	
			<u>Participants</u>	
1 <sup>st</sup> Year Association Dues	30,000		30,000	
2 <sup>nd</sup> Year Association Dues	30,000		--	
<b>Distributions of Assets</b>				
Transfer of Web address to AOT	<33,975>	100%	--	--
Refund of Dues	<21,901>	50%	<21,909>	50%
<b>Share of Association Expenses</b>	<4,124>	34%	<8,091>	66%

At the time of dissolution, the participants agreed to reallocate available funds from dues payments as consideration for transfer of complete ownership of the web address to AOT. The agreement to transfer the address to AOT has always been recognized by all participants. Moreover, AOT has always been the administrative contact to the Internet registration service with control over the title to ownership of the address. Consequently, after final distribution of all assets, AOT’s share of the cooperative efforts fell below 50 percent.

Even the above summary fails to capture the full measure of benefits realized by the Office through the operation of ArizonaGuide. While Finding II focuses on the process surrounding formation and dissolution of the Association, it completely ignores the benefits obtained from AOT’s cooperative efforts with the tourism industry. The whole purpose of pooling efforts among Arizona tourism marketing organizations was to achieve a world class Internet presence at the least cost. The site, in fact, became award winning. During the entire period of publishing ArizonaGuide, the \$ 42,000 spent in connection with the Association represents substantially all expenditures related to developing and maintaining AOT’s Internet presence. Of course, services to develop a web site and maintain and market it consistently are not inexpensive. In

this regard, AOT has enjoyed publisher's contributions to the project's development exceeding \$500,000. This is not to mention the value of tourism economic impact generated by the effort.

Clearly the State has enjoyed tremendous value from its participation in this project.

AOT appreciates the opportunity to present this extensive response to this finding in order to provide a complete review of the full benefits obtained from its Internet marketing efforts.

### **III. AOT Joins Industry Trend to Determine Return on Investment**

#### **Growing Trend to Establish Economic Impact to Track Return on Investment**

AOT is proud of its efforts to track the overall economic impact of the travel industry on the Arizona economy, as well as the return on investment of funds the Legislature invests in the agency's marketing programs. Early in the development of performance measures for inclusion in the "Arizona Master List of State Government Programs", AOT developed a wide variety of performance benchmarks to report the performance of its core marketing programs. For example, the media communications program tracks the value of media coverage for each dollar AOT spends in efforts to generate coverage directly related to the program's activities. For fiscal year 2000, the agency has target a return of \$ 15 in value for every dollar invested and reported over \$17 in value for the prior fiscal year. Another performance measure the media communications program tracks is the value of in-kind services contributed by AOT's industry partners in support of our marketing efforts. For fiscal year 2000, AOT has a target return of \$2 for every dollar invested and reported \$ 3 in value in the prior year.

For the agency's advertising programs, a conversion study represents the most direct manner by which to establish return on investment. Typically, state tourism offices employ these studies in various similar manners. In order to estimate the degree of influence AOT's marketing efforts have in motivating decisions to travel to Arizona, the agency employed additional interpretive tools – both in the design of its study, and the process for reporting the results of the study. First, the study directly captures what the OAG identifies as visitors "...who said that AOT's packet influenced their decision to visit Arizona." The conversion study directly asked visitors receiving AOT travel planning materials which two information sources did they use to make their final decision to visit Arizona. Respondents identified AOT's travel planning packets as leading to their final travel decision ahead of all other factors except their own past experience in Arizona. Certainly AOT believes that its marketing efforts are playing a key role in its information requestor's ultimate decisions to travel to Arizona.

As another method of gauging AOT's influence in managing the state's travel resources, we also review the travel behavior and expenditure patterns of visitors who received our information packets. AOT has strategically identified two types of visitors as primary targets for its marketing efforts. In order to spread the benefits of tourism throughout the state, particularly during regional off seasons, AOT targets visitors who tend to stay longer and visit more of the state. Additionally, with respect to the high seasons of the state's regions, AOT targets higher value visitors because lodging and attractions entities are dealing with capacity constraints during these periods. In order to evaluate our effectiveness in accomplishing these objectives we

do compare the expenditures and length of stay levels with the of AOT-assisted visitors with the average levels for all visitors to Arizona. While the conversion study indicated that visitors who received AOT information packets spend approximately \$1800 per trip, a national survey of all travelers to Arizona revealed a benchmark spending average of about \$1000 per travel party. Similarly, regarding length of stay, visitors receiving AOT packets stayed an average of some 12 days, as compared to the benchmark from the national survey of some 4.3 days. We acknowledge that the two studies are conducted for two different purposes. The conversion study is specifically designed to estimate the expenditure patterns and length of stay of visitors assisted by AOT's planning materials. The national panel survey is specifically designed to estimate average benchmarks for all travelers to Arizona (and all states). AOT certainly believes that the differences between the expenditures and the lengths of stay are significant, and provide meaningful comparisons reflecting the agency's effectiveness.

AOT recognizes the inevitable assumptions and estimate process involved in any empirical study. However, both studies represent the best methods available and routinely employed. Of course, AOT is always seeking options for continual improvements in all of its tracking systems and performance measures, and remains open to consideration of areas where the potential exists for enhancements to its performance monitoring procedures.

#### **IV. AOT Properly Conducts Research and Facilitates Industry Planning Efforts**

##### **AOT Efforts Position the Tourism Industry for Effective Planning Process**

The OAG concludes "AOT needs to develop a statutorily required long-range tourism plan for the State." However, that statute expressly requires AOT to "**perform research** necessary to develop a long range tourism development plan." AOT believes that at least three key conditions must precede the establishment of an effective long-range industry plan including: (1) appropriate vehicle for industry participation; (2) appropriate research to provide a complete competitive and situational analysis; (3) identification of remedies to short-term obstacles that would prevent implementation of any adopted plan. AOT has facilitated industry planning by conducting appropriate research as required, and furthermore has played a leading role for the past four years in organizing the statewide tourism industry for the purpose of developing initiatives to ensure the long range expansion and development of the industry. This organization of the industry has taken the form of a statewide tourism association called the Arizona Tourism Alliance (the Alliance"). The Alliance sprang to life, as intended, as part of a three-day strategic planning session that AOT programmed into its 1996 Governor's Conference on Tourism.

Effective long range planning starts with the need for participation and insight by all stakeholders affected by execution of the plan. Such organization provides the galvanizing factor that is essential to successful plan development, and more importantly, to stakeholder support in actually implementing the plan. AOT recognized that the Arizona tourism industry was not organized, and that substantial benefits (e.g. enhanced communication, improved coordination and cooperation, etc.) would clearly flow from an industry association. AOT

facilitated the Alliance creation process, and has supported the association as one of its principle sustaining members, serving in a continuous leadership role as a permanent ex-officio member of its executive committee of the board of directors. Together with the Alliance, AOT has conducted the significant research that statute refers to as “necessary” to develop a long-range plan. The following research projects have been conducted during the past three years:

- “Arizona Tourism – **State of the Industry Report** – A Critical Look AT Opportunities and Challenges Facing The Arizona Tourism Industry”
- “**Tourism and Quality of Life** (In Arizona)”
- “**An Overview of Arizona Tourism Employment**”
- On-going annual visitation, spending and behavior patterns research

The State of the Industry Report, in particular, ventures into a number of long range issues in its presentation of several strategic alternatives, which it espouses as needed “if Arizona is to create a sustainable competitive advantage in the future”.

While conducting this research, AOT has been playing its instrumental role in nurturing the organization of the tourism industry into the entity needed to properly construct a long-range plan with AOT.

Both the tourism industry as broadly represented within the Alliance, and AOT feel that with having finally secured a dedicated performance-based funding mechanism for marketing the state (i.e., with legislation enacted during the 2000 session), the time is now right for long range plan development. In fact, the board of directors of the Alliance and the Governor’s Tourism Advisory Council for AOT (the “TAC”) have each resolved by formal motions in June of this year to join together in leading a long range planning process. Initial developmental planning meetings have ensued.

**AOT disputes the OAG’s assertion that AOT’s lack of a long-range plan limits its ability to respond to strategic issues** such as the State’s ability to maintain its share of tourism market. This example is improper because maintaining market share is an on-going, near-term, market conditions issue. We note here as well that OAG makes a couple of references to market share loss during recent years, while omitting any reference to **market share regained during 1999 – a year during which AOT’s marketing campaign was honored as the best among all states by the Travel Industry Association of America.**

Other examples of AOT’s “inability to respond to strategic issues” are also unfounded, such as the example of competition from other states as a long term strategic challenge that AOT has identified but not developed goals and objectives to address. This is much more a short-term issue, and is basically a matter of marketing funding and product development. Both of these are priority issues in the on-going program initiatives of the Alliance in which AOT is actively involved. By virtue of its active involvement in these organized, joint initiatives AOT is in fact responding to these strategic issues, and is most certainly not rendered unable to do so due to the

lack of a long range plan. Still, AOT appreciates the OAG's recommendation that a long-range plan be created, and notes that a program to do so is underway.

## **Recommendations and Required Response Statements**

### **Finding I**

Recommendations as numbered 1-12:

1. The recommendation is agreed to, and will be implemented.
2. The recommendation is agreed to, and will be implemented.
3. The recommendation is agreed to, and will be implemented.
4. The recommendation is agreed to, and will be implemented.
5. The recommendation is (conditionally) agreed to, and will be implemented based on further consultation with State Procurement Office and other appropriate agencies.
6. The recommendation is agreed to, and will be implemented.
7. The recommendation is agreed to, and will be implemented.
8. The recommendation is agreed to, and will be implemented.
9. The recommendation is agreed to, and will be implemented.
10. The recommendation is agreed to, and will be implemented.
11. The recommendation is agreed to, and will be implemented.

### **Finding II**

Recommendations as numbered 1-2:

1. The recommendation is agreed to, and will be implemented.
2. The recommendation is agreed to, and will be implemented.

### **Finding III**

Recommendations as numbered 1-2:

1. The first part of the recommendation is not agreed to, and will not be implemented.  
The second part of the recommendation is agreed to, and will be implemented.
2. The recommendation is agreed to, and will be implemented.

### **Finding IV**

Recommendation 1:

The recommendation is agreed to, and will be implemented.

Respectfully submitted,

Mark McDermott  
Director  
Arizona Office of Tourism

## Other Performance Audit Reports Issued Within the Last 12 Months

99-13	Board of Psychologist Examiners	00-1	Healthy Families Program
99-14	Arizona Council for the Hearing Impaired	00-2	Behavioral Health Services— Interagency Coordination of Services
99-15	Arizona Board of Dental Examiners	00-3	Arizona's Family Literacy Program
99-16	Department of Building and Fire Safety	00-4	Family Builders Pilot Program
99-17	Department of Health Services' Tobacco Education and Prevention Program	00-5	Department of Agriculture— Licensing Functions
99-18	Department of Health Services— Bureau of Epidemiology and Disease Control Services	00-6	Board of Medical Student Loans
99-19	Department of Health Services— Sunset Factors	00-7	Department of Public Safety— Aviation Section
99-20	Arizona State Board of Accountancy	00-8	Department of Agriculture— Animal Disease, Ownership and Welfare Protection Program
99-21	Department of Environmental Quality—Aquifer Protection Permit Program, Water Quality Assurance Revolving Fund Program, and Underground Storage Tank Program	00-9	Arizona Naturopathic Physicians Board of Medical Examiners
99-22	Arizona Department of Transportation A+B Bidding	00-10	Department of Agriculture— Food Safety and Quality Assurance Program and Non-Food Product Quality Assurance Program

## Future Performance Audit Reports

Department of Public Safety—  
Scientific Analysis Bureau

Department of Agriculture—Pest Exclusion and  
Management Program

Department of Agriculture—Commodity Development and  
Promotion Program