



**AU20-F01 Contract Compliance –
Corpus Christi Convention and Visitor's Bureau
Follow-up Report**

**City Auditor's Office
Kimberly L. Houston
Interim City Auditor**

November 16, 2021

Executive Summary

As part of our annual audit plan, we conducted a follow-up of the AU18-001 Contract Compliance – Corpus Christi Convention and Visitor’s Bureau (CCCVB) audit dated January 7, 2019. The objective of the original audit was to determine if the City’s relationship and oversight structure with the CCCVB is comparable to that of peer cities, and if there was adequate oversight over the CCCVB’s use of Hotel Occupancy Tax (HOT) revenues and performance of driving overnight visitors to Corpus Christi.

The original audit made 25 recommendations for improvement over seven (7) areas to City management. The seven (7) areas included: contract compliance, management of HOT funding, setting and monitoring performance measures, utilizing local businesses and promotion of events or businesses outside the city of Corpus Christi, City property lease activity, accountability of HOT revenue usage and the right to audit subrecipients. Additional consideration was made over management matters, and due to their sensitive nature, these were omitted from the original report and this follow-up.

Prior management accepted recommendations from the original audit and agreed to make appropriate process changes.

Since the release of the original audit, City oversight of the City’s management services agreement with the CCCVB has been transferred to the Finance and Procurement Department (Finance). Responses to the follow-up were submitted by Finance.

In August 2021, Finance indicated 11 of 25 recommendations have been implemented, nine (9) are still in process, and five (5) were not implemented.

Auditors reviewed 13 recommendations and found 10 have been implemented or partially implemented with three (3) not implemented. Twelve (12) recommendations impacted by audit scope limitations that resulted from change of management at the CCCVB were not reviewed.

After oversight by an interim director for 7 months, a permanent CEO was appointed by the CCCVB’s Board who began work in March 2020. Due to circumstances surrounding appointment of new leadership plus development and implementation of new processes, recommendations not fully implemented will be reexamined in a future engagement.

A complete list of recommendations and current statuses can be seen on pages 1-4. Additional information on recommendations can be found in Appendix A.

Management agrees with the conclusions of this report and their responses can be found in Appendix B. We would like to commend staff from Finance and the Corpus Christi Convention and Visitor’s Bureau for their assistance during this process.

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AU20-F01 Contract Compliance – Corpus Christi Convention & Visitor’s Bureau Follow-up Report

Issue No.	Recommendation/Corrective Action Plan	Management Assertion	Status
A. Contract Compliance			
A.01 City Contract Management Policies			
1	Develop and document a City policy requiring enhanced monitoring for high-risk and high-dollar contracts. Include in the policy parameters to judge contracts against to help determine its high-risk status and establish a dollar threshold to identify high-dollar contracts.	In Process	<i>Did Not Review</i>
2	Require all City contracts to have an assigned contract manager.	Implemented	<i>Partially Implemented</i>
A.02 Consulting Services Agreement Compliance			
1	Develop and document procedures for monitoring the CCCVB’s consulting services agreement. These procedures should include a formal process to review Business Plans, financial reports, performance achievement, and annual goal assessment.	In Process	<i>Did Not Review</i>
2	Assess current insurance requirements and coverage for adequacy. Periodically, review policy for compliance.	Implemented	<i>Partially Implemented</i>
3	Require the CCCVB to obtain guidance from Financial Services on how to best account for HOT fund usage. All accounting methods, forms, and other related processes over HOT accounting should be approved by the Finance Director or their designee.	In Process	<i>Did Not Review</i>
4	Require the CCCVB to comply with terms in their contract regarding accounting records (ex. payment processing), agency reports (ex. Business Plans, annual performance reports), and insurance requirements. All reports should be signed by CCCVB management.	In Process	<i>Did Not Review</i>
5	Communicate required advisory board compliance to CCCVB management. Only members appointed by City Council are allowed positions to the board. Any board composition changes should be revised in future contracts.	Implemented	<i>Implemented</i>
6	Periodically evaluate HOT revenue goals to ensure they reflect current HOT revenue activity.	In Process	<i>Did Not Review</i>

Issue No.	Recommendation/Corrective Action Plan	Management Assertion	Status
B. HOT Revenue Expenditures			
1	Revise contract terms to promote greater accountability and allow for maximum use of HOT Revenue. CCCVB spending practices should align with City financial policies and procurement procedures in so much as possible. For example, in places which require City Council approval or other exceptions should be documented with justification and approved by the City manager or the Board of Directors.	In Process	<i>Did Not Review</i>
2	Require CCCVB business credit card holders undergo City procurement card and purchasing training to include annual refresher training.	Not Implemented	<i>Did Not Review</i>
C. Setting Performance Measures and Monitoring			
1	Strengthen contract oversight by formally documenting procedures to monitor CCCVB performance contract compliance	In Process	<i>Did Not Review</i>
2	Enforce requirement of developing a formal business/marketing plan with annual reporting. The format should be presented in the same fashion as other City departments or other form approved by management.	In Process	<i>Did Not Review</i>
3	Revise contract terms to provide greater clarity on creating, accepting, reviewing, and approving performance goals. The method by which goals are measured should eliminate redundancy, simplify performance tracking, and be relatable to the CCCVB's scope of services.	In Process	<i>Did Not Review</i>
4	Enforce records retention requirements for all performance measure outcome reports and supporting documentation.	Implemented	<i>Not Implemented</i>
D. Use of Local Businesses and Hire Corpus Christi First			
1	City management should seek City Council input as to whether they want to spend HOT Tax revenue dollars on out-of-town businesses in CCCVB advertisements, utilizing out-of-town vendors, and promoting events for other Cities. Should Council accept the use of HOT Tax revenue dollars on non-local businesses and events, inquire to what degree, if any, should there be any limitation on doing so. Incorporate Council direction into future CCCVB contracts using clear and precise language.	Implemented	<i>Implemented</i>

Issue No.	Recommendation/Corrective Action Plan	Management Assertion	Status
E. Leasing City Property			
1	In every lease agreement for City property, the casualty loss section should be strengthened to direct leases to report any and all damages of City property to the appropriate department.	N/A	<i>Did Not Review</i>
2	Re-examine rent credit submitted by the CCCVB to Parks Department for allowable expenditures under the lease terms.	Implemented	<i>Not Implemented</i>
3	Require CCCVB to obtain all required inspections and certificates for work performed on leased properties.	N/A	<i>Implemented</i>
4	Ensure no smoking signs are installed where smoking is not permitted in Heritage Park.	Implemented	<i>Implemented</i>
F. Accountability over Hotel Occupancy Tax Revenue Usage			
1	Require the CCCVB to enter into an agreement with the Heritage Society outlining what roles the other will have in relation to the other. The terms should include provisions for the Heritage Society to reimburse the CCCVB for indirect and direct costs the CCCVB incurs on their behalf. Conversely, ensure the CCCVB develops and documents a procedure for tracking and reimbursement of such costs. The process should include timely reconciliation and reimbursement.	Not Implemented	<i>Not Implemented</i>
2	With assistance from Financial Services, require a standardized form to be developed to adequately account for and justify all expenses reimbursed to the CCCVB by the Heritage Society.	Not Implemented	<i>Did Not Review</i>
3	With assistance from the City's Legal Department, develop and document a methodology as to what constitutes a HOT revenue eligible event and provide examples of such events.	Implemented	<i>Partially Implemented</i>
4	Require no comingling of HOT revenue with other funds.	Implemented	<i>Implemented</i>
5	Require establishment of group accounting codes within to identify and record expenditures paid by HOT funds by activity. The accounting codes should identify program costs spent on unique activities the CCCVB engages in whether produced themselves or for other organizations.	Implemented	<i>Implemented</i>

Issue No.	Recommendation/Corrective Action Plan	Management Assertion	Status
G. Right to Audit Clause			
1	The City is responsible for ensuring contractors maintain complete and accurate financial records in accordance with the Tax Code. Therefore, City Management should require any organization the CCCVB provides HOT funding to be formally notified their records are subject to review or audit by City personnel or an authorize representative. Failure to provide the City access to records should be considered non-compliance and/or breach of contract. The non-participatory organization should be subject to funding forfeiture and be required to repay any funding that cannot be supported by proper documentation.	Implemented	<i>Partially Implemented</i>

Legend:	
<i>Did Not Review</i>	Testwork was not conducted.

Staff Acknowledgement

Brianna Annas, CFE Auditor-in-Charge
Grayson Meyer, Senior Auditor

Appendix A – Additional Follow-up Information

A. Contract Compliance

A.01 City Contract Management Policies

During the original audit, no City policy was in place to assess and identify contracts requiring enhanced monitoring methods such as high-dollar or high-risk agreements or the formal appointment of a contract manager for every City contract. Nor were there documented procedures in place for monitoring compliance of the Corpus Christi Convention and Visitor's Bureau's (CCCVB) performance under their agreement with the City. No designated person was assigned as contract manager to monitor the CCCVB's contract.

Recommendation(s):

A.01-2 City management should require all City contracts to have an assigned contract manager.

We found that although contracts generated by Procurement for service and supply agreements have a contract administrator assigned, there is no City policy requiring assignment of a contract manager. Therefore, department management may not know that City contracts generated within their departments (outside of Procurement) may require a contract manager.

Management's Assertion: Implemented
Audit Status: Partially Implemented

A.02 Consulting Services Agreement Compliance

We found four of eleven key contract areas in compliance. In regard to insurance terms, contractual insurance requirements were not fulfilled and there was no evidence of coverage for general liability or errors and omission. Although a policy for public dishonesty/crime coverage exists, no limits were indicated as required by contract.

Recommendation(s):

A.02-2 Assess current insurance requirements and coverage for adequacy. Periodically, review policy for compliance.

With assistance from Legal and Risk Management, certificates of insurance (COI) requirements specified in the CVB's contract for the audit scope were determined to not be fulfilled in three areas, Commercial General Liability, Host Liquor Liability and Cancellation Notifications. For this reason, we expanded our scope to examine the current COI and found it met all specifications in the contract. Additional areas of improvement noted during our review were discussed with management in Legal. See a summary of our COI review in Exhibit 1.

Exhibit 1: Insurance Requirements Review

Certificates of Insurance Review for the period of April 2019 – April 2022				
Policy Type	Required Coverage	April 2019 - 2020	April 2020 - 2021	April 2021 - 2022
Commercial General Liability	\$1,000,000/ Per Occurrence	Y	Y	Y
<i>Endorsements Required:</i>				
City as Additional Insured		Y	Y	Y
Waiver of Subrogation		Y	N	Y
Crime/Employee Dishonesty	\$1,000,000/ Per Occurrence	Y	Y	Y
<i>Required:</i>				
City named as Loss Payee		Y	Y	Y
Host Liquor Liability (Applicable when alcohol being served)	\$1,000,000/Combined Single Limit	N	N	
<i>Endorsement Required:</i>				
Waiver of Subrogation		N	N	
<i>Additional Requirement:</i>				
Provide 30 Day Notice of Cancellation		Y	N	Y
Source: Management Service Agreement between the City and CCCVB Exhibit 1 and CCCVB Certificates of Insurance				

Management's Assertion: Implemented
Audit Status: Partially Implemented

C. Setting Performance Measures and Monitoring

Formal procedures were not in place to monitor, accept, and evaluate prior year performance goals for carry forward or suspension. Records to support performance measures were not kept and when regenerated did not always tie to board reports.

Recommendation:

C.4 Enforce record retention requirements for all performance measure outcome reports and supporting documentation.

CCCVB management conveyed new performance metrics were implemented for fiscal year October 2020 – September 2021. Due to the recent closure of the fiscal year, enforcement of records retention requirements for all performance measure outcome reports and supporting documentation has not yet occurred. This created a scope limitation as the performance year and its performance metric evaluation concluded outside the audit scope. Therefore, we will reexamine this recommendation in a future audit project.

Management's Assertion: Implemented
Audit Status: Not Implemented

E. Leasing City Property

As part of their lease agreement with Parks Department, the CCCVB was permitted to get lease credits for improvements they made to three properties they occupied at Heritage Park. Repairs due to an April 2018 fire at the Jalufka House was submitted to Parks for rent credit along with other improvements when their agreement states repairs are the responsibility of the CCCVB.

Recommendation:

E.2 Reexamine rent credit submitted by the CCCVB to Parks Department for allowable expenditures under the lease terms

Reexamination of the CCCVB's rent credit could not be verified due to all City personnel with knowledge of the matter no longer work for the City. CCCVB has since relocated off City property (out of the Heritage District).

Management's Assertion: Implemented
Audit Status: Not Implemented

F. Accountability over Hotel Occupancy Tax Revenue Usage

MOU/Related Party Transactions

The Heritage Society utilizes CCCVB resources, funds transfer between the two organizations, and the Heritage Society's board is controlled by the CCCVB. However, no agreement was in place between the two organizations to define what role each organization plays in relation to the other.

HOT Use Methodology

There was no guidance on how to determine if a historical festival, musical performance, or other event is considered eligible for funding by Hotel Occupancy Tax Revenue (HOT); regardless, of whether it's hosted by the Heritage Society, CCCVB, or other group.

Recommendation(s):

F.1 Require the CCCVB to enter into an agreement with the Heritage Society outlining what roles the other will have in relation to the other. The terms should include provisions for the Heritage Society to reimburse the CCCVB for indirect and direct costs the CCCVB incurs on their behalf. Conversely, ensure the CCCVB develops and documents a procedure for tracking reimbursement of such costs. The process should include timely reconciliation and reimbursement.

A Memorandum of Understanding (MOU) was presented to and approved by the CCCVB Board in February 2020, but an executed version of this MOU could not be located by the CCCVB.

Additionally, we noted a \$100,000 loan from the CCCVB to the Heritage Society to pay off the Holiday Tree. There is reference to this in an agreement between the City, the Downtown Management District and the CCCVB, but no agreement exists outlining loan terms between the CCCVB and the Heritage Society.

Management's Assertion: Not Implemented
Audit Status: Not Implemented

F.3 With assistance from the City's Legal Department, develop and document a methodology as to what constitutes a HOT revenue eligible event and provide examples of such events.

Contract terms were added to the Management Services agreement reinforcing adherence to the Tax Code as it relates to utilization of funding derived from HOT revenue. Whereas the City's Finance department has a HOT Application that outlines qualifying criteria for HOT funding requestors and a guide is available through the Texas Municipal League, the CCCVB does not have a documented methodology for what constitutes a HOT eligible event.

While the CCCVB state they are no longer sponsoring events, this recommendation is not limited to hosted events in house.

Management's Assertion: Implemented
Audit Status: Partially Implemented

G. Right to Audit Clause

The City's agreement with the CCCVB did not include a provision requiring access to records through a right to audit clause for its subcontractors or other similar entities.

During the audit, auditors encountered difficulty acquiring access to the Heritage Society's financial records due to confusion over whether or not it was allowable. To gain access, auditors sought assistance from the City's Legal Department and the Council Audit Committee.

Recommendation: City management should require any organization the CCCVB provides HOT funding to be formally notified their records are subject to review or audit by City personnel or an authorized representative. Failure to provide the City access to records should be considered non-compliance and/or breach of contract. The non-participatory organization should be subject to funding forfeiture and be required to repay any funding that cannot be supported by proper documentation.

City Management required, through contract terms, any organization the CCCVB provides HOT funding to be formally notified that their records are subject to audit by City personnel or an authorized representative. See Exhibit 2.

Exhibit 2 Management Services Agreement, Section 2.8

The City shall have the right during each calendar year or fiscal year to authorize an audit of CCCVB's records pertaining to its revenues and expenditures of HOT funds allocated under this agreement. The CCCVB shall include this audit provision in all contracts with any sub-recipients of HOT funds for the sole purpose of confirming the use of any HOT funds provided. The CCCVB shall maintain records received from each of such sub-recipients confirming the proper use of any HOT fund provided.

We reviewed disbursements from the CCCVB operating account to 13 subrecipients of HOT revenue along with related check requests, invoices, and check transmittals. No subrecipient contracts were in place; therefore, no audit provisions exist.

We also noted draft CCCVB financial procedures included language redefining a HOT recipient that conflicted with the agreement with the City.

Management's Assertion: Implemented
Audit Status: Partially Implemented

Appendix B – Management Response



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November 2, 2021

Kimberly Houston
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Corpus Christi, Texas

Re: AU20-F01 Contract Compliance – Corpus Christi
Convention and Visitor's Bureau Follow-up Report

The Finance and Procurement Department has reviewed the
follow-up report and provided its comments below.

☒ Fully Agree

☐ Do Not Agree

Sincerely,

DocuSigned by:

Brett Oetting

11/11/2021

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Brett Oetting
Chief Executive Officer, CCCVB

Date

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11/11/2021

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Heather Hurlbert, CPA CGFO
Director of Finance and Procurement

Date

Constance P. Sanchez

11-11-2021

Constance Sanchez, CPA CPM
Chief Financial Officer

Date

Peter Zanoni

11.11.21

Peter Zanoni
City Manager

Date