Arizona Sports and Tourism Authority

Authority distributed some revenues inconsistent with statutory requirements, discontinued a key Stadium management oversight practice and did not document other oversight practices, and did not receive enough tourism revenues to meet all statutorily required distributions

Performance Audit

November 2020
Report 20-111

A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General

ARIZONA Auditor General
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November 6, 2020

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Mr. Tom Sadler, President/CEO
Arizona Sports and Tourism Authority

Transmitted herewith is the Auditor General's report, *A Performance Audit of the Arizona Sports and Tourism Authority*. This report is in response to Arizona Revised Statutes (A.R.S.) §5-812 and was conducted under the authority vested in the Auditor General by A.R.S. §41-1279.03. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience.

As outlined in its response, the Arizona Sports and Tourism Authority agrees with all the findings and plans to implement all the recommendations.

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

Sincerely,

Lindsey Perry, CPA, CFE
Auditor General

cc: Arizona Sports and Tourism Authority Board of Directors

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Report Highlights

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Arizona Sports and Tourism Authority (Authority)

Authority distributed some revenues inconsistent with statutory requirements, discontinued a key Stadium management oversight practice and did not document other oversight practices, and did not receive enough tourism revenues to meet all statutorily required distributions.

Audit purpose

To determine if the Authority's revenue distributions for fiscal years 2015 through 2020 complied with statutory requirements; review its Stadium management monitoring and oversight processes; and determine whether the Authority received sufficient revenues to cover its statutorily designated distribution priorities during fiscal years 2015 through 2020 and the impact of the COVID-19 pandemic on its revenues, distributions, and operations.

Key findings

- The Authority receives tourism and facility-related revenues and must distribute these revenues according to statutory requirements but made several distribution errors that resulted in 1 of the distribution priorities—youth and amateur sports—receiving approximately $1.1 million more than statutorily allowed and other priorities, such as tourism promotion, receiving less than required. When notified of these errors, the Authority corrected them.
- The Authority contracts with a Stadium manager to manage State Farm Stadium operations. In June 2019, the Authority discontinued a key oversight practice of an activity that its Stadium manager is contractually required to perform when an Authority staff person left and procedures for performing this activity could not be located. Prior to September 2020, other oversight practices were performed but not documented.
- During fiscal years 2015 through 2020, the Authority did not receive sufficient tourism revenues to meet all of its monthly statutorily required distribution priorities except for Stadium bond obligations because of statutory distribution amounts that increase at specified intervals and the requirement that higher priorities must be fully funded each month before lower priorities can receive funding.
- The Authority projects it will need to use approximately $13.3 million of its $29 million operations account cash balance as of June 30, 2020, during fiscal year 2021 to pay for its operations, Stadium bond obligations, and other costs because of reduced tourism and facility-related revenues from the COVID-19 pandemic.

Key recommendations

The Authority should:

- Take additional steps to ensure that it accurately distributes tourism and facility-related revenues according to statutory requirements.
- Implement the procedures it developed in June 2020 to guide the performance of a key oversight practice and continue the other Stadium management oversight practices we observed that have been formalized in its draft Stadium management oversight policy and procedures.

See Performance Audit Report 20-111, November 2020, at www.azauditor.gov.

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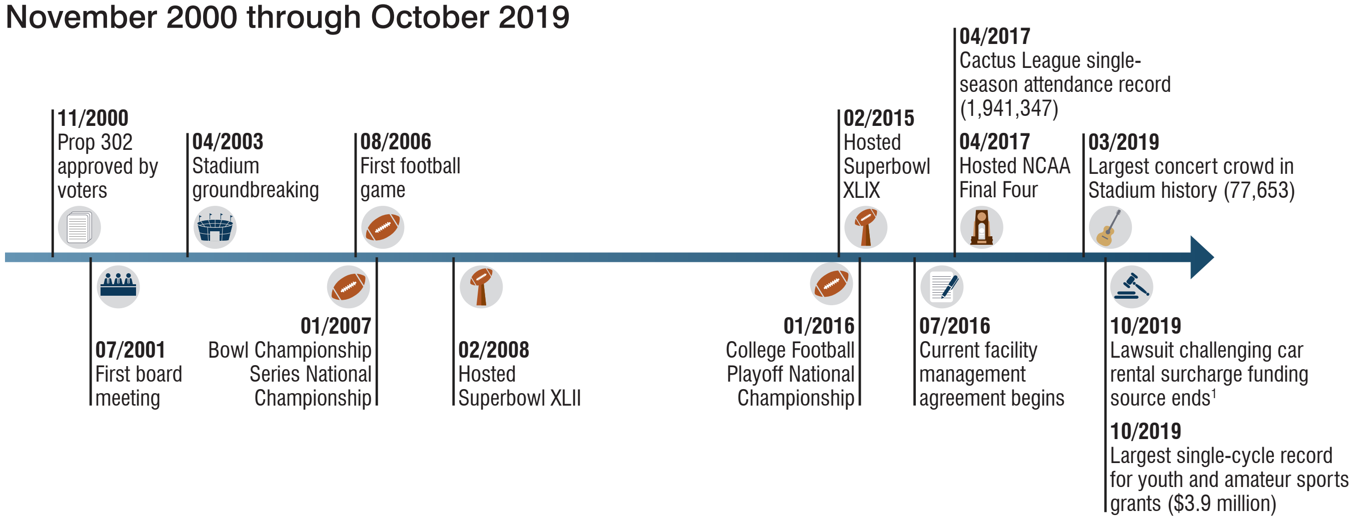
The Office of the Auditor General has completed a performance audit of the Arizona Sports and Tourism Authority (Authority) pursuant to Arizona Revised Statutes (A.R.S.) §5-812, which requires a performance audit of the Authority every 5 years. This performance audit focuses on the Authority's (1) distribution of revenues for fiscal years 2015 through 2020, and (2) oversight of its facility management contractor. We also provide additional information about the Authority, its 2015 through 2020 revenue distributions, fiscal year 2021 projected revenues and distributions, and the impact of the COVID-19 pandemic on its revenues and operations, including the impact on its operating monies and Stadium bond obligations, in a question and answer format. This report has 4 recommendations for the Authority in Findings 1 and 2 (see pages 9 through 14).

History and responsibilities

The Legislature established the Authority in 2000, conditioned on Maricopa County voter approval. In the November 2000 election, voters passed Proposition 302 approving the establishment of the Authority.[1] A.R.S. §5-802 establishes the Authority as a separate legal body with all the rights, powers, and immunities of a municipal corporation. Figure 1 includes key dates and events for the Authority, including the April 2003 groundbreaking of State Farm Stadium (Stadium), a multipurpose event facility in Glendale owned and operated by the Authority. In addition to these key historical events, the Stadium has been selected to host upcoming mega-events including Super Bowl LVII in 2023 and the NCAA Men's Final Four in 2024.

Figure 1
Timeline of key events in Authority's history
November 2000 through October 2019



[1] In our 2015 performance audit of the Authority, we reported that the Authority's access to revenue from a Maricopa County car rental surcharge was in question based on a challenge to the surcharge's legality in the court case Saban Rent-A-Car LLC, et. al., (Saban) v. Arizona Department of Revenue et al. In October 2019, the U.S. Supreme Court declined to hear Saban's petition, preserving the Authority's access to this funding source.

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

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[1] In addition, Proposition 302 also established a new surcharge on car rentals and a new local tax on hotels in Maricopa County and outlined funding priorities for these new tax revenues, which are used to fund the Authority's responsibilities, such as payment of Stadium bond obligations (see Introduction, pages 3 through 6, for more information on the Authority's revenue sources and distributions).

The Authority receives and distributes various revenues according to statutorily required funding priorities and amounts (see pages 3 through 6, for more information) and has the following statutorily required responsibilities, which are limited to Maricopa County:

- **Facility—**Maintaining, operating, improving, and marketing/promoting the use of the Stadium, which is the home of the Arizona Cardinals (Cardinals) National Football League (NFL) team, Fiesta Bowl football games, and hosts other events such as concerts and consumer shows. As shown in Table 1, in fiscal years 2019 and 2020 the Stadium hosted 11 football games per year with an average yearly attendance of approximately 590,000 and 3 concerts, 2 in 2019 with a combined attendance of approximately 108,700 and 1 in 2020 with approximately 55,800 attendees. Through a facility management agreement, the Authority contracts with a company to operate, maintain, improve, promote and market the Stadium (see Finding 2, pages 12 through 14, for information and recommendations related to the Authority's oversight and monitoring of its facility management agreement).

- **Cactus League promotion—**Attracting and retaining Major League Baseball (MLB) Cactus League spring training operations. This involves providing financial support to cities for the construction and renovation of Cactus League facilities. For example, in fiscal year 2020, in exchange for a 25-year lease agreement between the Milwaukee Brewers and the City of Phoenix, the Authority committed up to $5.7 million to the City of Phoenix for renovations to American Family Fields, the spring training facility for the Milwaukee Brewers (see images to the right).[2]

State Farm Stadium, Glendale
Source: Arizona Sports and Tourism Authority.

Table 1
Number of Stadium events and event attendance
Fiscal years 2019 and 2020

Football events				
	2019		2020	
Event type	Number of events	Total attendance	Number of events	Total attendance
Cardinals games	10	547,837	10	527,336
Fiesta Bowl game	1	41,383	1	60,987
Total football	**11**	**589,220**	**11**	**588,323**

Non-football events				
	2019		2020	
Event type	Number of events	Total attendance	Number of events	Total attendance
Banquets & meetings	6	630	6	1,055
Cardinals team events	19	26,065	24	22,977
Concerts	2	108,747	1	55,758
Consumer shows	17	104,949	11	82,122
Graduations & assemblies	26	223,779	0	0
Other events	67	111,875	15	51,795
Other sporting events	4	63,199	2	88,327
Motorsports	4	98,769	4	112,522
Stadium tours (public/private)	NA	8,667	NA	5,705
Total non-football	**145**	**746,680**	**63**	**420,261**

Source: Auditor General staff review of the Stadium's fiscal years 2019 and 2020 general ledger.

American Family Fields, Phoenix
Source: Arizona Sports and Tourism Authority.

[2] According to the Authority, as of June 30, 2020, the Authority has outstanding commitments of approximately $173.1 million to 7 cities that host Cactus League spring training teams; however, it has only recognized a liability of approximately $111.4 million because, in accordance with accounting standards, it only recognizes a liability when monies are readily available for payment.

- **Youth and amateur sports—**Reviewing, approving, and funding grants for youth and amateur sports facilities and programs.[3] The Authority has 3 types of grants, biennial, program, and quick grants, which are awarded to organizations that promote youth and amateur sports and recreation in Maricopa County.[4]

  Grant applicants must be a Maricopa County agency, municipality, school district, or any other incorporated public entity or a 501(c)(3) or 501(c)(4) nonprofit organization that has been in operation for at least 1 year to be eligible for a grant. Biennial grants of up to $250,000 are awarded on a 2-year cycle for renovations or construction of sports facilities and fields, sports field lighting, and/or the purchase of sports equipment. Quick grants of up to $5,000 are awarded yearly for sports equipment (see textbox for examples). Both grant types require the recipients to provide matching funds and are funded on a reimbursement basis. Per statute, priority is given to youth recreational facilities that are adjacent, in proximity of, or a benefit to public schools.

Youth and amateur sports

Biennial grants—In fiscal years 2016 through 2020, the Authority awarded 77 biennial grants totaling $8,816,178. Funded projects included a city park splash pad; adaptive and traditional fitness equipment for Special Olympics athletes; and field/facility renovations.

Quick grants—In fiscal years 2016 through 2020, the Authority awarded 154 quick grants totaling $626,435. Funded projects included sporting equipment, uniforms, scoreboards, and health equipment for on-field athletic trainers of student athletes.

Source: Auditor General staff review of Authority-provided grant information and documents.

Funding sources

The Authority receives funding from several tourism and facility-related sources (see textbox for more information) that it distributes monthly according to statutory distribution requirements. Figure 2 (see page 4) shows tourism and facility-related revenue sources and the revenue it has received since inception in 2000. In addition, as shown in Table 3 (see pages 7 through 8) the Authority also receives revenues from other sources, such as the Maricopa County Stadium District car rental surcharge.[5]

Authority revenues

Tourism revenue—Monies the Authority receives from a Maricopa County hotel bed tax and a car rental surcharge. This revenue is to be distributed according to the priorities specified in A.R.S. §5-835.

Facility-related revenue—Monies the Authority receives from facility-related sources. For example, Cardinals rent for Stadium use and a portion of the State's sales tax revenue from events held at the Stadium. This revenue is to be distributed according to the priorities specified in A.R.S. §5-834.

Source: Auditor General staff review of A.R.S. §§5-834 and 835 and prior audit reports.

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3 Statute does not require the Authority to establish a grant program. However, its grant programs have been established under its statutory authority in A.R.S. §5-809 to use monies for community youth and amateur sports facilities, recreational facilities, and other community facilities or programs.

4 According to the Authority, it may provide program grants for program-funding requests up to $5,000 that do not involve equipment or facilities, such as requests to help pay for coaching training; however, it has never received an application for program grant funding.

5 Per an intergovernmental agreement between the Authority and the Maricopa County Stadium District, revenue from the Maricopa County Stadium District car rental surcharge can only be used for Cactus League projects.

Figure 2

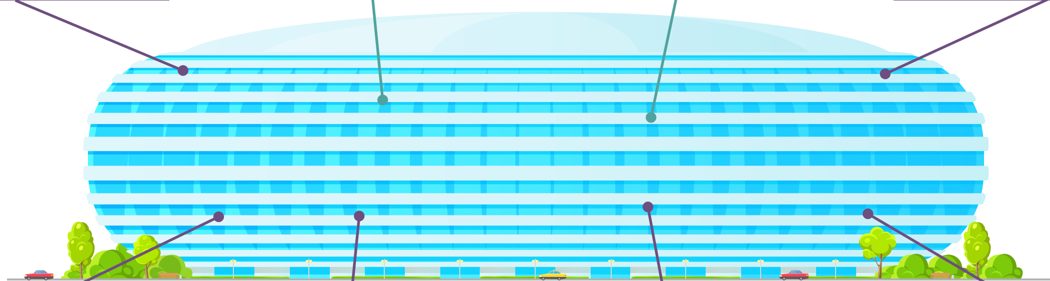
Authority tourism and facility-related funding sources and revenues received from inception through June 30, 2020

Hotel bed tax
Revenue from a 1% increase in a hotel bed tax in Maricopa County. Unless renewed, this revenue source expires in 2031.
$276,946,443

Car rental surcharge
Revenue from a 3.25% surcharge in Maricopa County on the amount of each rental car contract, but no less than $2.50. Unless renewed, this revenue source expires in 2031.
$205,607,838

Fiesta Bowl
A per ticket-fee for each Fiesta Bowl ticket sold, increasing annually by $0.20 per ticket. The fee in 2020 was $5.10. Unless renewed, this revenue source expires in 2036.
$3,738,105

Non-football event-related revenues
Revenues, such as gross ticket sales, generated from non-football events including other sporting events, concerts, and consumer shows.[1]
$259,965,963



Cardinals rent
The Cardinals pay rent for use of the Stadium. Unless renewed, this revenue source expires in 2036.
$3,997,358

Facility-use fee
A per ticket facility-use fee for events held at the facility, including the Fiesta Bowl but excluding Cardinals home games.[3]
$15,790,765

NFL income tax
The Authority receives all Arizona state income taxes paid by the Cardinals' corporate organization, its employees (including its players), and their spouses. This revenue source does not expire.
$112,900,202

Sales tax recapture
Sales taxes received from Cardinals games, the Fiesta Bowl, and all other facility events.[2]
$139,593,068

Tourism revenue   Facility-related revenue

1 These revenues include gross ticket sales and other revenues, such as concession commissions. All gross ticket revenues are remitted to promoters or the State and City of Glendale for sales taxes. For more information on non-football event-related revenues see Table 3, Footnote 1 (page 8).

2 The State Treasurer distributes a base portion of State sales taxes (5%) received from facility events. This revenue source does not expire. In addition, the City of Glendale remits a portion of its sales taxes resulting from transactions at the facility. This remittance is in exchange for the Authority using $32.3 million of bond proceeds for site improvements that were the City of Glendale's responsibility. This revenue source will expire once Glendale's responsibility has been met.

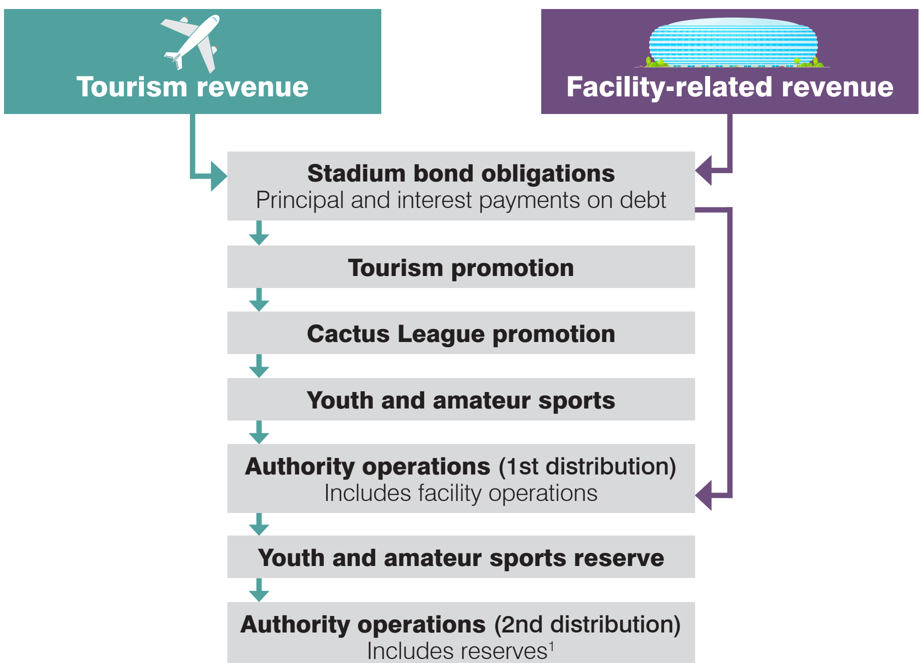
3 The fee amount is dependent on the size and type of event. In fiscal year 2020, the fee ranged from $2.00 to $7.50.

Source: Auditor General staff review of the Authority's fiscal years 2001 through 2019 financial statements audited by an independent certified public accounting firm and fiscal years 2001 through 2020 general ledgers, and Authority-provided information.

Revenue distribution priorities

Statute establishes the amounts and a priority order for distributing the Authority's tourism and facility-related revenues.[6] These statutes further dictate how the Authority must distribute monies monthly and specify that lower funding priorities cannot receive monies during a month until higher funding priorities are fully funded in that same month. Distribution priorities for the 2 revenue types differ, as shown in Figure 3. However, the first statutorily prescribed priority for both is bond obligations for the cost of the Stadium. As of June 30, 2020, the Authority had $213.3 million remaining in principal for its 2 outstanding Stadium bonds. In addition, if there is sufficient tourism and facility-related monies to fund the other statutorily required higher priorities for the month, both sources provide monies for Authority operations. The Authority uses this money to pay for operational expenses such as capital projects at the Stadium, Authority staff salaries and benefits, and Stadium event day costs. Tourism revenues are also distributed to the Arizona Office of Tourism for tourism promotion, and to the Authority for Cactus League promotion and youth and amateur sports (see pages 2 through 3 for more information on how monies are used for these last 2 areas).

Figure 3
Revenue distribution priorities for tourism and facility-related revenues



1 A.R.S. 5-836 requires the Authority to establish reserves within the Authority's operations account. Specifically, an operating reserve must be established to meet future operating costs, including the Stadium operating costs, and a reserve for repair, replacement, and removal costs (see Question 4, page 24, for more information).

Source: Auditor General staff review of A.R.S. §§5-834 and 5-835.

As shown in Table 2 (see page 6), since the Authority's inception in 2000, it has distributed more than $794.5 million in tourism and facility-related revenues to its Stadium bond obligation, tourism promotion, Cactus League promotion, youth and amateur sports, including reserves, and operations. For more information on the Authority's revenue distribution priorities, including distribution errors and shortfalls, see Finding 1, pages 9 through 11, and Questions 1 through 3, pages 15 through 23.

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6 Per A.R.S. §§5-836(D) and 5-875(C)(4-5), the State of Arizona is not financially liable for any of the Authority's expenses or obligations.

Table 2
Tourism and facility-related revenue distributions since Authority inception through June 30, 2020[1]

Stadium bond obligations	$270,905,589
Tourism promotion	120,323,015
Cactus League promotion[2]	84,383,353
Youth and amateur sports, including reserves	28,294,263
Authority operations, including reserves	290,611,349
Total	**$794,517,569**

1 Amounts reflect adjustments made by the Authority to address distribution errors (see Finding 1, pages 9 through 11, for more information).

2 The Cactus League distribution includes $8.3 million paid from the Authority's operating monies for Cactus League bond obligations that were retired at the end of fiscal year 2016 because the Authority had pledged its operating monies toward repayment of this bond obligation.

Source: Auditor General staff review of Authority-provided revenue distribution information for fiscal years 2001 through 2020, the Authority's fiscal years 2004 through 2020 general ledgers, and other Authority-provided documentation.

In addition to tourism and facility-related revenues, the Authority also receives revenue from the Maricopa County Stadium District car rental surcharge, which is a separate revenue source specific to Cactus League promotion. In addition to the approximately $84.4 million tourism and facility-related revenue distributions to Cactus League promotion, the Authority has distributed another $20.7 million to Cactus League promotion from the Maricopa County Stadium District car rental surcharge revenues.

Authority operations and staffing

The Authority is governed by a 9-member board of directors

The Authority is governed by a 9-member board of directors, all of whom must reside in Maricopa County. As of September 30, 2020, 6 of the 9 Authority board positions were filled. According to the Authority, 2 of the 3 open positions are board members whose terms expired June 30, 2020, and they will continue to serve until replacements are appointed. The Arizona State Senate President and Speaker of the House of Representatives each appoint 2 members, and the Governor appoints 5 members. Of the members appointed by the Governor, 4 must represent the tourism industry, hotel and motel industry, youth sports organizations, and MLB Cactus League spring training organizations. All members serve 5-year terms and may be reappointed for 1 full subsequent term.

The Authority's responsibilities are handled by 3 staff. Specifically, the Authority's president/chief executive officer performs various duties including negotiating contracts and overseeing and supporting the facility management contractor's management of the Stadium. The Authority's chief financial officer oversees the Authority's operating budget, distributes the Authority's revenues to meet statutory requirements, and develops revenue projections. Lastly, the Authority's administration and grants manager provides general administrative support and coordinates the Authority's youth and amateur sports grants program.

A.R.S. §5-805(C)(3) authorizes the Authority to use outside consultants, including outside counsel. According to the Authority, its main contracts are its facility management agreement (see page 2); concessions agreement for management and operations of the Stadium's general concessions, catering, and premium food and beverage sales; and public relations/media operations consulting to assist the Authority with general communications, media outreach, and public relations strategies and management.

Authority finances

As discussed above and shown in Table 3, the Authority has various revenue sources, including a car rental surcharge and NFL income taxes. For fiscal year 2020, the Authority's revenues totaled more than $81.6 million, while its expenditures totaled approximately $89 million. Stadium operating expenses represented its largest expense and included items such as ticket sales, net of sales taxes, paid to promoters; event-related specific costs; utilities; and maintenance. Although some of the Authority's required distributions, such as its tourism promotion distribution to the Arizona Office of Tourism, are listed on this table, others are not because of required accounting standards.[7] To obtain more complete information about the Authority's required distributions see Question 1 (pages 15 through 17).

Table 3
Schedule of revenues, expenses, and changes in net position
Fiscal years 2018 through 2020

	2018	2019	2020
Revenues			
Tourism			
Hotel bed taxes	$19,265,433	$20,898,139	$16,509,688
Car rental surcharges	13,910,593	14,983,581	12,371,268
Total tourism revenues	33,176,026	35,881,720	28,880,956
Facility-related			
Stadium operating revenues			
Non-football event-related[1]	39,865,266	29,865,104	26,639,576
Facility-use fees[2]	2,107,967	1,873,884	1,844,429
Fiesta Bowl ticket use fees	257,001	256,412	341,853
Cardinals' rent payments	337,266	317,061	323,402
Total Stadium operating revenues	42,567,500	32,312,461	29,149,260
NFL income taxes	8,140,597	10,008,468	9,810,694
Sales tax recapture[3]	8,346,871	14,124,082	7,029,749
Total facility-related revenues	59,054,968	56,445,011	45,989,703
District car rental surcharge[4]	1,677,870	3,236,172	6,502,032
Other[5]	428,498	348,011	257,940
Total revenues	**94,337,362**	**95,910,914**	**81,630,631**
Expenses			
Authority operating expenses			
Payroll and related benefits	657,075	649,087	824,517
Professional and outside services	684,293	400,880	414,985
Other[6]	143,602	222,309	442,912
Total Authority operating expenses	1,484,970	1,272,276	1,682,414
Stadium operating expenses[7]	50,384,823	40,831,836	37,994,328
Depreciation	16,659,123	18,096,534	18,305,716
Interest expense for bonds and other obligations	10,249,294	9,937,488	9,552,835
Arizona Office of Tourism distribution	8,344,831	9,083,248	9,497,977
Youth and amateur sports awards[8]	2,600,236	198,562	3,852,816
Arizona Cardinals facilities use fee agreement[9]	666,875	328,159	2,846,440
Cactus League[10]		662,108	5,254,193
Other[11]		1,028,653	50,003
Total expenses	**90,390,152**	**81,438,864**	**89,036,722**
Excess of revenues over (under) expenses	3,947,210	14,472,050	(7,406,091)
Capital contributions[12]		16,323,910	3,060,369
Changes in net position	3,947,210	30,795,960	(4,345,722)
Net position, beginning of year	(11,265,672)	(7,318,462)	23,477,498
Net position, end of year	**($ 7,318,462)**	**$23,477,498**	**$19,131,776**

7 The Authority accounts for certain obligations, such as the Stadium bond obligations and Cactus League commitments, as liabilities in its audited financial statements in accordance with accounting standards and recognized as an expense at that time; therefore, distributions from tourism and facility-related revenues reduce the liabilities and are not considered expenses when distributed.

Table 3 continued

[1] Non-football event revenues are generated from events such as other sporting events, concerts, and consumer shows (see Table 1 on page 2 for additional events). These revenues include gross ticket revenues, event rental payments, concession commissions, and other miscellaneous revenues such as payments for security costs, ticket printing, and other services. All gross ticket revenues are remitted to the promoters or the State and City of Glendale for sales taxes (see footnote 7 for additional information).

[2] As shown in Figure 2 on page 4, facility-use fees are per ticket fees for events held at the Stadium, except Cardinals home games. The fees were established to help generate revenues to retire a $53.1 million Stadium bond obligation that the Authority issued to complete the Stadium and to reimburse the Cardinals for certain construction and other costs they incurred that were not their obligation. This bond obligation includes the portion issued for the City of Glendale (see footnote 3 for additional information). In accordance with an agreement with the Cardinals, the Cardinals collect facility-use fees for their home games and hold the monies in a separate account specifically to pay for a portion of the bond obligations, if needed. See footnote 9 for additional information related to payments to the Cardinals if all fees are not needed.

[3] Sales tax recapture revenues include monies received from the City of Glendale. The Authority receives the portion of Glendale's sales taxes resulting from transactions at the Stadium that are not restricted for other uses. This is in exchange for the Authority using $32.3 million of bond proceeds for site improvement costs that were Glendale's responsibility. These monies are used to help pay for the bond obligation payments, and in accordance with an agreement with the Cardinals, monies not needed for the bonds are paid to the Cardinals to reimburse them for certain costs they incurred. See footnote 9 for additional information related to the payment to the Cardinals if all fees are not needed.

[4] District car rental surcharge revenues are a portion of the Maricopa County Stadium District (District) car rental surcharge revenues the District receives. Specifically, in accordance with a 2003 agreement with the Authority, the District uses the first $2.50 from each rental car contract in Maricopa County to pay for the District's Cactus League bonds. These bonds were paid in full in June 2019; therefore, beginning in fiscal year 2020, the Authority receives the District's full surcharge. These monies are restricted to Cactus League promotion.

[5] Other revenues are primarily interest; but also include other revenues such as a youth and amateur sports grant recovery in fiscal year 2018.

[6] Other Authority expenses include various expenses such as marketing and promotion, insurance, and communication expenses.

[7] Stadium operating expenses are primarily costs related to events such as ticket sales, net of sales taxes, paid to promoters, and event-related specific costs. In addition, it includes stadium operating costs such as utilities, maintenance, and professional fees.

[8] Youth and amateur sports awards are the total of awards granted in each fiscal year. The Authority awards its larger grants, biennial grants, every 2 years; therefore, the amount fluctuates between fiscal years.

[9] The facility-use agreement requires the Authority to annually determine whether any of the facility-use fees and City of Glendale sales tax recapture monies can be used to help reimburse the Cardinals for initial costs they paid toward Stadium construction, including the parking lot. In accordance with this agreement, the Authority paid between $328,159 and $2,846,440 to the Cardinals in fiscal years 2018 through 2020.

[10] Cactus League expenses are amounts paid to Cactus League cities that exceeded the amount the Authority recorded as a liability and previously as an expense. Specifically, in accordance with accounting standards, the Authority established a liability for obligations to Cactus League cities based on certain eligibility criteria. When the liability was established, the amount was also recorded as an expense. Because some of the amounts paid to cities exceeded what had been established as a liability, the expenses for these amounts had not been recognized earlier and were, therefore, recognized when paid.

[11] Other expenses in fiscal year 2019 include a $1 million repayment to the Cardinals for various upgrades the Cardinals paid for during fiscal year 2018.

[12] Capital contributions in fiscal years 2019 and 2020 represent capital improvements to upgrade the Stadium paid for by the Cardinals. In addition, the facility management company made a capital contribution at the beginning of its contract term, which is being recognized over the life of the facility management contract that ends on June 30, 2021.

Source: Auditor General staff review of the Authority's fiscal years 2018 and 2019 financial statements audited by an independent certified public accounting firm, fiscal years 2018 through 2020 general ledgers, and Authority-provided information.

FINDING 1

Authority distributed some tourism and facility-related revenues inconsistent with statutory requirements

Authority incorrectly distributed some tourism and facility-related revenues to some higher priorities, which negatively impacted lower priorities

During fiscal years 2015 and 2018 through 2020, the Authority incorrectly distributed some tourism and facility-related revenues to some higher priorities and 1 priority not authorized by statute, which resulted in some of the Authority's other funding priorities, such as tourism promotion, Cactus League promotion, and its operations, receiving incorrect amounts from these 2 sources of revenues (see textbox for distribution priorities). Specifically, the Authority:

Distribution priorities

Source: Auditor General staff review of A.R.S. §§5-834 and 5-835.

- **Paid approximately $1.1 million more to Stadium bond obligations using tourism revenues than statutorily allowed in fiscal years 2018 through 2020—**Statute only allows up to a total of $165.5 million in Stadium bond obligations to be paid by tourism revenues, with the remaining amount to be covered by facility-related revenues. The Authority has historically used both tourism and facility-related revenues to meet its Stadium bond obligations. However, for fiscal years 2018 through 2020, the Authority incorrectly calculated the amount of tourism revenues it could use to pay for its Stadium bond obligations and distributed a total of approximately $1.1 million more in tourism revenues than allowed for these fiscal years. As a result, lower priorities that tourism revenues fund, such as tourism promotion and Cactus League promotion, received less monies than statutorily allowed. In addition, because the Authority used too much in tourism revenues to pay for its Stadium bond obligation, it did not use $1.1 million of facility-related revenues to help pay for this obligation. This resulted in too much facility-related revenue being distributed to Authority operations.

- **Erroneously distributed monies to the youth and amateur sports reserve before ensuring that it distributed the statutorily required amounts to its operations in fiscal years 2015, 2018, 2019, and 2020—**Statute establishes the amounts and a priority order for distributing the Authority's tourism revenues and specifies that lower funding priorities cannot receive monies during a month until higher funding priorities have received their full distributions in that same month (see textbox above for an overview of funding priorities). Specifically, each fiscal year, statute requires the Authority to distribute tourism revenues equaling 1/12th of the Authority's adopted budget to its operations monthly if it has sufficient monies to do so. For fiscal years 2015, 2018, 2019, and 2020, for the 1 to 3 months each year where it had sufficient tourism revenues to reach this statutorily required distribution, the Authority distributed less than the required amount to its operations and more to its youth and amateur sports reserve than statutorily allowed. For example, in fiscal year 2015, Authority operations received approximately $208,000 less than statutorily required and these monies were instead distributed to the youth and amateur sports reserve.

- **Distributed facility-related revenues to its youth and amateur sports reserve in fiscal year 2015 but did not have the statutory authority to do so—**According to statute, facility-related revenues can only be used to pay for Stadium bond obligations and the Authority's operations. However, in fiscal year 2015, the Authority distributed approximately $529,000 of facility-related revenues to its youth and amateur sports reserve and as a result, its operations received less than statutorily allowed.

The textbox shows the overall impact of these distribution errors. For example, youth and amateur sports received too much funding while other priorities, such as tourism promotion and Authority operations, did not receive the required amount of funding. Although the Authority had sufficient monies to pay for its operations during the time frame that the errors were made, distribution errors increase the risk that the Authority may not have sufficient resources to meet its responsibilities in the future, including maintaining the Stadium. It may also impact other entities, such as cities that receive Cactus League promotion monies, if less monies than required and available have been distributed for this purpose. Once we informed the Authority of the errors, it corrected them in July 2020 by transferring monies from its youth and amateur sports account to tourism promotion, Cactus League promotion and Authority operations.

Net impact of revenue (under) and over distributions

Tourism promotion
($166,954)

Cactus League promotion
($296,971)

Youth and amateur sports[1]
$1,092,673

Authority operations[2]
($628,748)

1 Includes impacts to both youth and amateur sports and youth and amateur sports reserve distributions.

2 Includes impacts to both the 1st and 2nd Authority operations distributions (see textbox, page 9 for additional information).

Source: Auditor General staff analysis of the Authority's general ledger and revenue distribution information for fiscal years 2015, and 2018 through 2020, and Authority correcting entries.

Additional guidance for distributing tourism and facility-related revenues may help prevent distribution errors

The distribution errors were primarily made by a former staff person, and the Authority could not explain why they may have occurred. However, it appears 1 error occurred because the staff person did not consider the amount of tourism revenue that had already been paid toward the Stadium bond obligations when calculating the amount of tourism revenues that statutorily could be used to pay toward the remaining obligations. Additionally, although the Authority has procedures for how to distribute its revenues, our review of those procedures found that additional guidance may reduce distribution errors, such as the information or factors that should be considered when calculating the amount of tourism revenues that can be used for Stadium bond obligations. In addition, the Authority has 1 of the facility management contractor staff review its distributions, but it has not provided the facility management contractor with written procedures to guide this review. Finally, the Authority's independent financial auditor performs some review of revenue distributions during the Authority's annual financial audit, but because this review did not identify these errors, it does not appear to be sufficient to do so.

Recommendation

1. The Authority should take additional steps to ensure that it accurately distributes tourism and facility-related revenues according to statutory requirements. Specifically, the Authority should:

    a. Develop and implement more detailed revenue distribution procedures to guide its revenue distributions.

b. Develop and implement a checklist identifying the specific items to review that a secondary reviewer, such as its Stadium management contractor staff, should use when reviewing the monthly distributions.

c. Request its auditors to more comprehensively verify the accuracy of revenue distributions during the Authority's annual financial audit.

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

Authority discontinued event settlement reviews and has not documented other facility management oversight practices

Issue 1: Authority stopped performing a review of event settlements

Although the Authority had previously performed reviews of selected event settlements to oversee the facility manager and ensure the facility manager adequately reconciled event settlements (see textbox), it stopped performing these reviews in June 2019. The facility manager is contractually required to perform event settlements for all facility events.[8] To improve its oversight of the facility manager, in our 2009 Authority performance audit report, we recommended that the Authority periodically review event settlements.[9] In response to this recommendation, the Authority began reviewing a sample of event settlements completed by its facility manager in July 2010. This included a review of event settlement information such as event contracts, invoices, revenue, and expenses to verify the reported event settlement information and help ensure that the facility manager was adequately reconciling event settlements. However, the Authority stopped performing these reviews in June 2019 because the Authority staff person who had performed these reviews left the Authority and the new staff person who became responsible for performing the reviews could not locate any documented procedures for doing so. During the audit, in June 2020, the Authority developed new written procedures to require and guide event settlement reviews but has not yet done any event settlement reviews under these new procedures because it has not held any events since the procedures were developed due to the COVID-19 pandemic.

Event settlements

A meeting between the facility manager and the event promoter to discuss and determine the dollar amount owed to or by the promoter for the event. These meetings review event agreements to ensure terms were met, that changes in the event were accounted for, and the correct amount was paid.

Source: Information from Auditor General report 10-09 *Arizona Sports and Tourism Authority*, and Authority staff.

Recommendation

2. The Authority should implement its event settlement review procedures developed in June 2020, which requires it to monthly select and review an event settlement, once Stadium events resume.

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

[8] The facility manager does not perform event settlements for Arizona Cardinals games because the Authority pays the Cardinals' home game day Stadium operating expenses.

[9] See Auditor General report 09-04 *Arizona Sports and Tourism Authority*.

Issue 2: Other oversight practices not required or documented, risking their continued performance

Guidelines for effective oversight and monitoring recommend that organizations' oversight and monitoring practices be documented.[10] Written policies and procedures that document contract oversight and monitoring requirements, including the responsibilities and expectations for performing these requirements, help to ensure they will be consistently performed. Consistent with these guidelines, in our 2009 performance audit report, we recommended that the Authority develop and implement a formal contract-monitoring plan detailing the activities its staff would perform to monitor its facility manager. Although the Authority had taken steps to improve its oversight of the facility manager, our follow-up work on the recommendations from the 2009 performance audit determined that it had not documented or formalized the contract-monitoring procedures being followed. Additionally, and as mentioned previously, the Authority had performed periodic reviews of event settlements but stopped performing them because the staff person who had performed these reviews left the Authority and the new staff person who was responsible for performing the reviews could not locate any documented procedures for doing so.

Although the Authority engages its facility manager in various meetings to discuss and review Stadium operational, maintenance, and marketing projects and issues, neither the facility manager contract or a separate contract monitoring plan require these meetings or specify what reports and information should be provided, discussed, and reviewed during these meetings. These meetings consist of the following:

- **Biweekly meetings and information review—**Authority staff meet on a biweekly basis with facility management staff to review reports and discuss Stadium projects and related operational, marketing, and maintenance information. Our observations of 2 of these meetings found that facility management staff provided detailed information required by its facility management contract related to the actions they perform, such as actions taken to reduce the spread of COVID-19 and the implementation of a new ticket scanning system at the Stadium; and the status and schedules of ongoing projects such as future Stadium events, planned Stadium renovations, and actions taken to address public safety issues.
- **Monthly meetings and information review—**Authority staff also meet monthly with facility management staff to discuss information required by the facility manager contract related to Stadium maintenance projects and tasks, and monthly financial information. Our observations of 2 monthly meetings between Authority staff and facility manager financial and operations staff found that the meetings included staff reviewing and discussing financial information such as revenue, budgets, and expenses. For example, we observed Authority staff and facility management staff reviewing and discussing information related to COVID-19 indirect expenses. These meetings also included reviewing and discussing maintenance and repair of the many facility systems and subsystems at the Stadium, such as the Heating, Ventilation, and Air Conditioning (HVAC), electrical, plumbing, electronic, and other Stadium systems. The facility manager provided a report to the Authority on maintenance tasks that were scheduled and/or completed, which served as the basis for this review.
- **Quarterly Board meetings and information review—**Both Authority staff and Board members meet with facility management staff during quarterly Board meetings to review and discuss financial information provided in facility manager-prepared financial reports and the Board approves the facility manager's budget annually. Based on our observations of the June 2020 Board Finance Committee and the Board of Directors' meetings, the Board provided guidance and direction to assist Authority staff with its oversight of the facility manager related to short- and long-term financial decision planning. For example, the Board held discussions with the

[10] National State Auditors Association (NSAA). (2003). *Contracting for services: A National State Auditors Association best practices document*. Lexington, KY. Retrieved 6/12/2020 from https://www.nasact.org/files/News_and_Publications/White_Papers_Reports/NSAA%20Best%20Practices%20Documents/2003_Contracting_Best_Practices.pdf. National Association of State Procurement Officials (NASPO). (n.d.) *Contract administration best practices guide*. Lexington, KY. Retrieved 6/12/20 from https://www.naspo.org/wp-content/uploads/2020/07/NASPO-Contract_Administration_Best_Practices_Guide-f.pdf. U.S. Government Accountability Office. (2014). *Standards for internal control in the federal government*. Washington, DC. Retrieved 6/12/2020 from https://www.gao.gov/assets/670/665712.pdf.

facility manager and Authority staff related to prioritizing capital-planning projects, reviewed event plans, and approved the Stadium budget and was involved in reviewing and approving the facility management contract.

Although we observed these various meetings during the audit, the lack of a documented requirement and a specified purpose to conduct them increases the risk that they may not be performed and/or conducted in a manner that enables the effective oversight of the facility manager. Similarly, these meetings and their purpose are not reflected in the facility manager contract. However, in September 2020 the Authority developed a written Stadium management oversight policy and procedures draft, which will be presented for discussion and approval at its November 10, 2020, Board meeting. The draft policy and procedures establish steps for overseeing the Stadium management contractor, ensuring compliance with contract requirements, and specifies the frequency and purpose of the various facility manager meetings, including who must attend and the information that will be reviewed.

Recommendations

3. The Authority should continue the Stadium management oversight practices we observed, and that it formalized in its draft Stadium management oversight policy and procedures.

4. The Authority should continue with its plans to seek Board approval of its draft Stadium management oversight policy and procedures during its next Board meeting.

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

Revenues and distributions for fiscal years 2015 through 2020, fiscal year 2021 projections, and the COVID-19 pandemic's impacts on revenues, distributions, and operations

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Question 1: Did the Authority receive sufficient tourism and facility-related revenues during fiscal years 2015 through 2020 to meet its statutorily required distributions?

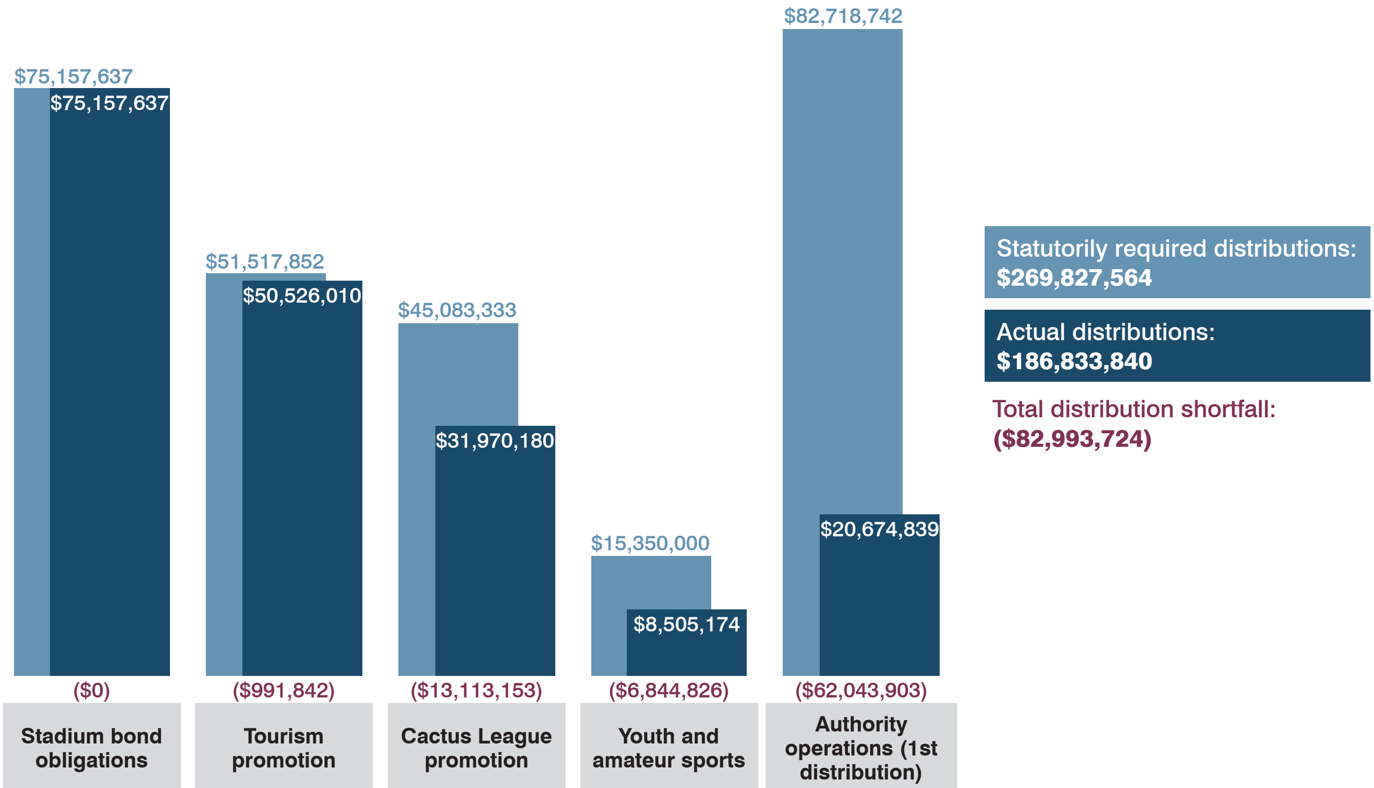
As discussed in the Introduction (see pages 1 through 8), the Authority receives tourism and facility-related revenues and is required to distribute these revenues according to statutorily prescribed priorities. During fiscal years 2015 through 2020, the Authority received sufficient facility-related revenues but did not receive sufficient tourism revenues to meet its statutorily required distributions. Specifically:

- **Facility-related revenues sufficient to meet statutorily required distributions during fiscal years 2015 through 2020—**As shown in the Introduction (see Figure 3, page 5), the Authority must distribute facility-related revenue to help pay for its Stadium bond obligations and for Authority operations. The Authority had sufficient facility-related revenues during fiscal years 2015 through 2020 to fully pay for the facility-related revenue portion of its Stadium bond obligations—$46.2 million—and distributed the remaining $92.9 million for Authority operations.

- **Tourism revenues insufficient to meet statutorily required distributions during fiscal years 2015 through 2020—**Unlike facility-related revenues, there are multiple required distributions for the tourism revenues that the Authority receives (see Figure 4, page 16). Similar to results presented in prior Auditor General performance audits of the Authority, for fiscal years 2015 through 2020, the Authority did not always receive sufficient tourism revenues to fully fund its monthly statutorily required distributions. Although the

Authority distributed more than $195 million in tourism revenues during fiscal years 2015 through 2020, as shown in Figure 4, tourism revenues were insufficient for the Authority to distribute approximately $83 million that was required during this time frame. For example, although the Stadium bond obligations were fully paid, Cactus League promotion had a shortfall of more than $13 million. In addition, Authority operations (1st distribution) had a shortfall of more than $62 million and while this shortfall did not impact its ability to operate, it may have impacted its ability to accumulate sufficient operational reserves.[11]

Figure 4
Tourism revenue distribution shortfalls in order of statutory priority[1]
Fiscal years 2015 through 2020



[1] This figure does not include approximately $1.6 million and $7.3 million of distributions that were made for the youth and amateur sports reserve and Authority operations (2nd distribution), respectively, during fiscal years 2015 through 2020. The youth and amateur sports reserve does not have the same requirements for monthly distributions as other priorities because it is based on a maximum balance and distributions are required only when it falls below the balance and there is no statutorily required distribution amount for Authority operations (2nd distribution). In addition, amounts reflect distribution error adjustments made by the Authority (see Finding 1, pages 9 through 11, for more information).

Source: Auditor General staff analysis of A.R.S. §5-835 and the Authority's fiscal years 2015 through 2020 general ledgers and revenue distribution documentation.

There are 2 reasons that lower priorities have proportionately larger shortfalls. Specifically:

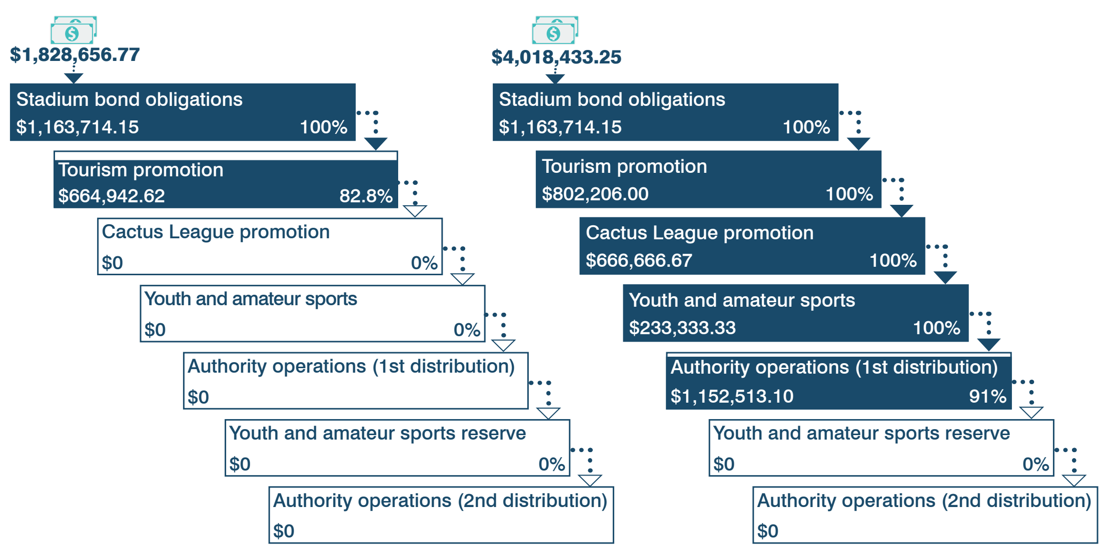
- **Statute requires tourism revenue distributions to increase at specified intervals—**Based on projected annual increases in the tourism revenues, statute requires tourism revenue distributions to increase at specified intervals. For example, the required annual distribution for tourism promotion increases by 5 percent each year; therefore, the fiscal year 2015 tourism promotion distribution amount was $7.5 million while in fiscal year 2020, the required distribution amount increased to $9.7 million. The statutorily established distribution amounts were based on revenue projections included in the Proposition

[11] Authority operations receive a 1st and 2nd distribution if tourism revenues are sufficient (see Figure 3, page 5, for more information on these distributions).

302 (November 2000) election materials. Those revenue projections included an annual increase of 5 percent for the first 20 years of the car rental surcharge tax revenues, and an annual increase of 8 percent for the first 10 years and 5 percent for the next 10 years for the hotel bed tax revenues. However, various factors, such as recessionary periods including the Great Recession and the COVID-19 pandemic, have affected whether tourism revenues have fallen below or exceeded these projections. For example, fiscal year 2020 hotel bed tax revenues based on projections should have been approximately $33.5 million, but the Authority received only $26.5 million in hotel bed tax revenues during that fiscal year. Although the car rental surcharge tax revenues have consistently exceeded the projected increases as the Authority has received more than $56.5 million of actual revenues in excess of the projections, the hotel bed tax revenues have not exceeded the projections in any year after the first year of this tax. In fact, the hotel bed tax has generated approximately $131.5 million less in revenues than projected through fiscal year 2020.

- **Statute designates monthly distribution amounts—**Statute sets monthly distribution amounts for each priority and a lower priority cannot receive monies until the higher priority's monthly amount has been fully distributed. In addition, according to statute, if a lower priority does not receive the full amount designated by statute in 1 month, sufficient revenues in a following month cannot be used to fully fund a prior month's required distributions. Also, as previously discussed, statute requires the tourism revenue distribution amounts to increase at specified intervals. Thus, depending on available revenues, some higher priorities, such as tourism promotion and Cactus League promotion, may receive their full revenue distributions while lower priorities either receive only partial or no revenue distributions. For example, in fiscal year 2020, Authority operations (1st distribution) did not receive its full statutorily required distribution amount in any month and received no distributions in 5 months.[12] Similarly, as shown in Figure 5, in fiscal year 2020, monthly tourism revenues available for distribution varied from approximately $1.8 million to approximately $4 million, which affected the distributions the Authority could make in those months. Specifically, for the month in which more than $1.8 million was available for distribution, the Authority was able to fully meet the required distribution for the Stadium bond obligations, but only partially meet the required distribution for tourism promotion. For the month in which approximately $4 million was available for distribution, the Authority was able to meet most of the required distributions, including providing monies for its operations (1st distribution).

Figure 5
Fiscal year 2020 tourism revenue distribution examples for months with least and most revenue[1]



[1] Amounts reflect distribution error adjustments made by the Authority (see Finding 1, pages 9 through 11, for more information).

Source: Auditor General staff review of A.R.S. §5-835 and the Authority's fiscal year 2020 general ledgers and revenue distribution documentation.

[12] As previously discussed, Authority operations also received $92.9 million of distributions from the facility-related revenues during fiscal years 2015 through 2020, which provided the Authority with sufficient operating monies.

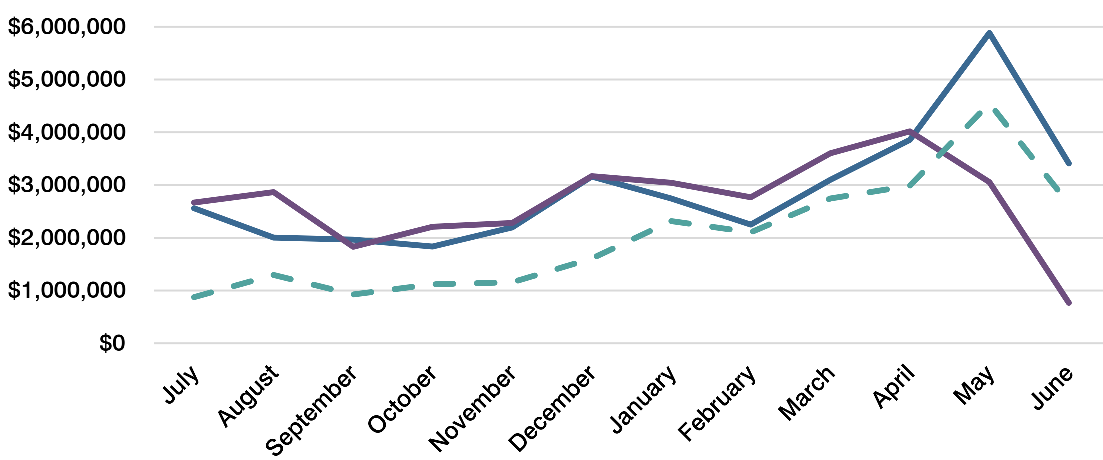
Question 2: How have the Authority's fiscal years 2020 and 2021 tourism revenues and distributions been impacted by the COVID-19 pandemic?

The Authority's fiscal year 2020 tourism revenues and distributions were impacted by the COVID-19 pandemic in May and June 2020, and the Authority projects a greater impact from the COVID-19 pandemic on its fiscal year 2021 revenues and distributions. Specifically:

- **Authority experienced a reduction in tourism revenues at the end of fiscal year 2020 and projects lower fiscal year 2021 tourism revenues because of the COVID-19 pandemic—**As indicated in the Introduction (see Figure 2, page 4), the Authority's tourism revenue comes from a hotel bed tax and a car rental surcharge imposed in Maricopa County. Historically, with the exception of December, the Authority has received more tourism revenues in March through May annually because of increased tourism during this time, including tourism resulting from MLB Cactus League spring training.[13] As shown in Figure 6, fiscal year 2020 tourism revenues were on track to exceed fiscal year 2019 tourism revenues—with revenues for 9 of the first 10 months of fiscal year 2020 exceeding fiscal year 2019 revenues—until May, when the impact of the COVID-19 pandemic on Maricopa County tourism began affecting these revenues. Specifically, the May and June 2020 tourism revenues were approximately $2.8 million and $2.6 million less than the tourism revenues received in May and June 2019.

  The Authority experienced a similar reduction in tourism revenues during the beginning of fiscal year 2021—July and August 2020—as compared to July and August 2019. Specifically, the July and August 2020 tourism revenues were approximately $1.8 million and $1.6 million less than the tourism revenues received in July and August 2019. However, the Authority projects tourism revenues will gradually increase for the rest of fiscal year 2021 and generally follow the same revenue growth pattern as fiscal year 2019; but that overall, fiscal year 2021 tourism revenues will be lower. Specifically, in fiscal year 2019, the Authority received nearly $35 million in tourism revenues but projects receiving only approximately $24.3 million in tourism revenues in fiscal year 2021.

Figure 6
Fiscal years 2019 and 2020 actual and 2021 projected tourism revenues[1]



Totals	2019	2020	2021 (projected)[1]
	$34,963,399	$32,268,365	$24,321,189

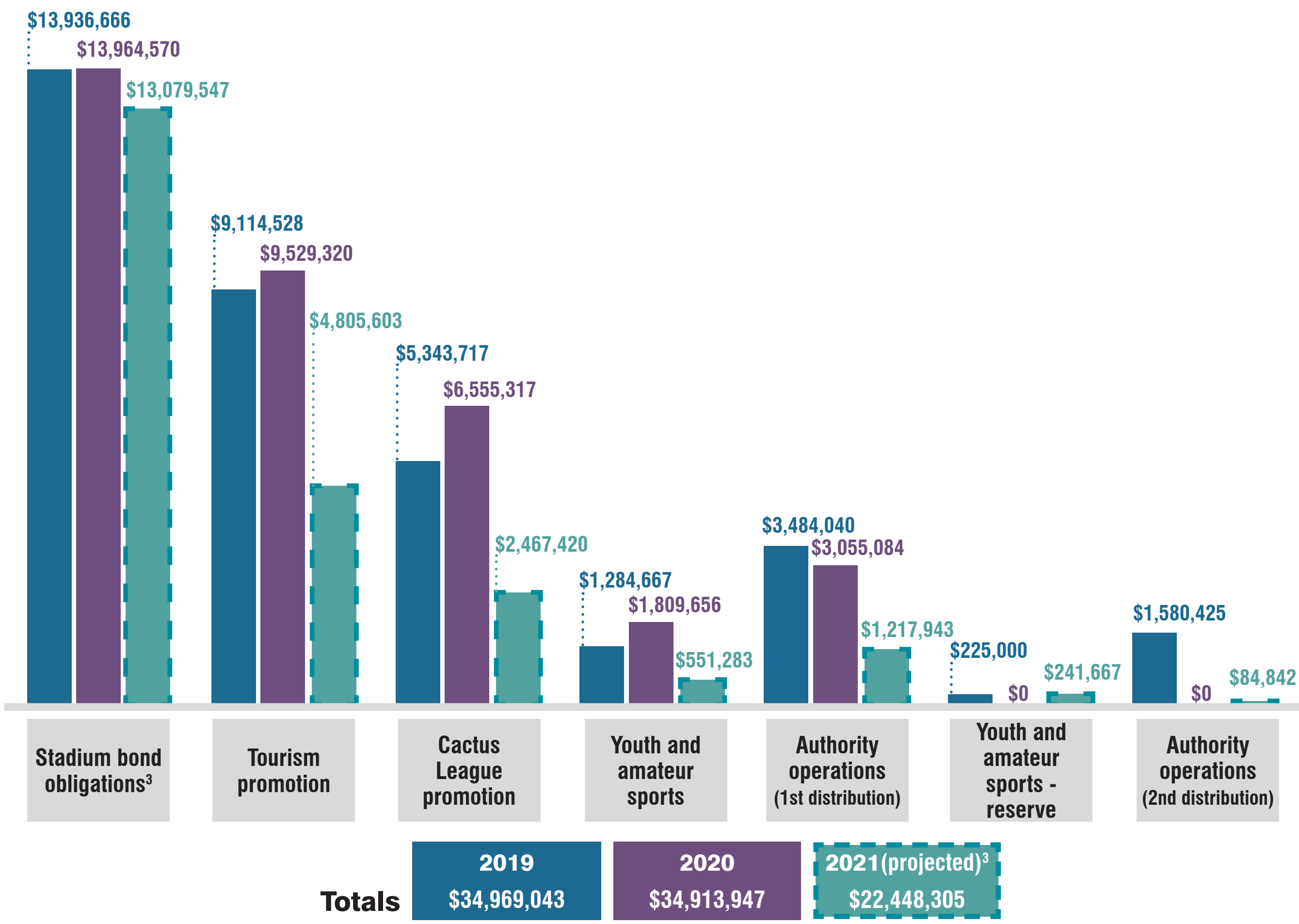
[1] Fiscal year 2021 projections include actual revenues for July and August. Revenues are available for distribution the month after they are received.

Source: Auditor General staff review of the Authority's fiscal years 2019 and 2020 general ledgers and revenue distribution documentation, July through September 2020 revenue distribution documentation, and fiscal year 2021 revenue projections.

[13] Spring training generally occurs in February and March, but the Authority receives its tourism revenues the month after the State Treasurer collects them.

- **Distribution shortfalls have occurred and are expected to continue during fiscal year 2021 as a result of the lower tourism revenues—**Reduced tourism revenues began to affect the distributions of these monies in June 2020. Historically, May has been a high tourism revenue month for the Authority and May revenues are distributed in June. However, tourism revenues available for distribution in June 2020 were nearly 50 percent, or $2.8 million, less than June 2019. Additionally, as shown in Figure 7, the Authority projects that tourism revenue distributions will be even lower in fiscal year 2021 as a result of the COVID-19 pandemic. For example, at the beginning of fiscal year 2020 (July 2019) tourism revenue distributions were approximately $3.4 million but at the beginning of fiscal year 2021 (July 2020) they were less than $800,000.

Figure 7
Fiscal years 2019 and 2020 actual and 2021 projected tourism revenue distributions by priority[1,2]



1 Amounts reflect distribution error adjustments made by the Authority (see Finding 1, pages 9 through 11, for more information).

2 Fiscal year 2021 projections include actual distributions for July through September.

3 The Stadium bond obligations presented are only the portion payable from tourism revenue and do not include any amounts paid by facility-related revenues or the Authority's operating monies.

Source: Auditor General staff review of the Authority's fiscal years 2019 and 2020 general ledgers and revenue distribution documentation, July through September 2020 revenue distribution documentation, and Authority-provided information for fiscal years 2019 through 2021, including revenue distribution projection information.

As is also shown in Figure 7, the Authority is projecting that the reduced tourism revenues will not only have an impact on monies available to pay for its Stadium bond obligations, but will have a significant impact on the lower funding priorities, including monies available for distribution to its operations. Specifically, although historically it has often times been unable to meet some of the monthly requirements for the lower priorities, according to the Authority's projections, fiscal year 2021 will mark the first time in the Authority's history where it will not receive enough tourism revenue to fully pay for each of the statutorily required monthly distributions for its first priority—Stadium bond obligations.[14] In fact, the Authority has already experienced a revenue shortfall of approximately $711,000 from tourism revenues available for distribution to this priority in July and August 2020, but it did not experience a shortfall in September 2020. The July and August tourism revenue shortfall required the Authority to use more of its facility-related revenues and some operating monies to pay for the Stadium debt obligation. However, the Authority is not statutorily authorized to use operating monies to help with the required distributions for any other statutory priorities, such as tourism promotion and Cactus League promotion. In addition, because there was not enough tourism revenue to fund the first priority, all remaining priorities did not receive any tourism revenue in July and August 2020. Although, the Authority distributed some tourism revenue to tourism promotion in September 2020 and projects it will distribute some tourism revenues to other priorities during fiscal year 2021, as shown in Figure 7 (see page 19), distributions for other priorities are generally projected to be significantly lower than both fiscal years 2019 and 2020.

Table 4 illustrates the Authority's expected tourism distributions to each priority, based on its fiscal year 2021 projection, and the statutory obligation for the fiscal year. The total amounts the Authority expects it will distribute from its tourism revenues to each priority in fiscal year 2021 are significantly less than the statutorily required amounts, except for the Stadium bond obligations, which are expected to more closely meet the required distribution. For example, the Authority anticipates it will distribute to youth and amateur sports about $2.4 million less than required, tourism promotion about $5.3 million less, and Authority operations (1st distribution) about $12.7 million less.

Table 4
Fiscal year 2021 annual statutorily required tourism revenue distributions and projected tourism revenue distributions[1]

Distribution priority	Annual statutorily required distributions	Projected annual distributions[1]
Stadium bond obligations[2]	$14,118,549	$13,079,547
Tourism promotion	10,149,917	4,805,603
Cactus League promotion	8,083,333	2,467,420
Youth and amateur sports	2,908,333	551,283
Authority operations (1st distribution)	13,919,413	1,217,943
Youth and amateur sports reserve[3]	Varies	241,667
Authority operations (2nd distribution) • Operations reserve • Capital reserve	Remaining monies	84,842

1 Projected annual distributions include actual distributions for July through September 2020.

2 The Stadium bond obligations presented are only the portion payable from tourism revenue. According to Authority-provided information, it will cover the over $1 million revenue shortfall with facility-related revenues and the Authority's operating monies.

3 A.R.S.§5-835(B)(6) requires the youth and amateur sports reserve to equal the previous year's required youth and amateur sports account distribution—$2,808,333 for fiscal year 2021— and monies in the reserve are to be transferred to the youth and amateur sports account in any month when revenues are insufficient to make the required monthly youth and amateur sports distributions. Consequently, the amount for required distribution varies depending on the balance in the account

Source: Auditor General staff review of A.R.S. §5-835, July through September 2020 revenue distribution documentation, and the Authority's fiscal year 2021 revenue distribution projection information.

14 Statute establishes the amount tourism revenues must contribute toward Stadium bond obligations and requires that one-twelfth of the annual amount be distributed monthly (see Question 1, pages 15 through 17, for additional information). In any months when tourism revenue is insufficient to meet the required monthly Stadium bond obligations, according to Authority-provided information and as allowed by statute, facility-related revenues and the Authority's operating monies will be used to cover the shortfall (see Question 3, pages 21 through 23, for additional information).

Question 3: How have the Authority's fiscal years 2020 and 2021 facility-related revenues and distributions been impacted by the COVID-19 pandemic?

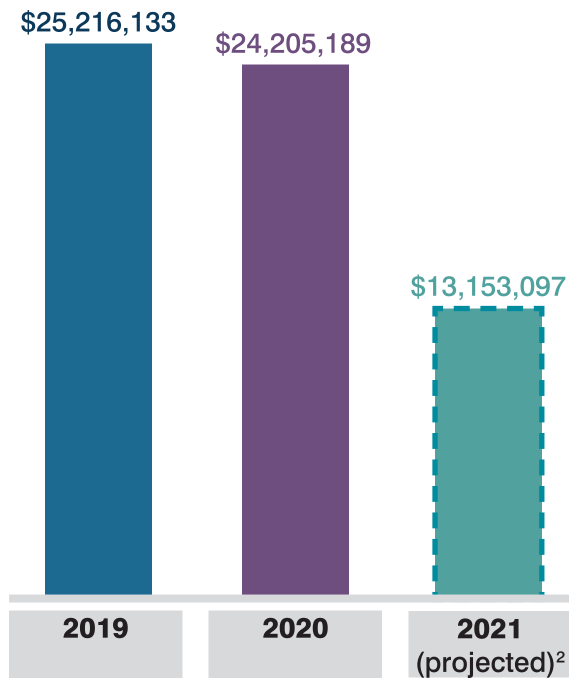
The Authority's fiscal year 2020 facility-related revenues and distributions have also been impacted by the COVID-19 pandemic and the Authority projects a more significant impact on its fiscal year 2021 facility-related revenues and distributions. Specifically:

- **Authority experienced a reduction in its fiscal year 2020 facility-related revenues and projects a more significant reduction in these revenues for fiscal year 2021 because of the COVID-19 pandemic—**As indicated in the Introduction, the Authority's facility-related revenues are generated from a variety of sources including State income taxes paid by the Cardinals and its players/employees and their spouses, sales tax recapture, Cardinals' Stadium rent payments, and event revenues (see Figure 2, page 4, for more information). As shown in Figure 8, the Authority's fiscal year 2020 facility-related revenues decreased by about $1 million, from approximately $25.2 million in fiscal year 2019 to approximately $24.2 million in fiscal year 2020, a 4 percent decline.[15] According to the Authority, much of its facility-related revenue depends on the number and type of events held at the Stadium, and attendance at those events. Although the Authority reported that the COVID-19 pandemic began having an impact on its ability to hold Stadium events during fiscal year 2020, most of the larger revenue-generating events had already been held during this fiscal year, such as the Cardinals games and a concert.

  However, as shown in Figure 8, during fiscal year 2021, the Authority is projecting that its facility-related revenue will decline to about $13.2 million, representing a 48 percent reduction in these revenues from fiscal year 2019 amounts. Although 2 of its facility-related revenues—State income taxes paid by the Cardinals and Cardinals rental payments—are fairly stable, the remaining sources of facility-related revenues, including sales tax recapture and facility-use fees, are dependent on the type and number of Stadium events and attendance at those events. For example, the sales tax recapture and facility-use fee revenues that the Authority can generate are much higher from larger events; therefore, an inability to hold large events at the Stadium will have a significant impact on these revenues. Specifically, as shown in Figure 9 (see page 22), the Authority projects that sales tax recapture monies will decline from nearly $10.3 million in fiscal year 2020 to approximately $3.0 million in fiscal year 2021 and facility-use fee revenues will decline from more than $1.8 million in fiscal year 2020 to approximately $336,000 in fiscal year 2021.

Figure 8

Fiscal years 2019 and 2020 actual and 2021 projected facility-related revenues[1,2]



[1] Does not include facility-related revenues that are not available for distributions, such as revenues used to pay for event expenses.

[2] Fiscal year 2021 projections include actual revenues for July and August. Revenues are available for distribution the month after they are received.

Source: Auditor General staff analysis of fiscal years 2019 and 2020 general ledgers and revenue distribution documentation, July through September 2020 revenue distribution documentation, and fiscal year 2021 revenue projections.

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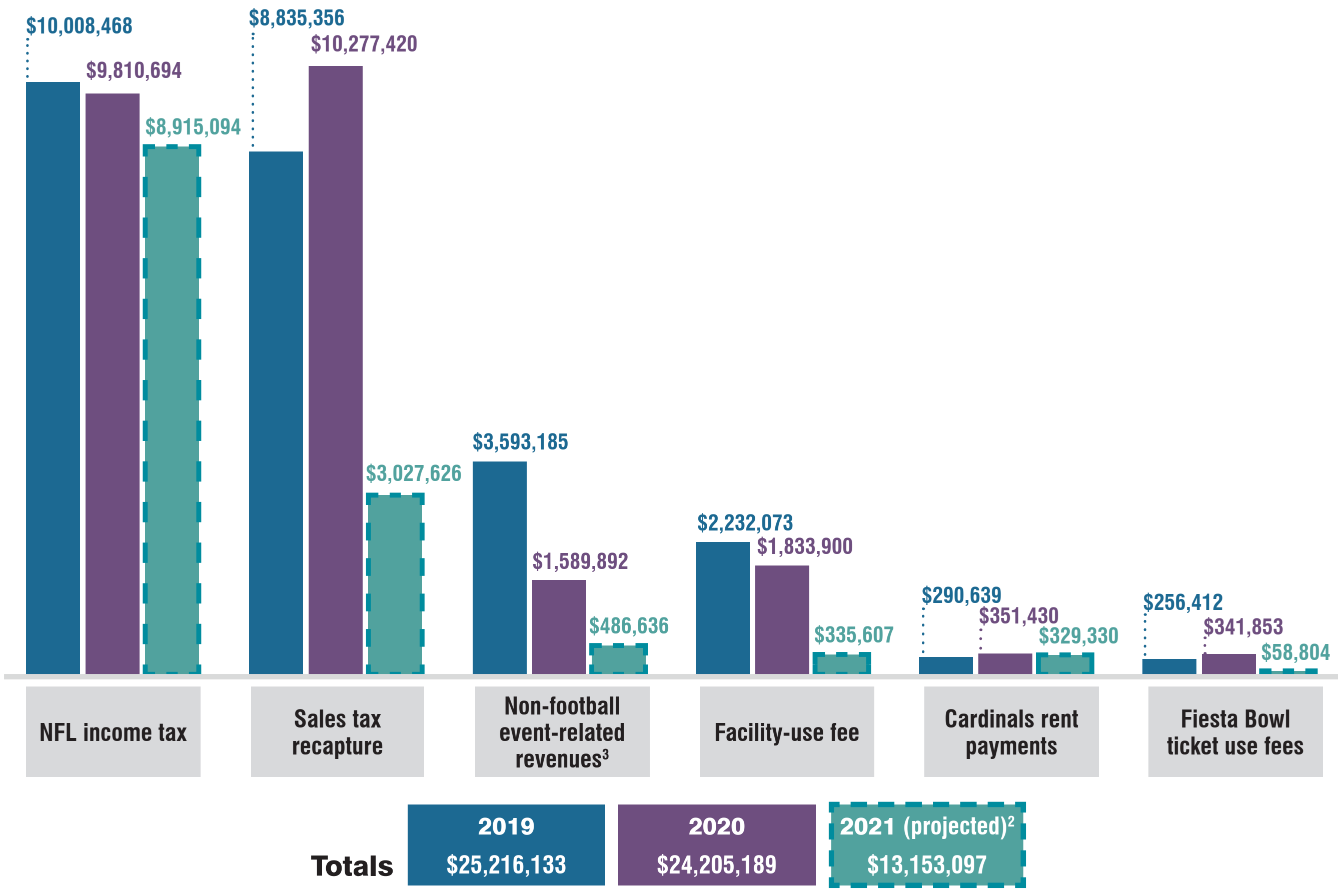
[15] In addition to the $24.2 million received in fiscal year 2020, the Authority received approximately $4.4 million during fiscal year 2020 from the City of Glendale for the recovery of sales taxes from previous fiscal years that had not been paid and that the Authority worked with the City to identify (see Figure 2, page 4, for information on this revenue source). These one-time payments provided the Authority additional revenues in fiscal year 2020 above the fiscal year 2020 facility-related revenues received.

Figure 9
Fiscal years 2019 and 2020 actual and 2021 projected facility-related revenues by source[1,2]



1 Does not include facility-related revenues that are not available for distributions, such as rental payments from non-football users of the facility, which are used to pay for event expenses.

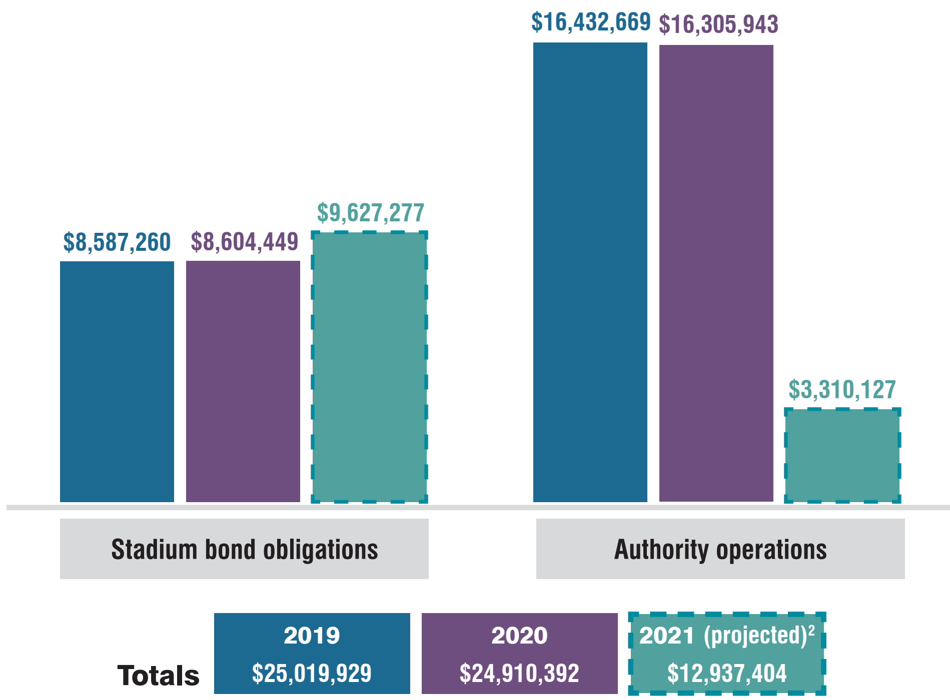
2 Fiscal year 2021 projections include actual revenues for July and August. Revenues are available for distribution the month after they are received.

3 Non-football event-related revenues are generated from events such as other sporting events, concerts, and consumer shows (see Table 1, page 2, for additional events); however, it also includes a payment of $1.6 million received and distributed to statutory priorities in fiscal year 2019 to reimburse the Stadium for the net operating expenses of the 2017 NCAA Final Four men's basketball game held at the Stadium from March 14 through April 3, 2017 (see Table 3, footnote 1, page 8 for additional information about these revenues).

Source: Auditor General staff analysis of fiscal years 2019 and 2020 general ledgers and revenue distribution documentation, July through September 2020 revenue distribution documentation, and fiscal year 2021 revenue projections.

- **Distributions of facility-related revenues to pay for bond obligations expected to increase while distributions for Authority operations expected to decrease significantly—**As previously discussed (see Question 1, page 15), the Authority is required to distribute facility-related revenues to help pay for Stadium bond obligations and for its operations. However, because of the impact of the COVID-19 pandemic on its facility-related revenues and as shown in Figure 10 (see page 23), the fiscal year 2021 distribution of facility-related revenues for the Stadium bond obligations is projected to increase while the distribution for Authority operations is projected to decrease significantly. The increase in the facility-related revenue distributions for the Stadium bond obligations is due in part to the increase in the amount of required bond payments but also because tourism revenues have been and are projected to be insufficient to fully pay for the tourism revenue's portion of the Stadium bond obligations in fiscal year 2021 (see Question 2, pages 18 through 20). The Authority projects needing an additional $928,000 in fiscal year 2021 of facility-related revenues and an additional $111,000 of its own operating monies, for a total of $1.04 million, to help pay for the Stadium bond obligations.[16] Additionally as shown in Figure 10, the Authority projects that the facility-related revenue distribution for Authority operations will decrease from more than $16 million annually in both fiscal years 2019 and 2020 to approximately $3.3 million in fiscal year 2021, a nearly 80 percent decline. (See Question 4, pages 24 through 25, for the impact of these reduced revenues on the Authority's ability to pay for its operations.)

Figure 10
Fiscal years 2019 and 2020 actual and 2021 projected facility-related revenue distributions by priority[1,2]



1 Fiscal years 2019 and 2020 amounts have been adjusted for corrections the Authority made to address distribution errors (see Finding 1, pages 9 through 11, for additional information).

2 Fiscal year 2021 projections include actual distributions for July through September.

Source: Auditor General staff analysis of the Authority's fiscal years 2019 and 2020 general ledgers and revenue distribution documentation, July through September 2020 revenue distribution documentation, and fiscal year 2021 revenue distribution projections.

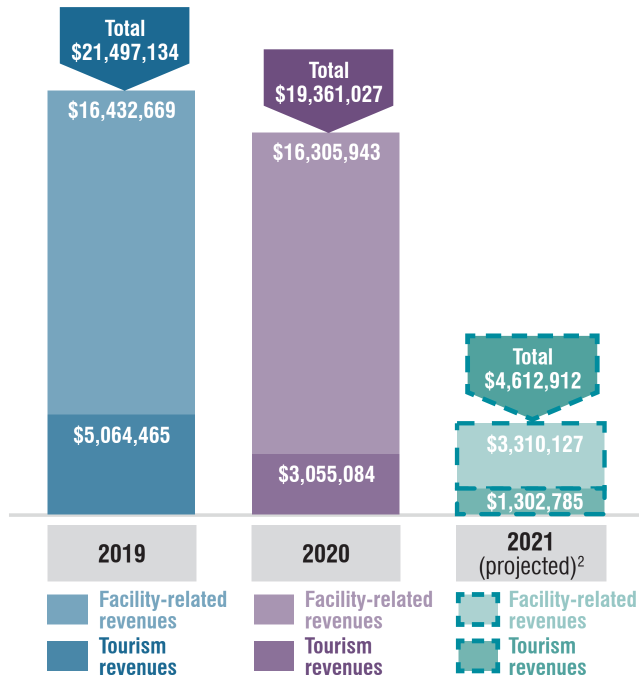
16 As required by the Authority's facility-use agreement with the Cardinals, the Cardinals collect facility-use fees at their home games. Under certain circumstances and based on an annual calculation the Authority performs at the end of each fiscal year, the Cardinals may be required to contribute some or all of the facility-use fees they collect to help pay for Authority bonds; therefore, in fiscal year 2022, the Authority may receive some or all of the facility-use fees collected by the Cardinals during fiscal year 2021 (see Table 3, footnotes 2, 3, and 9, pages 7 through 8 for more information).

Question 4: How has the Authority's ability to pay for its operations and Stadium operations during fiscal years 2020 and 2021 been impacted by the COVID-19 pandemic?

One of the biggest impacts of reduced tourism and facility-related revenues due to the COVID-19 pandemic is on distributions to Authority operations. These monies are used to not only pay for the Authority's operations but also Stadium operations. In addition, these monies have been pledged to pay Stadium bond obligations when its tourism and facility-related revenues are not sufficient to do so. Specifically, as shown in Figure 11, the Authority distributed approximately $19.4 million in tourism and facility-related revenues to Authority operations in fiscal year 2020, a decrease of approximately $2 million from fiscal year 2019 distributions to Authority operations. For fiscal year 2021, the Authority projects the distributions to its operations to further decrease to approximately $4.6 million, which represents a nearly 80 percent decrease in these distributions from fiscal year 2019.

Figure 11

Tourism and facility-related revenue distributions to Authority operations Fiscal years 2019 and 2020 actual and 2021 projections[1,2]



1 Fiscal years 2019 and 2020 amounts have been adjusted for corrections the Authority made to address distribution errors (see Finding 1, pages 9 through 11, for additional information).

2 Fiscal year 2021 projections include actual distributions for July through September.

Source: Auditor General staff analysis of the Authority's fiscal years 2019 and 2020 general ledgers, July through September 2020 revenue distribution information, fiscal year 2021 projections and adopted budget, and July 2020 correcting entries.

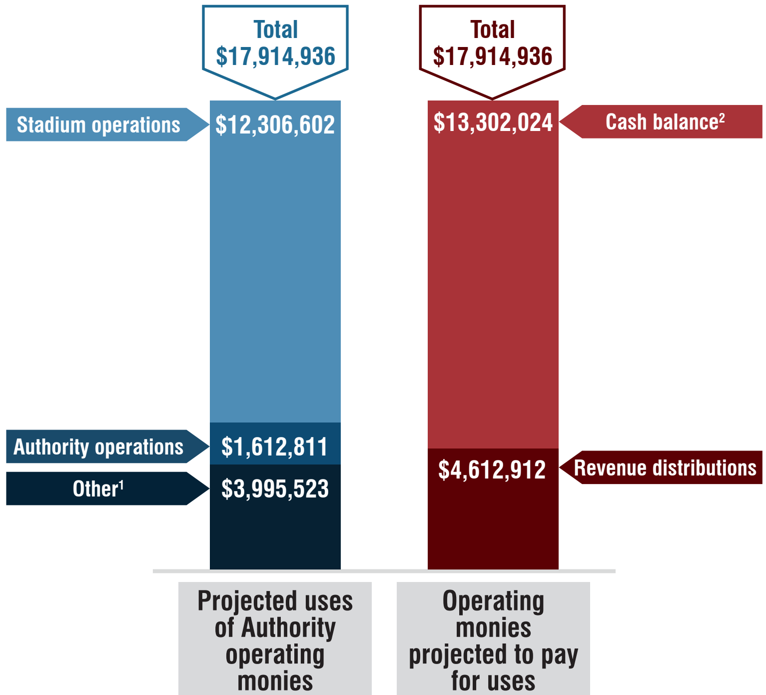
The decline in fiscal year 2020 revenues did not impact the Authority's ability to pay for its operations and Stadium operations in fiscal year 2020; however, the Authority projects that the tourism and facility-related revenue shortfalls previously discussed will impact its ability to pay for these operating costs in fiscal year 2021. Specifically, as shown in Figure 12 (see page 25), the Authority projects it will need nearly $18 million in operating monies in fiscal year 2021 to pay for Stadium and Authority operations, as well as other expenses such as payments to the Arizona Cardinals and Stadium capital projects. Even if the Authority holds no or few events or Arizona Cardinals football games are held with no or limited fans, the Authority still has operating expenses, including Stadium operations expenses, that it must cover. For example, the Authority pays the game day expenses for the Cardinals home games whether or not fans will be allowed to attend those games. As shown in Figure 12, the Authority projects that it will receive and distribute $4.6 million in tourism and facility-related revenues in fiscal year 2021 to help pay for these expenses, but that it will likely use approximately $13.3 million of its available $29 million operations account cash balance as of June 30, 2020, to pay for its operations, Stadium bond obligations, and other costs in fiscal year 2021.[17] If the Authority experiences a longer-term decline

[17] A.R.S. §5-836 requires the Authority to establish 2 reserves within the Authority's operations account. One is required to pay for future operations. Although statute does not establish a specific amount, the Authority indicated that it had a $29 million operations account cash balance as of June 30, 2020, that served as its operating reserve. Statute also requires a reserve for repair, replacement, and removal costs associated with the Stadium. Statute requires this reserve to be at least $25 million, adjusted for inflation each year after 2001. In our 2015 performance audit of the Authority, the Authority reported that since it began operations, its revenues had been insufficient to fund this reserve through fiscal year 2015. Although there is no separate account for this reserve, the Authority reports that it has set aside operations monies since fiscal year 2015 for this reserve but uses them for current capital Stadium repair and maintenance; therefore, this reserve does not have a balance as of June 30, 2020.

in revenues or a more extensive loss of revenues than projected, it may not be able to pay for both its Stadium bond obligations and operating expenses (see Question 5, pages 25 through 26, for information about the Authority's Stadium bond obligations).

Figure 12

Fiscal year 2021 projected uses of Authority operating monies and operating monies projected to pay for the uses



[1] Other uses of projected operating monies comprises $2.8 million owed to the Cardinals for facility-use fees collected in fiscal year 2020 (see Table 3, footnote 2, page 8, for additional information), $722,000 for Stadium capital projects, $316,000 owed to the Cardinals to repay for the purchase of a scoreboard installed in summer 2014, and $111,000 for Stadium bond obligations (see Question 3, pages 21 through 23, for additional information).

[2] The amount of cash the Authority projects using during fiscal year 2021 of its available $29 million operations account cash balance as of June 30, 2020.

Source: Auditor General staff analysis of the of the Authority's fiscal year 2021 projections and adopted budget, fiscal year 2020 general ledger, and July through September 2020 revenue distribution information.

Question 5: How have the Authority's Stadium bond obligations distributions been impacted by the COVID-19 pandemic and what occurs if the Authority cannot meet these obligations?

The Authority has had sufficient tourism and facility-related revenues to meet its Stadium bond obligations through fiscal year 2020, and the Authority plans to use its operating monies, if needed, to pay for its fiscal year 2021 obligations that are not met by monthly tourism and facility-related revenue distributions (see Question 4, pages 24 through 25). However, as previously discussed, the Authority may not be able to pay for both its Stadium bond obligations and operating expenses if its actual revenues are less than projected. Specifically, as authorized by statute, the Authority issued revenue bonds to pay for the Stadium construction and other Stadium costs. Payment for the Stadium bond obligations was secured by the Authority's tourism and facility-related revenues and the Authority's own operating monies. As a result, if the tourism and facility-related revenues are not sufficient to meet the Stadium bond obligations in any month, the Authority must use its own operating monies to make up the difference. For example, the Authority projects it will use approximately $111,000 of its own operating monies to pay for Stadium bond obligations in fiscal year 2021, as statutorily allowed, to address projected monthly tourism and facility-related revenue shortfalls. The Authority has already experienced revenue shortfalls in July and August 2020 from tourism and facility-related revenues, requiring the Authority to use nearly $42,000 of its own operating monies. It did not experience a revenue shortfall in September 2020.

According to the Authority and based on our review of its Stadium bond documents, the Authority does not appear to be at risk of losing the Stadium. However, there could be other negative outcomes if it is unable to pay its bond obligations, including paying a higher interest rate on its bonds and/or receiving a lower credit rating, which may also may lead to higher interest rates.[18]

Finally, although there is the potential that bondholders could seek legal recourse, it appears their recourse is limited. Specifically, bondholders cannot expect any assistance from the State as the obligation to pay the Stadium bonds is the sole responsibility of the Authority. In addition, while recourse can be taken against the Authority, it has already pledged its tourism, facility-related, and operating revenues toward paying its Stadium bond obligations. The Stadium was not pledged; therefore, the Stadium does not appear to be available as recourse to pay bondholders in the event the Authority is unable to meet its Stadium bond obligations. According to the Authority, the only recourse available to bondholders in the case of default on the Stadium bond obligations would be to pursue legal action against the Authority, which would then involve the courts in making any decisions.

Question 6: Has the Authority prepared for projected revenue shortfalls and resuming Stadium operations considering the COVID-19 pandemic?

The Authority has taken steps to continue fulfilling its responsibilities considering the COVID-19 pandemic and its various impacts. Specifically:

- **Authority is projecting shortfalls through fiscal year 2025 due to the COVID-19 pandemic and is taking steps to prepare continuity of operations given revenue shortfalls—**According to the Joint Legislative Budget Committee and previous audits of the Authority, it is difficult to precisely project long-term revenues. However, based on our review, the Authority has taken steps to prepare for projected fiscal year 2021 revenue shortfalls, including forecasting the magnitude of the revenue shortfalls. Specifically, the Authority has developed 2 sets of revenue projections for fiscal years 2020 to 2025. To do this, the Authority reported it consulted with and utilized travel information and data provided by the Arizona Office of Tourism, consulted with the Board and Stadium manager, and reviewed various potential financial scenarios.[19] These Authority actions are consistent with the audit recommendation from our 2010 performance audit report that the Authority improve its financial projections by consulting with industry experts and creating different scenarios that include different ranges of decline.[20] For example, the Authority developed 4 potential financial scenarios that showed revenue projections ranging from a baseline budget that includes anticipated events at the Stadium similar to any typical year, to a conservative scenario where no events occur during the fiscal year, including Cardinals games. The Authority reported that none of the scenarios accurately represented what they considered to be the most realistic expectation. Instead, the Authority reported using a hybrid of the scenarios, formulated in conjunction with the input of industry professionals and its Board, as the basis for the Authority's fiscal year 2021 budget (for more information on the fiscal year 2021 projected revenues see Questions 2 through 4, pages 18 through 25).

  Along with projecting the shortfalls, the Authority also worked with its Board, legal counsel, and Stadium manager to identify and determine the feasibility of strategies for reducing expenditures and mitigating the impact of revenue loss. For example, the Board's Finance Committee met in June 2020 to discuss and

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[18] According to Fitch Ratings, as of June 2020, the Authority's credit rating for its 2012A bonds was "A" due to strong post-COVID-19 pandemic pledged revenue growth prospects and satisfactory resilience assessment but with a "Negative" outlook due to the uncertainty regarding the timing and strength of the rebound of the tourism industry in Phoenix.

[19] The Arizona Office of Tourism Executive Director is an Authority Board member.

[20] See Auditor General Report No. 10-09 *Arizona Sports and Tourism Authority*.

propose capital improvement expenditures for the fiscal year 2021 budget. Based on this meeting and a subsequent discussion with the finance committee chair, the Authority did not include additional capital improvement projects in its fiscal year 2021 budget and indicated that the Board would evaluate future capital improvement project expenditures based on updates to cash forecasts.[21]

- **Authority developed and implemented policies and procedures in line with CDC recommendations to resume Stadium operations—**According to the Centers for Disease Control and Prevention (CDC), the Arizona Department of Health Services, and the Arizona Governor's Office, businesses should develop policies that include control measures to eliminate or reduce COVID-19 exposure through measures such as enhanced cleaning, social distancing, personal protective equipment requirements, and training employees. In line with these recommendations, the Authority has worked with various Stadium stakeholders to develop, implement, and train employees on policies and measures for resuming full Stadium operations. As shown in Table 5, these policies and measures include social distancing requirements, additional cleaning staff, and consideration of no-touch technology. In addition, the Authority is identifying potential events that can be held with social distancing. For example, the Authority hosted an RV show in June 2020 in line with the Arizona Governor's executive order in effect at the time. According to the Authority, an event plan was developed that included requirements for masks and social distancing for all event staff and attendees.

Table 5
A selection of CDC recommendation areas and Authority actions related to the COVID-19 pandemic

CDC Recommendations	Authority's actions
Social distancing	Requires employees and visitors to maintain social distancing whenever possible. For example, this included limiting the number of occupants in elevators to 2 persons and placing social distancing signage in the Stadium.
Personal Protective Equipment	Requires appropriate and correct use of PPE, including face coverings for personnel, visitors, and guests in any situation where social distancing is not possible or when traveling in or through public areas.
Enhanced cleaning	Requires enhanced housekeeping practices including frequent cleaning and disinfecting of high-touch areas and implementing a night shift to disinfect all occupied offices daily.
Provide hand sanitizer	Put hand sanitization stations throughout the Stadium.
Health screenings	Requires mandatory health screening before entrance for all Stadium employees and visitors. The screening includes a questionnaire and temperature check.
Avoid the using or sharing of items	Consideration of a capital project to replace all bathroom fixtures with non-touch versions.[1]

[1] Capital projects must be approved by the Board. At the time of our review, a meeting to review and approve this project had yet to occur.

Source: Auditor General staff review of CDC guidance and Authority documents.

[21] In May 2020, the Board approved 3 fiscal year 2021 capital improvement projects that were considered critical capital items that needed to begin before the June 2020 Board meeting. For example, the Board approved a project to rebuild the Stadium's chillers prior to the summer temperatures.

SUMMARY OF RECOMMENDATIONS

Auditor General makes 4 recommendations to the Authority

The Authority should:

1. Take additional steps to ensure that it accurately distributes tourism and facility-related revenues according to statutory requirements. Specifically, the Authority should:

    a. Develop and implement more detailed revenue distribution procedures to guide its revenue distributions.

    b. Develop and implement a checklist identifying the specific items to review that a secondary reviewer, such as its Stadium management contractor staff, should use when reviewing the monthly distributions.

    c. Request its auditors to more comprehensively verify the accuracy of revenue distributions during the Authority's annual financial audit (see Finding 1, pages 9 through 11, for more information).

2. Implement its event settlement review procedures developed in June 2020, which requires it to monthly select and review a sample of event settlements, once Stadium events resume (see Finding 2, page 12, for more information).

3. Continue the Stadium management oversight practices we observed, and that it formalized in its draft Stadium management oversight policy and procedures (see Finding 2, pages 13 through 14, for more information).

4. Continue with its plans to seek Board approval of its Stadium management oversight policy and procedures during its next Board meeting (see Finding 2, pages 13 through 14, for more information).

Objectives, scope, and methodology

The Office of the Auditor General has conducted this performance audit of the Authority, pursuant to A.R.S. §5-812, which requires a performance audit of the Authority every 5 years.

We used various methods to address the audit's objectives. These methods included reviewing applicable State laws; reviewing information obtained from Authority staff and the Authority's website such as meeting minutes; interviewing Authority staff; attending several Authority facility management and Board meetings; and reviewing previous Arizona Auditor General's Office performance audits of the Authority (Report Nos. 09-04, 10-09, and 15-107). In addition, we performed work to ensure the accuracy of financial data provided by the Authority, including the Authority's and the Stadium's general ledgers. For example, we reconciled the Authority's fiscal years 2015 through 2019 general ledgers to its fiscal years 2015 through 2019 financial statements audited by an independent certified public accounting firm and reconciled the fiscal year 2020 general ledger to the Authority's fiscal year June 30, 2020, bank statements or bank statement reconciliations, as appropriate, for its 5 largest bank account balances, representing approximately 98.4 percent of the June 30, 2020, cash balance. We also used the following additional methods to meet the audit's objectives:

- To determine whether the Authority had sufficient revenues to cover its statutorily designated priorities and properly distributed revenues, we reviewed statute and various financial documents. Specifically, we determined the fiscal years 2015 through 2020 statutorily designated priorities by reviewing A.R.S. §§5-834 and 5-835 and the Authority's fiscal years 2015 through 2020 *Annual Financial Budget* reports and compared these amounts to actual amounts distributed as documented in its fiscal years 2015 through 2020 monthly tourism and facility-related revenue distribution documents. We also compared the tourism projections included in the Proposition 302 (November 2000) election materials to actual revenues from the Authority's inception through fiscal year 2020.

- To evaluate the impact of the COVID-19 pandemic on the Authority's revenue and the extent to which it has considered and prepared for potential shortfalls and resuming Stadium operations and events, we reviewed the Authority's policies and procedures for resuming full operations of the facility after the COVID-19 pandemic closure compared to the COVID-19 pandemic-related guidance documents from the CDC, the Arizona Department of Health Services, and the Arizona Governor's Office. We also reviewed the Authority's fiscal year 2021 budget and projections, and July through September 2020 tourism and facility-related revenue monthly distribution documents, and compared them to fiscal years 2019 and 2020 actual financial activity; conducted interviews; and attended Board meetings related to its budget and projections. Finally, we reviewed the Authority's bond documents and obtained information from the Authority regarding risks if it were to default on its bond payments.

- To assess the Authority's oversight and monitoring processes of its facility management contractor's performance and compliance with its 2016 agreement related to financial, stadium maintenance, and marketing requirements, we reviewed and analyzed the Authority's 2016 facility management agreement; National State Auditors Association and the National Association of State Procurement Officials best practices for contract oversight and federal internal control standards; internal Authority documents received from its facility manager such as its monthly financial statements, stadium operations report, and scheduled/completed preventative maintenance report; U.S. Department of Homeland Security Certificate of SAFETY

Act Designation; the 2005 Cardinals Use Agreement between the team and the Authority; and the Arizona State Fire Marshal's 2019 summary and inspection reports. Additionally, we interviewed a Cardinals official.[22]

Our work on internal controls encompassed activities related to all internal control components and included reviewing procedures, interviewing Authority staff, attending Authority staff and Board meetings, observing processes, and assessing compliance with statutory requirements.[23] We reported our conclusions on internal controls in Findings 1 and 2 (see pages 9 through 14).

We conducted this performance audit of the Authority in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We express our appreciation to the Authority's Board, Chief Executive Officer, and staff for their cooperation and assistance throughout the audit.

[22] National State Auditors Association (NSAA). (2003). *Contracting for services: A National State Auditors Association best practices document*. Lexington, KY. Retrieved 6/12/2020 from https://www.nasact.org/files/News_and_Publications/White_Papers_Reports/NSAA%20Best%20Practices%20Documents/2003_Contracting_Best_Practices.pdf. National Association of State Procurement Officials (NASPO). (n.d.) *Contract administration best practices guide*. Lexington, KY. Retrieved 6/12/20 from https://www.naspo.org/wp-content/uploads/2020/07/NASPO-Contract_Administration_Best_Practices_Guide-f.pdf. U.S. Government Accountability Office. (2014). *Standards for internal control in the federal government*. Washington, DC. Retrieved 6/12/2020 from https://www.gao.gov/assets/670/665712.pdf.

[23] We determined that information system controls were not significant to our audit objectives.

AUTHORITY RESPONSE

ARIZONA SPORTS & TOURISM AUTHORITY

November 2, 2020

Ms. Lindsey Perry, CPA, CFE
Auditor General
State of Arizona
2910 N 44th Street, Suite 410
Phoenix, Arizona 85018

RE: 2020 Performance Audit of the Arizona Sports and Tourism Authority

Dear Auditor General Perry:

On behalf of the Board of Directors and staff of the Arizona Sports and Tourism Authority (the "Authority"), we appreciate the opportunity to respond to the 2020 Performance Audit of the Authority. We commend the professionalism, diligence and hard work of the Auditor General's staff, and it was a pleasure to work with them.

We are pleased with the overall conclusions of the Performance Audit and note that all recommendations have been agreed to and implemented. Thank you again for the opportunity to respond to this Performance Audit report. The Authority's response to each of the recommendations is attached.

Sincerely,

Tom Sadler
President/CEO

cc: Teddy Eynon, Chairman, Arizona Sports and Tourism Authority
Board of Directors, Arizona Sports and Tourism Authority

Finding 1: Authority distributed some tourism and facility-related revenues inconsistent with statutory requirements

Recommendation 1: The Authority should take additional steps to ensure that it accurately distributes tourism and facility-related revenues according to statutory requirements. Specifically, the Authority should

Recommendation 1a: Develop and implement more detailed revenue distribution procedures to guide its revenue distributions.

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

Response explanation: The recommendation has been implemented by the Authority. An internal procedure to guide revenue distributions has been developed and added to the policies and procedures library.

Recommendation 1b: Develop and implement a checklist identifying the specific items to review that a secondary reviewer, such as its Stadium management contractor staff, should use when reviewing the monthly distributions.

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

Response explanation: The recommendation has been implemented by the Authority. An internal procedure, to include a review checklist, has been developed and added to the policies and procedures library.

Recommendation 1c: Request its auditors to more comprehensively verify the accuracy of revenue distributions during the Authority's annual financial audit.

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

Response explanation: The recommendation has been implemented by the Authority. The annual financial auditors have been made aware of the finding and have added to their annual audit checklist.

Finding 2: Authority discontinued event settlement reviews and has not documented other facility management oversight practices

Recommendation 2: The Authority should implement its event settlement review procedures developed in June 2020, which requires it to monthly select and review an event settlement, once Stadium events resume.

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

Response explanation: A monthly event settlement review has been implemented by the Authority as recommended. Also, the internal event settlement review procedures have been developed and added to the policies and procedures library.

Recommendation 3: The Authority should continue the Stadium management oversight practices we observed, and that it formalized in its draft Stadium management oversight policy and procedures.

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

Response explanation: The Authority will continue conducting Stadium management oversight practices as observed. As recommended, a policy to formalize the Stadium Management Oversight procedures has been drafted.

Recommendation 4: The Authority should continue with its plans to seek Board approval of its Stadium management oversight policy and procedures during its next Board meeting.

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

Response explanation: The Authority has followed through in seeking approval for the aforementioned draft policy for Stadium Management Oversight as it is on the November 10, 2020 agenda for Board approval.

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Auditor General
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