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**STATE OF ARIZONA**  
OFFICE OF THE  
**AUDITOR GENERAL**

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DEPUTY AUDITOR GENERAL

November 20, 2017

The Honorable Bob Worsley, Chair  
Joint Legislative Audit Committee

The Honorable Anthony Kern, Vice Chair  
Joint Legislative Audit Committee

Dear Senator Worsley and Representative Kern:

Our Office has recently completed a 24-month followup of the Arizona Sports and Tourism Authority (Authority) regarding the implementation status of the 18 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in September 2015 (Auditor General Report No. 15-107). As the attached grid indicates:

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- 1 is no longer applicable.

Our Office will conduct a 36-month followup with the Authority on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Dale Chapman, Director  
Performance Audit Division

DC:ka  
Attachment

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

Arizona Sports and Tourism Authority Board of Directors

# Arizona Sports and Tourism Authority

## Auditor General Report No. 15-107

### 24-Month Follow-Up Report

#### Recommendation

#### Status/Additional Explanation

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

1.1 The Board should take an active role in addressing the issue of insufficient tourism revenues for funding monthly distributions by taking the following actions:

- a. Working with authority staff to identify and study various options for addressing the issue, including determining the potential financial impact to each statutory priority for each option;

#### Implementation in process

As discussed in the initial followup, the Authority projected its future monthly distributions from tourism revenues according to the distributions and priorities set in statute for fiscal years 2017 through 2021, and its projections for these fiscal years indicated that, although it will be able to meet its stadium bond debt obligations, all of its other, lower funding priorities will likely be impacted by monthly revenue shortfalls through fiscal year 2021. In addition, the Authority reported that all funding priorities would be impacted even more if the plaintiff in the *Saban Rent-A-Car LLC vs. the Arizona Department of Revenue (Saban vs. ADOR)* lawsuit is successful and the car rental surcharge is eliminated. This could impact the Authority's ability to pay its stadium bond debt obligations with its tourism revenues. The Authority reported that, in October 2016, the Authority's Board of Directors (Board) consulted with the Authority's legal counsel to discuss the advisability and feasibility of developing options for addressing the shortfalls in its tourism revenues based on the projections. According to the Authority, given the potential impact of the *Saban vs. ADOR* lawsuit on the Authority's funding priorities, the Board determined that it should delay its development of potential options for addressing the shortfalls until a decision has been reached in the *Saban vs. ADOR* lawsuit.

- b. Working with stakeholders and the Legislature to identify which options would be feasible; and

#### Not yet applicable

According to the Authority, given the potential impact of the *Saban vs. ADOR* lawsuit on the Authority's funding priorities, the Board determined that it should delay its development of potential options for addressing the shortfalls in its tourism revenues until a decision has been reached in the *Saban vs. ADOR* lawsuit (see explanation for Recommendation 1.1a). As a result, the Authority has not yet approached stakeholders and the Legislature to identify which options would be feasible.

- c. Clearly communicating to the Legislature and stakeholders the financial impacts to each funding priority for any recommended options.

#### Not yet applicable

See explanation for Recommendation 1.1b.

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

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**Finding 2: Authority may face challenges funding future operations**

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

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

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3.1 The Authority should consider various options for improving its facility management agreement, as follows:	
<p>a. If the Authority chooses to enter an agreement with a fixed price for any services, whether the agreement is a fixed-price agreement or an agreement with a mixture of a fixed-price and cost-reimbursement components, it should take additional steps to design an effective agreement, including:</p> <ul style="list-style-type: none"> <li>• Increasing performance incentives to compensate the facility management contractor for assuming more risk;</li> <li>• Incorporating incentives and/or disincentives for nonfinancial performance in its agreement; and</li> </ul>	<p><b>No longer applicable</b> The Authority did not enter an agreement with a fixed price for any services.</p>

Recommendation	Status/Additional Explanation
<ul style="list-style-type: none"> <li>Including its subjective fee evaluations to be completed by the Cardinals and the Fiesta Bowl to help determine a performance-based incentive fee.</li> </ul>	
<p>b. If the Authority chooses to enter an agreement with cost reimbursement for any services, whether the agreement is a cost-reimbursement agreement or an agreement with a mixture of a fixed-price and cost-reimbursement components, it should take additional steps to appropriately design and oversee an effective agreement, including:</p> <ul style="list-style-type: none"> <li>Enhancing its oversight of the facility management contractor's expenses;</li> <li>Including a revenue guarantee that meets the Authority's needs; and</li> <li>Better aligning facility revenue and expenses in the facility's annual budget.</li> </ul>	<p><b>Implemented at 24 months</b></p>
<p>3.2 The Authority should work with its consultant to procure and negotiate the most beneficial agreement possible by:</p> <p>a. Designing the agreement to help ensure that the Authority's facility-related revenues can pay for its administrative and operational expenses;</p> <p>b. Incorporating into the agreement and/or establishing sufficient mechanisms to adequately oversee its facility management contractor and ensure that the Authority is receiving the highest quality service for the lowest possible costs; and</p> <p>c. Ensuring the agreement is consistent with any of the Authority's other agreements.</p>	<p><b>Implemented at 12 months</b></p> <p><b>Implemented at 12 months</b></p> <p><b>Implemented at 12 months</b></p>
<p>3.3 The Authority should work with its legal counsel to ensure that the new agreement complies with IRS regulations for tax-exempt facilities.</p>	<p><b>Implemented at 12 months</b></p>

**Finding 4: Authority should improve its facility capital improvement practices**

4.1 To help ensure the sustainability and viability of the facility, the Authority and its Board should develop and implement capital planning policies and procedures that include:

## Recommendation

## Status/Additional Explanation

- a. A clear definition of what constitutes a capital improvement project, including but not limited to significant capital maintenance projects;

### Implementation in process

The Authority has developed and begun implementing a revised draft of its procurement policy that includes a definition of what constitutes a capital improvement. However, although authority staff reported that the Authority does not consider purchases less than \$5,000 to be capital improvements, the revised draft of the Authority's procurement policy does not include any monetary threshold for defining capital improvements. As a result, the Authority's policy may apply to purchases that the Authority does not consider to be capital improvements. The Authority estimated that it would complete the development of the revised policy and receive board approval early in calendar year 2018.

- b. Provisions for the Board's monitoring and oversight of capital improvements planning and budgeting to help ensure a clear decision-making process, including a description of how the Board will prioritize and approve projects, and a description of the roles and responsibilities in the process for authority staff, the facility management contractor, and facility tenants;

### Implementation in process

As of October 2017, the Board has developed and implemented policies and procedures requiring that any acquisitions of capital improvements must be set forth in a capital improvement plan approved by the Board. Additionally, in June 2017, the Board approved a five-year capital improvement project plan and the Authority included proposed capital improvement projects in its fiscal year 2018 budget, which the Board approved. Further, in fiscal year 2017, the Board and its finance committee monitored and provided oversight of capital improvements planning and budgeting during quarterly financial performance updates provided by board staff. However, the Board has not developed written policies and procedures that include a description of how the Board will prioritize and approve projects before the procurement process begins or a description of the roles and responsibilities in the capital improvements planning and budgeting process for authority staff, the facility management contractor, and facility tenants. The Authority estimated that it would complete the development of these written policies and procedures early in calendar year 2018.

- c. Provisions for developing a multiyear capital improvement plan (capital plan) covering a period of at least 3 to 5 years that clearly identifies capital and major equipment needs, maintenance requirements, funding options, and operating budget impacts; and

### Implementation in process

The Authority has developed a multiyear capital improvement plan that includes capital and major equipment needs and operating budget impacts (see explanation for Recommendation 4.1b). However, this capital improvement plan did not specifically address maintenance requirements and funding options for the projects. In addition, as of October 2017, the Authority had not developed written policies and procedures requiring the development of a multiyear capital improvement plan that clearly identifies capital and major equipment needs, maintenance requirements, funding options, and operating budget impacts. The Authority estimated that it would complete the development of these written policies and procedures early in calendar year 2018.

## Recommendation

## Status/Additional Explanation

- d. Provisions for developing a capital improvement budget as part of its annual budget process using the information in the capital plan to help separately budget and track capital projects. The budget should include a schedule for completing each project, including specific project phases, estimated funding requirements for the upcoming years(s), and planned timing for acquisition, design, and construction activities.

### **Implementation in process**

The Authority included proposed capital improvement projects in its fiscal year 2018 budget, which its Board approved. However, the list of proposed projects in the budget did not include a schedule for completing each project, including specific project phases, estimated funding requirements for the upcoming year(s), and planned timing for acquisition, design, and construction activities. In addition, as of October 2017, the Authority had yet to develop written policies and procedures that include provisions for the development of a capital improvement budget. The Authority estimated that it would complete the development of these written policies and procedures early in calendar year 2018.

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