

OFFICE OF THE CITY AUDITOR
PERFORMANCE AUDIT
November 2019

**Visit KC Can Improve
Reporting to City and
Address Conflict of Interest
Issues**



**CITY OF
KANSAS CITY,
MISSOURI**

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CITY OF FOUNTAINS
HEART OF THE NATION



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MISSOURI

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November 12, 2019

Honorable Mayor and Members of the City Council:

This audit focuses on Visit KC's performance and financial contractual reporting requirements.

Visit KC performance measure reporting was not always clear or useful to the city. Visit KC did not compare all required performance measures to annual targets and city staff and Visit KC did not always have a similar understanding of how a performance measure was defined. Additionally, Visit KC did not calculate all performance measures accurately and consistently or have necessary documentation to verify the numbers reported. Finally, it is difficult for the city to evaluate how well Visit KC currently uses the resources it is given because there are no productivity or return on investment measures and financial reporting is not in a useful format that segregates Kansas City's funds from other revenues received by Visit KC.

Visit KC Board's lack of required financial disclosures and the organization's irregular contracting gives the appearance of Board conflicts of interest. In 2017 and 2018, most Visit KC board members did not submit required financial disclosures to the City Clerk. An ongoing multi-million-dollar contract with a Visit KC Board member's company originated from a \$160,000, limited-term contract. Changes in the scope and contract dollar amount during the RFP process did not follow recommended practices. Additionally, Visit KC did not follow their own policies and procedures when that contract was later amended to increase the compensation to the board member's company beyond the amount specified in the contract. Visit KC's board does not have an adopted conflict of interest policy.

We make recommendations to improve Visit KC's accountability to the city; to improve the usefulness and clarity of the performance measures reported to the city; to segregate city funds and performance data from other sources in its reporting to the city; and for Visit KC to adopt policies and processes to address conflict of interest and contracting issues identified.

The draft report was sent to the director of convention and entertainment facilities, the president/CEO of Visit KC, and the Visit KC Board Chair on October 18, 2019, for review and comment. Their responses are appended. We would like to thank staff from Visit KC and the city's Convention and Entertainment Facilities and Finance departments for their assistance and cooperation during this audit. The audit team for this project was Jonathan Lecuyer and Sue Polys.


Douglas Jones
City Auditor

Visit KC Can Improve Reporting to City and Address Conflict of Interest Issues

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Introduction

Objectives

We conducted this audit of Visit KC under the authority of Article II, Section 216 of the Charter of Kansas City, Missouri, which establishes the Office of the City Auditor and outlines the city auditor's primary duties.

A performance audit provides "findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability."¹

This report is designed to answer the following question:

- Are Visit KC's performance and financial data clear and useful to the city?

Scope and Methodology

Our review focuses on Visit KC's performance data and financial reporting for the Visit KC Agreement for calendar years 2017 and 2018. Our audit methods included:

- Interviewing Visit KC and city staff to understand the city's relationship with Visit KC.
- Researching applicable industry literature, previous audits, city ordinances, city regulations, the city's strategic plan, Visit KC governance documents, city policies related to contracting and ethics, and Visit KC's contracts to develop potential criteria for Visit KC data and financial reports to the city.

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2011), p. 17.

- Analyzing calendar year 2017 and 2018 performance data and financial reports Visit KC provided to the city to determine whether they met contract requirements and provide clear and useful information to the city.
- Communicating with Visit KC staff to understand data collection processes and analysis.
- Reviewing Visit KC policy, procedures, and select contracts to determine whether appropriate controls are in place to address performance and financial risks.
- Reviewing city communication with Visit KC and Visit KC's response to evaluate the city's contract monitoring and oversight.

We conducted this performance audit 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. No information was omitted from this report because it was deemed privileged or confidential.

In our audit work we identified contract language that was outdated and contract sections that were confusing to readers. We communicated this information to the Law Department in a separate memorandum. We also identified areas of the city's Code of Ethics that may need to be updated to address issues we identified during the audit. We sent a separate letter to the Municipal Officials and Officers Ethics Commission to communicate this issue. Additionally, we identified a section of Visit KC's bylaws that did not align with their contract with the city. We communicated this issue to the Visit KC Board in a separate letter.

Background

Visit KC Contract

The city contracts with Visit KC as an agent for booking city convention facilities, attracting events to city hotels, and generally promoting tourism in Kansas City. The contract identifies measures and reporting requirements for the city to evaluate Visit

KC's annual and quarterly performance. The contract also outlines the city's responsibility for payment to Visit KC. The current five-year contract term expires in April of 2020.

Convention and Tourism Tax

A significant portion of the city's payments to Visit KC come from the "convention and tourism tax".² State law requires Kansas City to appropriate and pay 40 percent of the funds collected from the convention and tourism tax to a non-profit entity contracted by the city and formed for the purpose of promoting the city as a convention, visitors, and tourism center.³ The state statute does not specify a particular non-profit entity to contract for this service.

Visit KC

Visit KC is a 501c (3) non-profit created in 1966 to promote Greater Kansas City as a convention, visitors, and tourist center.⁴ Visit KC does not set or negotiate rates for convention facilities or hotels. The Mayor with the consent of the council appoints half of the organization's board members. The remaining board membership is filled through an appointment process internal to existing Visit KC board members.

In 2018, Visit KC had revenues of approximately \$13.6 million. About \$11 million (81%) of those revenues came from the city.⁵

Visit KC experienced leadership change during the timeframe of our audit scope (2017-2018). The current Visit KC CEO began his role in the fall of 2018.

² RSMo 92.325-92.340.

³ RSMO 92.336.

⁴ Visit KC was known as the Convention and Tourist Council of Greater Kansas City when it was founded and later became the Convention and Visitors Bureau of Greater Kansas City.

⁵ Visit KC agreed in their contract to redirect a portion of their city revenues toward TIF projects. We include TIF redirections as part of Visit KC's total funds received from the city. Visit KC also agreed in their contract to redirect a portion of the tax revenue for the renovation, capital, and on-going maintenance costs of the convention center facilities and as a reserve fund for Convention and Entertainment Facilities, if applicable.

Visit KC Can Improve Reporting to City and Address Conflict of Interest Issues

Findings and Recommendations

Visit KC's Performance Data Not Always Clear and Useful to the City

Not All Performance Measure Contract Requirements Met

Visit KC did not follow all performance measure contract requirements set forth in its contract with the city. The contract requires Visit KC to compare the 12 established performance measures to annual performance targets;⁶ to measure and report their performance to city administrators on a quarterly basis;⁷ and to provide an annual summary of their overall achievement for the established measures.⁸ Although Visit KC met more requirements in 2018 than it had in 2017, it did not compare most performance measures to performance targets. (See Exhibit 1.) Visit KC did not provide annual summaries of performance measures in either year.

Exhibit 1. Visit KC Performance Measure Contract Requirements Met

Performance Measure	2017 ⁹		2018	
	Compared to Target	Reported Quarterly	Compared to Target	Reported Quarterly
Definite Bookings				✓
Definite Room Nights	✓	✓	✓	✓
Convention Center Bookings				✓
Convention Center Room Nights	✓		✓	✓
Sales Leads (Room Nights)				✓
Sales Conversion Rate				✓
Incremental Trips Generated Through Marketing Programs				✓
Convention Attendance				✓
Post-Convention Survey Ratings	✓		✓	✓
Visitor Fulfilment				✓
Location Scouting				✓
Production Support	✓	✓	✓	✓

Source: Visit KC Contract and 2017 and 2018 Quarterly Reports.

⁶ Section 3. Reports to the City. Agreement Convention and Visitors Association of Greater Kansas City, Inc., d/b/a Visit KC, effective May 1, 2015.

⁷ Section 2. Visit KC's Performance Measures, b. Quarterly Reporting. Visit KC contract.

⁸ Section 3. Reports to the City. Visit KC contract.

⁹ Calendar Year reporting for Visit KC.

The city cannot determine whether Visit KC is effectively and efficiently expending public funds to achieve city goals without established performance targets and annual progress updates from Visit KC. Setting goals and reporting on their outcomes provides the city with some assurance that public funds are being spent effectively.

Contract Provides City Limited Recourse for Unmet Terms

The city has limited options to enforce Visit KC contract terms. The current Visit KC contract requires Visit KC to make reports to the city and achieve established targets, but does not define penalties for failure to meet contract terms. The current contract also allows Visit KC to receive a portion of the convention and tourism tax regardless of their compliance with reporting requirements, their performance to book city facilities, the number of hotel room nights their bookings generate, or their contribution to the achievement of city goals.

The city's only recourse for non-compliance or non-performance is the ability to terminate the contract upon written notice to Visit KC at least 30 days prior to termination.¹⁰ State law allows the city to contract with another entity to promote Kansas City tourism.¹¹

While the contract identifies the convention and entertainment facilities director as the contract administrator and states that the contract administrator may make any discretionary decisions defined within the contract and request documentation, none of the discretionary decisions include enforcing penalties for lack of performance. For example, Visit KC did not acknowledge requests from the city's contract administrator. In March of 2018, the director of convention and entertainment facilities sent two memos to Visit KC requesting compliance with contract reporting requirements. While Visit KC began providing the city with required quarterly reports on all 12 of the performance measures, it did not report the measures in comparison to their targets as requested or as required.

Without sufficient authority and recourse, the city does not have the mechanisms to enforce its contract requirements and hold Visit KC accountable. As an oversight body, the city has a responsibility to hold entities expending public funds accountable. Providing an

¹⁰ Agreement between City of Kansas City, Missouri and Convention and Visitors Association of Greater Kansas City, Inc. (DBA Visit KC), Ordinance 150301, May 1, 2015, Section 14.

¹¹ While RSMo 92.336 requires the city to direct a certain portion of the convention and tourism tax to a non-profit that promotes tourism within the city, the statute does not identify Visit KC as the non-profit entity to receive those funds. This allows the city flexibility in the distribution of these funds.

accountability structure to achieve performance measures helps incentivize an organization to comply with contract provisions and make necessary changes when contract terms are not met.

Recommendation To ensure the administrator of the city's contract with Visit KC has the ability to hold Visit KC accountable for complying with contract provisions and achieving acceptable performance in promoting Kansas City as a tourism destination, the director of convention and entertainment facilities should define penalties in the next contract with Visit KC for non-compliance with contract provisions or unacceptable performance.

Misunderstanding over Performance Measure Meaning

The city and Visit KC have conflicting understandings of some performance measures. For performance measures to be useful to the city in determining whether Visit KC performance meets the city's goals and objectives, both parties must agree what the measures mean and how they will be calculated. For example, Visit KC calculates the *Sales Conversion Ratio* performance measure based on the immediately preceding 3-months excluding leads still outstanding. City staff believed the measure was calculated based on the status of all sales leads with no time frame. The different calculations produce different results and information.

Other performance measures from the contract that the city and Visit KC interpreted differently include *Sales Leads (Room Nights)*, *Convention Attendance*, *Visitor Fulfillment*, and *Post-Convention Survey*.

A lack of written definitions for the contract performance measures helped create misunderstandings between Visit KC and city staff. The city contract lists 12 performance measures with no definitions or outside sources where the measures might be defined.

Example of Performance Measure Definition and Calculation

Sales Lead Conversion Ratio:

A ratio that measures, over a stated amount of time, the effectiveness of Visit KC's lead qualifying process and the likelihood generated leads will book Kansas City facilities. The measure should be calculated quarterly based on the status of the Sales Leads over a 12-month rolling basis. The ratio is made up of the following elements:

- **Booked** - Event selected Kansas City for its event.
- **Lost** - Event selected another city.
- **Outstanding**- Sales lead is not yet booked or lost.

Sales Lead Conversion Ratio=

$$\frac{\text{Booked}}{(\text{Booked} + \text{Lost})}$$

*This example was adapted from the Destinations Marketing Association International's DMO performance reporting handbook.¹²

Without established definitions, Conventions staff and Visit KC staff interpreted what they believed the performance measure to mean; however, the interpretations differ between individuals and as such may even change over time. Because city staff does not always understand what was being measured, they may have a different understanding of Visit KC's performance.

Recommendation

To establish a shared understanding of how Visit KC will be evaluated, the director of convention and entertainment facilities should clearly define each performance measure and calculation within the next contract.

Visit KC Reported Some Inaccurate, Inconsistent, and Undocumented Performance Measures

Although the Visit KC contract does not define performance measures, Visit KC has developed in-house definitions to guide staff. The resulting performance measures were not always accurate, consistent, or documented. These issues make it difficult for the city to assess Visit KC's achievement toward the city's desired outcomes.

¹² *Standard DMO Performance Reporting: A Handbook for Destination Marketing Organizations (DMOs)*, Destination Marketing Association International, May 2011, p.11.

Hotel room and event bookings outside of Kansas City city limits were included in Visit KC reporting. The Visit KC contract's scope of service only identifies booking events and hotel rooms within Kansas City. Although Visit KC does promote the Kansas City region, these performance measures are meant to demonstrate Visit KC's performance within Kansas City. In 2018, Visit KC included events and hotel room nights from outside of the Kansas City, Missouri, city limits in the *Definite Bookings* and *Definite Hotel Room Nights* performance measures. Non-Kansas City data included 22 events or about 10 percent of all *Definite Bookings* events and 7,695 or approximately 6.7 percent of *Definite Hotel Room Nights*. As a result of comingling event bookings and hotel room nights outside of Kansas City, Visit KC overstated their performance within Kansas City's limits.

Multi-year bookings were inconsistently counted in Visit KC reporting. The city's contract calls for Visit KC to report performance measures on a quarterly basis. Visit KC does not count multi-year bookings for the performance measure *Convention Center Room Nights* in the quarter they were booked. In 2018, Visit KC booked the Big 12 tournament for a 4-year contract, but only counted the first year of the contract toward the 2018 *Convention Center Room Nights* performance measure. Visit KC reports that the remaining 3 years of the contract would be counted in future booking years.

In contrast, room nights generated from multi-year events booked at hotels were counted wholly within the quarter the booking occurred. Together room nights generated from hotel event bookings and *Convention Center Room Nights* make up the performance measure *Definite Room Nights*. The result of using an inconsistent calculation method for different subsets of *Definite Room Nights Bookings* makes the results of this measure uninterpretable.

Visit KC did not retain all performance measure documentation for review. Destination Marketing Organizations should maintain an auditable trail of documentation to support the performance measures reporting their activities.¹³ The city must be able to confirm that the data received from Visit KC is reliable so that the city is assured that it is making decisions and measuring Visit KC's performance based on accurate data.

Visit KC provided supporting documents for 53 out of 54 reported *Convention Center Bookings* in 2018, however, they did not retain

¹³ *Standard DMO Performance Reporting: A Handbook for Destination Marketing Organizations (DMOs)*, Destination Marketing Association International, May 2011, p. 3.

supporting documents for *Sales Lead Conversion* or *Convention Center Room Nights* performance data. Visit KC staff noted that they calculate the hotel room nights performance measure based on data from multiple sources at the time of the booking; however, documentation for the measure was not retained for subsequent review. Hotel room nights and associated tourism economic impact is a significant part of Visit KC's purpose. Without this documentation, the city is unable to verify nearly three-quarters of the hotel room nights Visit KC reported booking during that year.

Visit KC does not have written procedures for their staff to follow which would outline how the performance measures will be calculated and how the data will be preserved for verification purposes. This likely contributed to some errors, inconsistencies, and lack of backup documentation. Written procedures are important because they communicate how the job should be performed and serve as a guide to enable staff to be consistent in their actions.

Recommendation

To ensure the city is able to verify and rely on the performance numbers reported by Visit KC, the president/CEO of Visit KC should exclude events held outside Kansas City city limits from reported numbers and develop written policies and procedures to count multi-year bookings consistently, guide staff in the development of supporting documentation, and include steps necessary to ensure reported performance measures are consistent, accurate, and verifiable.

Additional Performance Measures Warranted

The current contract's performance measures do not evaluate all important objectives as identified by city staff. Performance measures provide feedback to oversight bodies on identified objectives. According to city staff, they are unable to evaluate how efficiently Visit KC utilizes resources based on the current set of performance measures. Current performance measures do not provide information on Visit KC's productivity or return on investment from the city's perspective. Destination Marketing Association International¹⁴ (DMAI) identifies numerous performance measures beyond what is included in Visit KC's current contract including productivity and return on investment measures. DMAI notes that additional performance measures beyond those included in their handbook may be warranted to evaluate the performance of a destination marketing organization

¹⁴ Destination Marketing Association International (DMAI) is a trade organization for city tourism and travel. Visit KC is a member of DMAI.

like Visit KC. See Appendix A for a sample of performance measures that address city risks and objectives.

Recommendation To provide the city information to better evaluate the performance of Visit KC's achievement of city goals, the director of convention and entertainment facilities should incorporate additional performance measures in Visit KC's new contract that address efficiency, productivity, or other identified city objectives.

City Funds Not Segregated and Reporting Format Not Useful

Visit KC provides the city with a quarterly financial report as required by the city contract; however, the information does not inform the city about Visit KC's financial health or segregate Kansas City's public funds. Visit KC provided balance sheet statements as their quarterly financial report to the city in 2017 and 2018. Balance sheets only provide a snapshot in time of Visit KC's assets and liabilities giving city staff limited insight to the financial health of the organization; limited information about where revenue comes from and where expenditures flow; and limited information on how public funds address the goals and objectives of the city.

The current contract requires the quarterly financial report to be approved by the city's finance director. The city's former finance director said he did not provide input on the report format and the Finance Department plays no active role in monitoring Visit KC. The Convention and Entertainment Facilities Department has a direct stake in the activities of Visit KC because of Visit KC's role in booking events for city facilities and should determine the necessary financial data needed for monitoring.

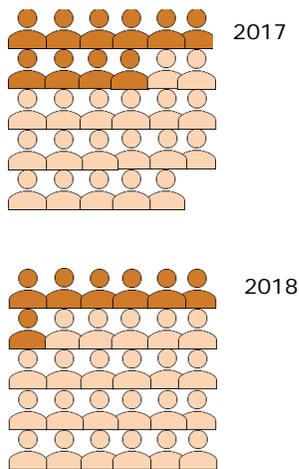
As noted previously, Visit KC booked events and hotel nights outside of Kansas City's city limits. City staff state they would like to know whether city funds are used to help book these non-Kansas City events and hotel room nights. By providing more extensive financial data that segregates the city's tax money from Visit KC's other sources of revenue, the city would be better able to judge organizational health and monitor the use of public funds.

Recommendation So that the city can better determine Visit KC's financial health and ensure the city's funds are used to effectively promote tourism and convention within Kansas City, the director of convention and entertainment facilities should include in Visit KC's next contract a contract provision that:

1. Specifies the substance and form of financial reports to the city.
2. Directs Visit KC to segregate Kansas City, Missouri's, funds and performance data from other sources in its reporting to the city.

Visit KC Should Address Appearance of Board Conflicts of Interest

Exhibit 2: Board Members Filing Financial Disclosures



Source: City Clerk's Office

Board Member Financial Disclosure Requirement Not Met

Most Visit KC board members did not file financial disclosure requirements in 2017 or 2018. (See Exhibit 2.) City code and Visit KC's contract with the city require Visit KC board members to provide the City Clerk's Office with annual financial disclosure statements.¹⁵ Financial disclosure requirements provide transparency in the use of public funds. In 2018, only 7 out of 30 Visit KC board members filed the required financial disclosure statement.

Failure of board members to file financial reports to the city by June 1 of each year could have financial and leadership consequences for Visit KC's board. According to city code, Visit KC board members appointed by the Mayor shall be deemed to have resigned if they do not file by the deadline. If board members not appointed by the Mayor do not submit filings on time, those members shall be subject to termination or any funding or other assistance provided by the city suspended until all disclosures are made.¹⁶

Recommendation

To provide required transparency and retain city funding, the Visit KC Board Chair should ensure board members submit financial disclosures to the city clerk annually in accordance with City Code Section 2-2024 and contract requirements.

Irregular Contracting Processes Contribute to the Appearance of a Conflict of Interest with MMGY

A series of issues relating to the RFP process, contract signing authority, and contract length cloud the ongoing Visit KC contract with a former Visit KC board member's employer.

Visit KC's RFP selection of a board member's company did not follow recommended practices to help ensure a fair and

¹⁵ Code of Ordinances, Kansas City Missouri, Sec. 2-2024 (d).

¹⁶ Code of Ordinances, Kansas City Missouri, Sec. 2-2024 (f).

transparent process. According to recommended practices, RFPs should clearly state in writing the scope of services requested and evaluation methods and proposers should be given sufficient time to create good proposals. "...an RFP process that follows recommended practices commits an agency to a formal process based on fair and open competition and equal access to information."¹⁷

Visit KC's 2015 Request for Proposal (RFP) process resulting in the selection of MMGY, whose president/CEO was at the time also a Visit KC board member, was not based on a written process and did not follow recommended practices. The process used by Visit KC to procure an advertising agency of record contract began as an RFP for a \$160,000, 6-month marketing campaign and expanded to a multi-year, multi-million-dollar advertising agency of record RFP. Visit KC did not follow RFP recommended practices.

- Instead of issuing a new, written RFP with the scope changes, Visit KC staff stated that they informed the respondents of the RFP scope change.
- Instead of giving proposers additional time to address the expanded RFP scope, Visit KC gave proposers the opportunity to address the expanded scope at in-person presentations on the date scheduled in the original RFP.

Because the RFP process lacked the practices that help ensure a fair and transparent process, awarding the contract to a company whose president/CEO was also a Visit KC board member without noting that member's recusal during board discussion of the RFP has an appearance of a conflict of interest. Changing any limited scope, \$160,000 contract to a large scope, multi-million-dollar contract should follow RFP recommended practices. Without an RFP process that follows recommended practices to guide Visit KC's selection process, there are no assurances that all proposers had access to the same information; their proposals were evaluated against the same criteria; and proposers had enough time to develop good proposals.

Visit KC contract with MMGY does not specify the contract's length. Recommended practices for contracting include identifying the duration of the contract for services. Visit KC's contract with MMGY will enter its fifth year in 2020. Without a contract duration term, it is uncertain when Visit KC will seek a new RFP for advertising services. Periodically reissuing RFPs helps

¹⁷ *Contracting for Services: A National State Auditors Association Best Practices Document*, National State Auditors Association, 2003, p. 2.

ensure Visit KC is receiving the best pricing for advertising services though it does not preclude Visit KC from selecting the existing service provider if it submits the most competitive proposal.

Contract amendments not signed by authorized Visit KC staff. Visit KC's procedures identify authorized signers to promote accountability and control commitments made by the organization. Visit KC's Accounting Financial Policy and Procedures Manual states that only the president/CEO and the vice president of finance may sign contracts. In 2018, despite their policy, the director of marketing signed two contract amendments with MMGY. In addition to an unauthorized signer signing the amendments, the amendment increased MMGY's compensation beyond what was allowed in the original contract. The original contract called for 4 percent annual increases. The 2018 contract amendment increased the marketing services and ad creative production base fees by 19 percent and 20 percent, respectively, without any changes to the scope of services.

Recommendation

To receive the best value for contracted services and help promote competition, transparency, accountability, and integrity in the contracting process, the president/CEO of Visit KC should:

1. Adopt RFP policies and procedures from recommended practices.
2. Develop a policy to identify maximum term length for contracts.
3. Ensure contracts are only signed by authorized signers.
4. Reissue RFPs for the advertising "agency of record" contract and any other contracts that do not adhere to updated Visit KC RFP policies and procedures.

Visit KC Board does not have a conflict of interest policy.

Recommended practices state that boards should adopt a conflict of interest policy to guide board members.¹⁸ A conflict of interest policy provides formal guidelines for making ethical choices and promotes accountability and transparency when a conflict of interest may exist. While the Visit KC board has no conflict of interest policy, Visit KC does have a code of ethics/conflict of interest policy for its employees that prohibits employees from financially benefiting from their work including contracting to provide services for Visit KC and the city.

Organizations employing Visit KC board members that receive funding and contracts from Visit KC may give the appearance of a conflict of interest. The appearance of a conflict of interest exists because of the following issues:

¹⁸ 2019 Governance Assessment, Office of the City Auditor, Kansas City, Missouri, August 2019, p. 9.

- Visit KC board members have influence over the president/CEO that may affect decision making related to agency contracts.
- Visit KC board members help set president/CEO pay and performance incentives.
- Visit KC board members may provide feedback that affects the CEO's annual review process.
- Visit KC board members annually approve Visit KC's budget, which in some cases included payments to a board member's company.

These items combined with no evidence of the relevant board member recusing himself from RFP discussions during board meetings and problems with the Visit KC's RFP process and the contract amendments do not provide the city with assurance that conflicts of interest are addressed when Visit KC makes contracting decisions involving significant public funds.

Without a conflict of interest policy, processes for transparent and ethical financial relationships for organizations employing board members of Visit KC remains murky.

Recommendation

To ensure transparency and ethical financial relationships, the Visit KC Board chair should develop an ethics policy and procedures that address conflicts of interest and the appearance of a conflict of interest for all Visit KC board members.

City's Contract Prohibitions Should Apply to all Visit KC Board Members

All of Visit KC's board members are not held to the same conflict of interest requirements by the city.¹⁹ The city's contract with Visit KC does not allow Visit KC board members appointed by the Mayor to personally or financially benefit from the contract nor negotiate or make arrangements to perform services in the contract on behalf of Visit KC. Board members appointed by the existing board, however, are not similarly prohibited.

The contract's conflict of interest provision helps guard against an individual acting in her or his official capacity from influencing or appearing to influence agency actions or decisions to derive personal or financial benefits. A conflict of interest or an appearance of a conflict of interest exists with board members whether appointed by the Mayor or not. By not addressing all board members in the contract provision, the contract could allow

¹⁹ The city's contract with Visit KC requires that the Mayor with the consent of the City Council appoint half of Visit KC's board. The remaining board seats are appointed by the existing board of Visit KC.

individuals with conflicts of interest to abuse their official position. The city has an obligation to ensure public funds, including the majority of Visit KC's revenue, are spent transparently and fairly.

Recommendation To provide the public with assurance that public funds are protected from conflicts of interest, the director of convention and entertainment facilities should ensure Visit KC's next contract specifies that all Visit KC board members are prohibited from having a financial or personal interest in the city's contract with Visit KC and shall not negotiate or arrange to perform services identified in the contract on behalf of Visit KC.

Recommendations

1. The director of convention and entertainment facilities should define penalties in the next contract with Visit KC for non-compliance with contract provisions or unacceptable performance.
2. The director of convention and entertainment facilities should clearly define each performance measure and calculation within the next contract.
3. The president/CEO of Visit KC should exclude events held outside Kansas City city limits from reported numbers and develop written policies and procedures to count multi-year bookings consistently, guide staff in the development of supporting documentation, and include steps necessary to ensure reported performance measures are consistent, accurate, and verifiable.
4. The director of convention and entertainment facilities should incorporate additional performance measures in Visit KC's new contract that address efficiency, productivity, or other identified city objectives.
5. The director of convention and entertainment facilities should include in Visit KC's next contract a contract provision that specifies the substance and form of financial reports to the city.
6. The director of convention and entertainment facilities should include in Visit KC's next contract a contract provision that directs Visit KC to segregate Kansas City, Missouri's, funds and performance data from other sources in its reporting to the city.

7. The Visit KC Board Chair should ensure board members submit financial disclosures to the city clerk annually in accordance with City Code Section 2-2024 and contract requirements.
8. The president/CEO of Visit KC should adopt RFP policies and procedures from recommended practices.
9. The president/CEO of Visit KC should develop a policy to identify maximum term length for contracts.
10. The president/CEO of Visit KC should ensure contracts are only signed by authorized signers.
11. The president/CEO of Visit KC should reissue RFPs for the advertising "agency of record" contract and any other contracts that do not adhere to Visit KC RFP policies and procedures.
12. The Visit KC Board chair should develop an ethics policy and procedures that address conflicts of interest and the appearance of a conflict of interest for all Visit KC board members.
13. The director of convention and entertainment facilities should ensure Visit KC's next contract specifies that all Visit KC board members are prohibited from having a financial or personal interest in the city's contract with Visit KC and shall not negotiate or arrange to perform services identified in the contract on behalf of Visit KC.

Visit KC Can Improve Reporting to City and Address Conflict of Interest Issues

Appendix A

Sample of Additional Performance Measures for Visit KC

Visit KC Can Improve Reporting to City and Address Conflict of Interest Issues

Sample of Additional Performance Measures for Visit KC

- Repeat business ratios:
 - $$\frac{\text{number of repeat business bookings}}{\text{total number of bookings}}$$
 - $$\frac{\text{room nights from repeat business bookings}}{\text{total booked room nights}}$$
- Cost per lead:
 - $$\frac{\text{Visit KC sales}^{20} \text{ direct \& indirect operating costs}}{\text{number of leads}}$$
- Cost per room night:
 - $$\frac{\text{Visit KC sales direct \& indirect operating costs}}{\text{number of booked room nights}}$$
- Convention booking / room supply ratio:
 - $$\frac{\text{Visit KC total booked room nights (by-year production)}}{\text{total (available) convention hotel room nights}}$$
- Demand ratios for total room nights:
 - $$\frac{\text{Visit KC booked room nights (by-year production)}}{\text{total meeting/convention room nights sold (non-Visit KC)}}$$
 - $$\frac{\text{Visit KC booked room nights (by-year production)}}{\text{total room nights sold within KC}}$$
- Return on Total Operating Costs
- Tax Return on Total DMO Public Funding
- Return on Convention Sales Function Direct Operating Costs
- Return on Convention Sales Function Direct & Indirect Operating Costs

²⁰ This cost could be limited to only the city's contribution to Visit KC.

Visit KC Can Improve Reporting to City and Address Conflict of Interest Issues

Appendix B

Director of Convention and Entertainment Facilities' Response

Visit KC Can Improve Reporting to City and Address Conflict of Interest Issues



Department of Convention & Entertainment Facilities

301 West 13th Street, Suite 100
 Kansas City, Missouri 64105



RECEIVED
NOV 07 2019
CITY AUDITOR'S OFFICE

Date: November 7, 2019
To: Douglas Jones, City Auditor
From: Oscar McGaskey, Director of Convention and Entertainment Facilities
Subject: Response to Performance Audit: *Visit KC Can Improve Reporting to City and Address Conflict of Interest Issues*

- The director of convention and entertainment facilities should define penalties in the next contract with Visit KC for non-compliance with contract provisions or unacceptable performance.***

Agree in Part: The director of convention and entertainment facilities will coordinate with the Law Department to determine if there are any legal issues with implementing penalties in the next contract. It should be noted that there is already a provision in the Visit KC contract that gives the City the option to terminate at any time, upon written notice to the other party at least thirty (30) days prior to termination.

- The director of convention and entertainment facilities should clearly define each performance measure and calculation within the next contract.***

Agree: The director of convention and entertainment facilities will define each performance measure and calculation within the next contract.

- The director of convention and entertainment facilities should incorporate additional performance measures in Visit KC's new contract that address efficiency, productivity, or other identified city objectives.***

Agree: The director of convention and entertainment facilities will incorporate additional performance measures in Visit KC's new contract that address efficiency, productivity or other identified City objectives.

- The director of convention and entertainment facilities should include in Visit KC's next contract a contract provision that specifies the substance and form of financial reports to the city.***

Agree: The director of convention and entertainment facilities will include in Visit KC's next contract a contract provision that specifies the substance and form of financial reports to the City.

- The director of convention and entertainment facilities should include in Visit KC's next contract a contract provision that directs Visit KC to segregate Kansas City, Missouri's, funds and performance data from other sources in its reporting to the city.***

Page 2 of 2

Agree: The director of convention and entertainment facilities will include in Visit KC's next contract a contract provision that directs Visit KC to segregate Kansas City, Missouri's funds and performance data from other sources in reporting to the City.

13. ***The director of convention and entertainment facilities should ensure Visit KC's next contract specifies that all Visit KC board members are prohibited from having a financial or personal interest in the city's contract with Visit KC and shall not negotiate or arrange to perform services identified in the contract on behalf of Visit KC.***

Agree: The director of convention and entertainment facilities will ensure in Visit KC's next contract that it specifies that all Visit KC board members are prohibited from having a financial or personal interest in the City's contract with Visit KC and shall not negotiate or arrange to perform services identified in the contract on behalf of Visit KC.

cc: Troy M. Schulte, City Manager

Appendix C

President/CEO of Visit KC's Response

Visit KC Can Improve Reporting to City and Address Conflict of Interest Issues



RECEIVED

NOV 06 2019

CITY AUDITOR'S OFFICE

Date: November 6, 2019
To: Douglas Jones, City Auditor
From: Jason Fulvi, President/CEO Visit KC
Subject: Response to Performance Audit: *Visit KC Can Improve Reporting to City and Address Conflict of Interest Issues*

Visit KC would like to thank the City Auditor and his team for a fair and collaborative auditing process. Additionally, we recognize that both state law and the City's Code of Ordinances require Kansas City to appropriate and pay 40% of the funds collected from its 7.5% hotel tax to a non-profit entity contracted by the city and formed for the purpose of promoting the city as a convention, visitors, and tourism center.

As the official agency contracted by Kansas City for the promotion of convention, visitors and tourism, Visit KC does not currently receive the full 40% of hotel tax collections:

Hotel Tax: Visit KC receives 40% minus 13.3% that has been deducted from their remittance since 2002. Additionally, because of the Super TIF hotel projects that the City has provided hotel development, Visit KC is required to pay back the hotel tax to those hotel developments who are recipients of the Super TIF: (Note: This repayment in 2020 will be approximately \$2M.).

2018-19 Fiscal Year	Total City Collections	40% Of City Collections	Remittance to VKC	VKC Super TIF Reimbursement	Net Remittance to VKC
Hotel Tax	\$27M	\$10.8M	\$9.3M	\$1.5M	\$7.8M
Restaurant Tax	\$29M	\$11.6M	\$0	N/A	\$0

Restaurant Tax: Visit KC receives none of the 2% collected by the city from restaurants.

Relative to Visit KC's reporting and goal setting, it is important to note that during the development process of goals and reportable measurements, the City Manager, two City Council Members and the Convention and Entertainment Facilities Director were engaged in the process and agreed to what is included in the quarterly report to the City.

Outlined below are responses to the specific recommendations directed to Visit KC within the audit.

Recommendation No. 3. - *The president/CEO of Visit KC should exclude events held outside Kansas City city limits from reported numbers and develop written policies and procedures to count multi-year bookings consistently, guide staff in the development of supporting documentation, and include steps necessary to ensure reported performance measures are consistent, accurate, and verifiable.*

Agree in Part.

Events Outside of Kansas City: Visit KC will implement written policies and procedures. There are times, when events may co-exist within and outside of Kansas City city limits where it may be prudent to report on total scope of booking. (i.e., NFL Draft or World Cup).

Multi-Year Bookings: Visit KC will implement written policies and procedures regarding performance measures.

Recommendation No. 8. - *The president/CEO of Visit KC should adopt RFP policies and procedures from recommended practices.*

Agree.

Visit KC will review city, industry and like organization policies, evaluate best practices and implement RFP policies and procedures.

Recommendation No. 9. - *The president/CEO of Visit KC should develop a policy to identify maximum term length for contracts.*

Agree.

This will be done in conjunction with recommendation Number 8 pertaining to RFP policy and procedures.

Recommendation No. 10. - *The president/CEO of Visit KC should ensure contracts are only signed by authorized signers.*

Agree.

Unfortunately, the incident in question was during a time of leadership transition. Visit KC will review our policy, identify any verbiage necessary to clarify the policy and ensure the policy is followed in the future.

Recommendation No. 11. - *The president/CEO of Visit KC should reissue RFPs for the advertising "agency of record" contract and any other contracts that do not adhere to Visit KC RFP policies and procedures.*

Agree.

RFP for advertising "agency of record" will be issued upon completion of revised RFP policy. As Visit KC is currently in the midst of our current marketing campaigns and programming activations, the RFP process for advertising agency will take place in calendar year 2020 for award and implementation in calendar year 2021.

cc: Troy M. Schulte, City Manager

Appendix D

Visit KC Board Chair's Response

Visit KC Can Improve Reporting to City and Address Conflict of Interest Issues

Date: November 6, 2019

To: Douglas Jones, City Auditor

From: CiCi Rojas, Visit KC Board Chair

Subject: Response to Performance Audit: *Visit KC Can Improve Reporting to City and Address Conflict of Interest Issues*

RECEIVED
NOV 06 2019
CITY AUDITOR'S OFFICE



Visit KC Board and Board Leadership would like to thank the City Auditor and his team for a fair and collaborative auditing process.

Through this process it was identified that there may be some discrepancies between the Visit KC By-laws and the contract with the city of Kansas City. It is important to note that the Visit KC's Board Governance Committee will be actively engaged as we evaluate the relationship between these two documents to ensure there is parity moving forward. Additionally, the committee will evaluate our policies relative to conflict of interest and ensure our code of ethics is implemented for all Visit KC Board Members.

It is important to note that calendar years 2017 and 2018 presented several staffing challenges which were intimately managed by the volunteer members of the Visit KC Board and board leadership while also ensuring the best interest for the staff and organizational operations. The Visit KC Board is pleased to say that since the appointment of our new President and CEO, staffing has stabilized, become stronger and many policies and procedures are being reviewed, changed and implemented.

Outlined below are responses to the specific recommendations directed to the Visit KC Board within the audit.

Recommendation No. 7. - The Visit KC Board Chair should ensure board members submit financial disclosures to the city clerk annually in accordance with City Code Section 2-2024 and contract requirements.

Agree.

Visit KC Board Chair and Visit KC staff will ensure disclosures are completed and submitted annually by all Directors.

Recommendation No.12. - The Visit KC Board chair should develop an ethics policy and procedures that address conflicts of interest and the appearance of a conflict of interest for all Visit KC board members.

Agree.

Visit KC is revising the board handbook which will be presented for approval to the full Visit KC Board in December 2019. This handbook will directly address ethics policy and procedures.

cc: Troy M. Schulte, City Manager