

Meet Minneapolis Audit

City of Minneapolis – Internal Audit Department
June 11, 2018

Meet Minneapolis provided services in line with its contract but had minor errors and missing elements in its reports to the City. Meet Minneapolis has opportunities to improve internal controls, and the City has opportunities to improve the rigor of its contract oversight.



Contents	Page
Findings Summary	3
Background	5
Objectives, Scope and Approach	5
Audit Results and Recommendations	6
Finding 1: Performance Indicator Review Results.....	6
Finding 1.1: Actualized Economic Impact Performance Indicator.....	6
Finding 1.2: Private Revenue Key Performance Indicator (KPI)	9
Finding 1.3: Future Leisure Room Nights Key Performance Indicator (KPI).....	10
Finding 1.4: Minneapolis Convention Center Attendance Performance Indicator	11
Finding 1.5: Engaged Digital Users Performance Indicator	11
Finding 1.6: Visitor Requests for Information Performance Indicator	12
Finding 1.7: Return on Investment Performance Indicator.....	14
Finding 2: Conflict of Interest Policy.....	15
Finding 3: Contract-Required Reporting Elements.....	16
Finding 4: City of Minneapolis Contract Oversight.....	18
Improvement Area: Records Retention.....	19
Acknowledgments	20
Attachment A: Minneapolis Convention Center and Meet Minneapolis Response	21

Date: June 11, 2018

To: Mayor Jacob Frey, City Council Members, Minneapolis Convention Center Executive Director Jeff Johnson, City Coordinator Nuria Rivera-Vandermyde and Meet Minneapolis CEO Melvin Tennant

Re: Meet Minneapolis Audit

Findings Summary

Finding 1.1: Economic Impact Performance Indicator – The indicator figures were overstated by unintentional inclusion of duplicates. MM also relied on pre-event attendance estimates when determining impact.

Internal Audit recommends revising the process for economic impact indicator calculation to identify duplicative entries, and establishing a calculation methodology that requires use of post-event attendance estimates when possible.

Finding 1.2: Private Revenue Key Performance Indicator – The purpose of this indicator was to measure how much private revenue was raised and how well MM leveraged City provided funds. The reported metric was in line with contract requirements, but the result did not provide context for how effective MM was at leveraging City funds to raise private sector support.

Internal Audit recommends revising the metric used to include both the private revenue amount and the expenses incurred to procure that private revenue.

Finding 1.3: Future Leisure Room Nights Key Performance Indicator – MM was required to confirm the accuracy of this indicator with a third-party audit, but did not arrange for such audits.

Internal Audit recommends contract-required third-party audits be conducted.

Finding 1.4: Minneapolis Convention Center Attendance Performance Indicator –Overstatements in MCC-provided attendance figures were identified but not communicated to MM because no process was in place for communicating revisions.

Internal Audit recommends MCC and MM put in place a process to communicate MCC attendance changes, and establish thresholds at which changes trigger a refiling.

Finding 1.5: Engaged Digital Users Performance Indicator – MM changed its methodology for calculating engaged digital users without disclosure in its reports; the goal for this metric for 2017 was based on the new methodology. Not clearly communicating the change in methodology in the

reports makes readers unaware that results prior to 2017 were not comparable to data after 2017.

Internal Audit recommends MCC and MM define in writing the methodology that should be used to calculate this metric.

Finding 1.6: **Visitor Requests for Information Performance Indicator** - MM inconsistently and inaccurately compiled this metric for quarterly and year-end reports. MM also changed the methodology for calculating the metric – excluding phone call requests – without disclosure in its reports.

Internal Audit recommends MCC and MM define in writing the methodology that should be used to calculate this metric. MM should also disclose any methodology changes in quarterly and year-end reports and provide a reconciliation for past results.

Finding 1.7: **Return on Investment Performance Indicator** – The goal setting process for this indicator did not consider interactions with other metrics, and resulted in setting a target that was not aligned with MM’s economic impact goal and budget plan.

Internal Audit recommends establishing a goal setting approach for this metric that considers interactions with other measures to produce more cohesive targets for MM.

Finding 2: **Conflict of Interest Policy** – MM did not implement the annual conflict of interest disclosure requirements of its Conflict of Interest Policy (Col Policy), and MM’s employee handbook gift limit was set to \$100 though the Col Policy limit was \$50.

Internal Audit recommends the Contract include reference to this MM Board-reviewed Col Policy in addition to the current references to the Code of Business Conduct. MM should fully implement its Col Policy, and revise its employee handbook to align with the Col Policy.

Finding 3: **Contract-Required Reporting** – MM did not include all contract-required reporting elements in its quarterly reports, year-end reports, or budget plans. Key missing elements included program narratives, results narratives, and supporting documentation.

Internal Audit recommends the MCC develop a submission review process that identifies missing elements from MM’s submissions, and requires MM to provide the contract-required information.

Finding 4: **City of Minneapolis Contract Oversight** – MM did not submit, and the City did not request submission of, documentation to support MM’s completion of Key Performance Indicators. The City relied on verbal debriefing of results in lieu of documentation.

Internal Audit recommends MCC improve contract oversight by requesting documentation to support KPI completion, reviewing the requested documentation, and documenting the steps taken to validate the applicability and accuracy of the documentation.

Corrective Actions Taken – MCC requested and reviewed additional documents in 2018. A third-party audit testing and validating metrics was conducted and will become an annual validation method as part of the yearly required MM Audit process.

Background

The City of Minneapolis Internal Audit Department (Internal Audit) completed an audit of the agreement between the City of Minneapolis (City) and Meet Minneapolis (MM) for sales and marketing of the Minneapolis Convention Center (MCC) and for convention and tourism services. This agreement, City contract C-39155 (Contract or Agreement), specified MM's Scope of Services, identified specific performance indicators and specific reporting requirements.

The scope of services included promotion of the City, the MCC and City hospitality assets as a place for conventions, trade shows, events and a destination for visitors. MM was to provide various services for the MCC under oversight of the Executive Director of the MCC and the City Coordinator, including developing sales and marketing plans; promoting the MCC; booking, and negotiating occupancy, and providing sponsorship services for the MCC. MM was also to engage in City-promotional activities under supervision and measurement of the City Coordinator.

Performance under the contract was measured using performance indicators covering four areas: hospitality industry, tourism industry, and the MCC and destination marketing/sponsorship. One performance indicator from each area was identified as a Key Performance Indicator (KPI), and achievement of KPIs was tied to additional incentive funding.

MM communicated performance results to the City quarterly, with the Executive Director of the MCC and the City Coordinator reviewing the results and requesting additional information as needed. Performance goals were established in an Annual Sales and Marketing Plan by MM and the Executive Director of the MCC, and approved by the City Coordinator. MM's budget plan was developed with the MCC Executive Director and approved by the City Coordinator.

Objectives, Scope and Approach

Objective

The objective of this audit was to evaluate the adequacy of the Minneapolis Convention Center (MCC)'s monitoring procedures and internal controls for management of the Contract, determine whether Meet Minneapolis (MM) complies with the key requirements of the Contract, and review the accuracy of reports provided by MM to the City of Minneapolis (City).

Scope

The scope of this audit was the current contract's start date of January 1, 2015 through February 26, 2018 – the date of the issuance of the 2017 Year End Report. Work focused on 2015 and 2016 results, and included a cursory review of 2017 results to validate that observed issues were ongoing.

Approach

In order to complete the objectives of this project, Internal Audit performed the following:

- Reviewed the contract between Meet Minneapolis (MM) and the City of Minneapolis (City).
- Reviewed audits of Destination Marketing Organizations issued by other audit groups.
- Met with key City staff overseeing the contract and discussed their procedures.
- Met with and conducted interviews with MM staff.
- Requested and reviewed documentation and procedures provided by MM.
- Requested and reviewed documentation provided by the Minneapolis Convention Center (MCC).

Audit Results and Recommendations

Finding 1: Performance Indicator Review Results

Internal Audit assessed Meet Minneapolis (MM)'s performance indicators and Key Performance Indicators (KPIs) reported for 2015 and 2016. Due to the timing of the audit, a brief review of 2017 was performed to determine if identified issues persisted. Issues were identified with seven of the performance indicators during the audit period, broken out by metric below.

Finding 1.1: Actualized Economic Impact Performance Indicator

MM double-counted the impact of certain events, or parts of certain events, when reporting quarterly and year-end economic impact measures. This occurred because of the way MM staff generated entries for events in its tracking system when an event needed overflow rooms or had multiple occurrences under one agreement. This resulted in significant overstatement of economic impact by 28% in 2015, 5% in 2016 and 7% in 2017. Internal Audit also observed that MM relied on pre-event attendance assumptions instead of using MCC's post-event attendance estimates for economic impact. Post-event estimates were on average higher than assumptions, likely resulting in an understatement of economic impact.

Testing Results:

Contract section 2.2 required MM to use a mechanism agreed to by the City, and validated by a third-party, to determine the economic impact of its events. MM used an industry standard economic impact calculator maintained by a third-party. The calculator accepted event parameters and estimated economic impact based on duration, attendees, expected overnight stays, likely attendee demographics, etc. MM summed the impact of all events for a time period, and used that figure to report its economic impact.

MM Double Counted Impact

Internal Audit observed two variations that both resulted in double-counting of economic impact – in cases of overflow needs, and in cases of a single contract producing a series of events.

Overflow

When an event needed overflow rooms, MM staff would take the initial event entry and generate a second related event to be able to track and obtain additional hotel rooms. If staff did not adjust all parameters of the replicated event, it would appear as if this overflow component had the same number of attendees as the original event, regardless of how many additional attendees triggered the overflow needs. The data fed into the economic impact calculator resulted in significant overstatement. Below is an example of this issue identified in testing. The event in question occurred in late 2015 and was included in the 2015 economic impact indicator:

EVENT	ESTIMATED ATTENDANCE	CONTRACTED ROOM NIGHTS	PEAK ROOM NIGHTS	ESTIMATED ECONOMIC IMPACT
Initial Event	9,000	16,170	4,500	\$ 16,435,666
Event Overflow Rooms #1	9,000	1,985	544	\$ 23,059,849
Event Overflow Rooms #2	9,000	375	100	\$ 23,059,849
Event Overflow Rooms #3	9,000	354	100	\$ 23,059,849

In this case, overflow room set #1 added 1,984 nights, set #2 added 375 nights, and set #3 added 354 nights, yet each was counted as adding a \$23 million impact – more than the initial event. Assuming the initial event’s impact per room night was the most accurate - \$1,016/night¹ - the overflow events should only have had impacts of \$2 million, \$381 thousand, and \$360 thousand respectively.² - An overstatement of \$66 million in impact.

Event Series

When a contract included a series of events, e.g. one agreement for four quarterly meetings, MM staff could generate one event entry and then replicate it to be able to track and obtain additional hotel rooms for later series. This resulted in a similar situation to the overflow issue if staff did not adjust all event parameters. In testing, Internal Audit identified a contract for 400 room nights with a stated economic impact of \$180,000, divided among 15 events. This series of events was entered into MM’s system as 15 instances with an impact of \$180,000 each, resulting in an overstatement of \$2.5 million.³

Internal Audit reviewed the summary of events for 2015, 2016, and 2017 to identify additional instances of likely double-counting in line with the examples identified in testing (above). The estimated impact of such errors was:

Actualized Economic Impact - Year End Report Figures

Year	Goal	Reported Impact	Estimated Overstatement	Adjusted Impact
2015	290,000,000	430,000,000	121,700,000	308,300,000
2016	300,000,000	460,000,000	25,000,000	435,000,000
2017	450,000,000	660,000,000	49,300,000	610,700,000

MM Used Pre-Event Attendance Estimates

MM entered event parameters into the economic impact calculator based on entries in their tracking system. These entries were generally based on the expected attendance for events. The MCC also tracked events occurring at the convention center in a separate system, and updated total attendees after an event occurred based on their observations of the event. MCC provided these figures to MM so MM could report the MCC Attendance performance indicator.

Since MM did not update its system to align with MCC figures, the economic impact was based on out of date information. Internal Audit reviewed a portion of events held at the convention center to estimate how much using estimates affected economic impact, including only those events that definitively aligned between the provided MM and MCC’s tracking system data:

	Q1 2015	Q1 2016	Q1 2017	Q2 2017
Total MCC events	87	87	94	112
Number definitively matched to an MM event	27	21	25	21
Matched event total attendance per MCC	282,199	213,961	298,447	52,325
Matched event total attendance estimated by MM	280,570	212,010	276,315	69,630
Understated or (overstated) amount	1,629	1,951	22,132	(17,305)
Variance as a percent of total MCC attendance	0.3%	0.6%	5.0%	(10%)

1 - \$16,435,666 / 16,170 = \$1,016

2 - 1,985 * \$1,016 = \$2.0 million; 375 * \$1,016 = \$381 thousand; 354 * \$1,016 = \$360 thousand

3 - 14 duplicate entries * \$180,000 = \$2.5 million

Internal Audit determined that while the overall attendance impact for any given year was likely minimal due to a mix of overestimates and underestimates, the impact varied significantly for an individual event - variances ranged as high as 15,000 attendees and 510% differences. The magnitude of variance for individual events means that a single missed estimate could affect a quarterly or year-end attendance number by 5% to 10%. Because estimating attendance is difficult and imprecise, the likelihood of a missed estimate is high and could be avoided with through data entry using the readily available post-event information.

Recommendations

Internal Audit recommends MCC:

- Require MM to revise its process for development of the actualized economic impact performance indicator to include a review for possible duplicative event entries.
- Establish an economic impact calculation methodology with MM that requires the use of post-event attendance estimates when those are available.

MCC/MM Response

MCC/MM agree with the findings, with additional context as outlined below.

Economic impact is, by nature of its compilation, an estimation. It is used as a way to convey the dollar impact to the larger community. Alongside other metrics, it provides an indicator – not an exact measurement – of the broader health of the tourism economy in our community.

Since this contract was established, MCC/MM and the City of Minneapolis Finance Department have struggled to find an equation model that is agreed upon for this estimated economic impact.

During this process, models and procedures have evolved, during which time overstatements have decreased. However, there continue to be understatements, based on accepted industry standards. As such, the emphasis placed on this item in the audit is incomplete of the ongoing challenges MCC/MM and the City of Minneapolis have attempted to address.

In 2017, Meet Minneapolis met several times with the City of Minneapolis Finance Department to discuss the use of an industry economic impact calculator. City staff reviewed the economic impact model and determined that the use of property tax and the calculation of indirect economic impact dollars were not acceptable. In March of 2017, the City Coordinator and Executive Director of the Convention Center sent a memo to Meet Minneapolis accepting the use of the economic impact model without the property tax included and only Direct Economic Impact. This memo is attached [as part of the MCC and MM response in Attachment A].

In 2017, Meet Minneapolis provided additional studies for estimated economic impact for X Games 2016, X Games 2017, and the NCAA Men's Final Four 2019. Conversations are ongoing to establish an agreed upon method for validating the industry-accepted standard for calculated estimated economic impact. During this time, Meet Minneapolis will continue its internal training to ensure that documented estimated impact calculations minimize overstatements, which were dramatically decreased within an acceptable margin of error in 2016 and 2017.

Finding 1.2: Private Revenue Key Performance Indicator (KPI)

The purpose of the private revenue KPI was to measure how much private revenue was raised and how well MM leveraged City-provided funds. The contract required a presentation of the total amount raised, but did not include the measure of how much time and effort went into procuring that private revenue. Providing just the revenues without disclosing costs does not adequately present how effective MM was at leveraging the City's investment.

Testing Results:

Discussion with MM and MCC staff identified the purpose of this metric was to measure how well MM was able to leverage private sector support. Internal Audit recognizes that generating private revenue provided additional benefits in the form of more events, more publicity and more private company engagement in the City's tourism industry. Reviewing reporting, Internal Audit observed that a revenue figure gave perspective on benefits provided, but without additional context, did not communicate how effective MM was at generating that funding. Supporting data also included instances in which reporting the total revenues inaccurately communicated the result of certain transactions.

Return on Investment Perspective

In 2016, MM arranged for an analysis of its sponsorships, partnerships, and in-kind donation activities by an independent third-party. Internal Audit agreed with the methodology followed for this analysis and relied on its results for the purposes of this audit.

The reported private revenue figure generated for 2015 was \$2.46 million. This was made up of approximately \$900,000 in sales of advertising which was not assessed by the study, and \$1.56 million sponsorships, partnerships, and in-kind donations. The study's review and cost allocation determined that to raise the \$1.56 million in private revenue MM incurred costs of \$1.46 million, resulting in a fundraising profit margin of 7%.

The presentation of private revenues (\$1.56 million) with the associated costs (\$1.46 million) provides a better perspective into the effectiveness of the fundraising process (7%), and using both measures could be used to incent both a larger revenue figure and a more efficient fundraising approach.

Partial pass-through transaction

Internal Audit observed the accounting for the Minneapolis Visitor Information (MVI) space transactions resulted in an inaccurate representation of how much private revenue was generated. The MVI was leased to MM by the building owner for \$125,000 a year. The building owner agreed to a trade of advertising services in lieu of collecting rent. This transaction resulted in MM reporting \$125,000 as part of private revenue.

MM then sublet 48% of MVI to a third-party, charging a rent of \$60,000 per year, but donating \$30,000 of that rent to that party as an in-kind contribution and only collecting \$30,000 in cash. The effect of this arrangement was that MM gave up 48% of the MVI in exchange for \$30,000. MM then reported that \$30,000 cash transaction as part of private revenue.

The private revenue reported for this set of transactions was the total value of the lease plus the total amount of cash received from the sublease - \$155,000. However, the net effect of this arrangement is that MM has use of 52% of the MVI space, worth \$65,000, and \$30,000 in cash – so MM overall only has access to resources worth \$95,000.

In cases of transactions where a portion of received private revenues is passed on to a third-party, a net presentation provides a better perspective on how much additional resources MM actually procured through the transactions.

If the goal was to measure how well MM raises support from the private sector, presenting the expenses incurred to procure those revenues is more transparent than just providing a revenues total. This perspective could also mitigate instances where a portion of revenues become pass-through items as those expenses should be counted as part of the costs to procure revenues.

Recommendation

Internal Audit recommends MCC:

- Augment the private revenue KPI measure in Contract section 2.2 with an additional measure that better communicates how well MM leverages City funds. Providing this perspective could be done by reporting both the private revenue and the expenses incurred to procure that private revenue. This addition could be in the form of an amendment or as part of contract extension or renewal.

MCC/MM Response

MCC/MM agree with the findings.

As part of the contract process to be undertaken in 2019, the MCC and MM will evaluate this metric and, if included, will clarify the language around intent and measurement.

Finding 1.3: Future Leisure Room Nights Key Performance Indicator (KPI)

Contract section 2.2 required that MM confirm the Future Leisure Room Nights performance measure results with a third-party audit. MM did not procure third-party audits of this metric. While MM did receive reported data from several third parties – hotels – there was no independent audit confirming the accuracy of the acquired and reported information.

Recommendation

Internal Audit recommends MCC:

- Require MM to comply with Contract section 2.2, which requires third-party audits to confirm the number of future leisure room nights.⁴ If, instead a determination is made that statements from hotels are adequate documentation, the contract should be updated. This update could be in the form of an amendment, or as part of contract extension or renewal.

MCC/MM Response

MCC/MM agree with the findings.

As data for the leisure room nights is provided by multiple third parties, the audit process is not feasible.

As part of the contract process to be undertaken in 2019, the MCC and MM will evaluate this metric and, if included, will update the contract language, as recommended by Internal Audit.

4 - Per Finding 3 below, the contract also requires year-end reports to include documentation to support completion of key performance indicators. A third-party audit could serve as adequate documentation.

Finding 1.4: Minneapolis Convention Center Attendance Performance Indicator

The MCC provided MM the attendance figure for this reporting metric, however there was no systematic process in place to update the performance indicator values when MCC updated its attendance counts. This resulted in significant variations between the final reported performance indicator values and the support provided to Internal Audit. Relying on out of date figures for measuring performance and setting future goals can cause report users to reach incorrect conclusions.

Testing Results:

MM relies on MCC to provide attendance data for this reporting metric. MCC does so; however the figures provided were updated by MCC staff when more accurate attendance estimates or errors were noted. In particular in early 2017 MCC staff noted an error that resulted in double-reporting attendance for events that spanned multiple months.

There was no process in place to provide updated data to MM. As a result, the issues identified, and corrected attendance figures, were not communicated by MCC until MM requested data for this audit. The adjusted figures per provided support were significantly different from initially reported data:

MCC Attendance - Year End Report Figures

Year	Goal	Reported	Per Support
2015	900,000	899,350	786,790
2016	950,000	716,459	744,315

Recommendations

Internal Audit recommends MCC:

- Establish a process that informs MM of updates or changes to MCC attendance figures used in quarterly or year-end reports.
- Work with MM to determine the threshold at which a change to a previously reported performance indicator should trigger the submission of a revised quarterly or year-end report.

MCC/MM Response

MCC/MM agree with the findings.

As part of the contract process to be undertaken in 2019, the MCC and MM will evaluate this metric and, if included, will determine an updated process, as recommended by Internal Audit.

Finding 1.5: Engaged Digital Users Performance Indicator

The presentation of the engaged digital users metric was inconsistently calculated from 2016 to 2017. The Contract did not clearly define what figures to include in this metric, and MM changed its methodology from 2016 to 2017. Because this change was not clearly disclosed in quarterly or year-end reports, report readers would be unaware of the change and that results after 2017 were not comparable to past results.

Testing Results:

Contract section 2.2 stated that one of the indicators for Destination Marketing and Sponsorship Related Performance Measures was “Number of engaged users of the Association managed websites and social media platforms.”

Internal Audit was provided supporting documentation following a revised methodology for determining the number of engaged users. The documentation and methodology to develop the new figures appeared reasonable and accurate. The change in methodology significantly affected reported figures:

Engaged Digital Users - Year End Report Figures

Year	Goal	Reported	Per Support with New Method
2015	2,000,000	2,622,170	1,806,932
2016	2,250,000	2,694,042	1,871,646

Internal Audit noted that the goal for 2017 was 1,589,000 users, which appeared in line with the new methodology. A review of reports provided showed this change was not disclosed on any quarterly or year-end report. Documents provided demonstrated that some discussion of goal revisions for this metric occurred for 2017, and alignment of the 2017 goal with the provided support showed that MM discussed the changes with MCC and City Coordinator, even though MM had no record of MCC approving a methodology change.

Recommendation

Internal Audit recommends MCC:

- Work with MM to clearly define what components are included in the engaged digital users’ performance indicator and document the determined methodology in writing.

MCC/MM Response

MCC/MM agree with the findings.

Since 2015, marketing measurements for online performance have evolved.

As part of the contract process to be undertaken in 2019, the MCC and MM will evaluate this metric and, if included, will clearly define what components are included, as recommended by Internal Audit.

Finding 1.6: Visitor Requests for Information Performance Indicator

The presentation of visitor requests for information indicator was inaccurately and inconsistently calculated in 2015 and 2016. Data was pulled for quarterly reporting by summing different figures, generally understating requests for information. The methodology to determine this metric changed after 2015 to exclude phone calls, but this change was not disclosed in the report, making 2015 and prior results not comparable to 2016 and later results.

Testing Results:

Contract section 2.2 stated that one of the indicators for Destination Marketing and Sponsorship Related Performance Measures was “Number of visitor requests for information made to [MM] from all sources (e.g. telephone, website, email, post mail, in person at the Visitor Information Center(s) and Restaurant Booths).”

Internal audit reviewed supporting documentation and identified that MM reports to the City included some mix of mailed visitor packets, online visitor guide downloads, and phone calls on the tourism line. MM reported some or all visitor requests from these three categories inconsistently. MM also began excluding phone calls once the Minneapolis Visitor Information (MVI) department started handling them in 2016.

Comparison of reported figures to supporting data:

2015	Reported	Per Support	Variance	Audit Notes
Q1	5,138	5,138	0%	-
Q2	7,054	7,234	3%	MM did not include phone calls
Q3	4,684	4,947	6%	MM did not include phone calls
Q4	1,112	2,266	104%	MM did not include phone calls or digital downloads
YE	18,601	19,585	5%	MM did not include Q4 digital downloads
2016	Reported	Per Support	Variance	Audit Notes
Q1	3,446 *	3,876 *	12%	MM included unique digital users instead of total digital downloads
Q2	2,594 *	5,176 *	100%	MM did not include any digital downloads and supporting info had a blank entry for Jun 2016 digital downloads.
Q3	7,706 *	6,131 *	-20%	MM included both unique digital users and total digital users
Q4	5,350 *	5,350 *	0%	-
YE	20,533 *	20,533 *	0%	-

*2016 figures do not include phone calls per changed MM methodology.

Per provided support, the MVI handled 1,031 calls for information in 2016. If methodology for reporting was not changed, the final metric would have been 21,564 requests for information – 5% higher.

Per provided support, the MVI also had a total of 10,547 visitors after opening in Q4 2015, and 46,901 visitors in 2016. From the contract language, Internal Audit expected MVI traffic to be included in this measure.

Recommendations

Internal Audit recommends the MCC:

- Work with MM to clearly define what components are included in the visitor requests for information performance indicator and document the determined methodology in writing.
- Require MM, when changing any performance indicator calculation methodology, to (in its quarterly and year end reports covering that change):
 - Disclose the changes to reporting methodology.
 - Provide the prior years' data adjusted to the new methodology to facilitate year-to-year comparison.

Internal Audit also recommends MM:

- Consider modifying its visitor request tracking spreadsheet to include a formula that references and totals the correct sub-totals to reduce the likelihood of data entry errors in future reporting.

MCC/MM Response

MCC/MM agree with the findings.

As part of the contract process to be undertaken in 2019, the MCC and MM will evaluate this metric and, if included, will update the contract language, as recommended by Internal Audit.

Finding 1.7: Return on Investment Performance Indicator

MM calculated its return on investment performance indicator by dividing the actualized economic impact by MM's operating expenses. Internal Audit observed the goal setting process did not consider the formula, and set impractical targets for MM.

Testing Results:

MM calculated its return on investment (ROI) performance indicator by dividing the actualized economic impact by MM's operating expenses. The actualized economic impact was a separately determined performance indicator. MM and MCC also developed and approved a budget plan for MM. A reasonable ROI goal would be the actualized economic impact goal divided by budgeted operating expenses.

However, the goal setting process for ROI did not directly use these other data. This goal setting approach meant that to meet the ROI goal MM had to either significantly underspend versus its budget, or produce a significantly higher economic impact than its goal.

For example in 2017 budgeted expenses were \$13.1 million, the economic impact goal was \$450 million, and the ROI goal was 40:1. To achieve that 40:1 ROI, MM would have either had to significantly underspend, incurring only \$11.25⁵ million in expenses, or significantly outperform on the economic impact goal by achieving a \$524⁶ million impact with no additional budget expenditures.

Not aligning the interrelated goals with the established budget plan set up MM to have a difficult time achieving its targets.

Internal Audit notes that because of the interrelated nature of the ROI metric and the actualized economic impact metric, finding 1.1 results (above) impact the reported ROI by the same percentages.

Recommendation

Internal Audit recommends MCC:

- Consider documenting MM's current return on investment calculation method as the required approach, and replacing the current performance indicator goal setting process for the return on investment indicator with a formula based on the approved budgeted expenses and the economic impact indicator goal.

MCC/MM Response

MCC/MM agree with the findings.

As part of the contract process to be undertaken in 2019, the MCC and MM will evaluate this metric and, if included, will align the formulas, as recommended by Internal Audit.

5 - 40:1 \Leftrightarrow \$450 million : \$11.25 million

6 - 40:1 \Leftrightarrow \$524 million : \$13.1 million

Finding 2: Conflict of Interest Policy

MM employees received inconsistent gift limit guidance - up to \$50 from the Conflict of Interest Policy (Col policy) but up to \$100 from the employee handbook. Annual conflict of interest disclosure forms were not collected as required by the Col policy. Conflicting gift limits can lead to employees unknowingly violating the Col policy, and non-enforcement of policy elements weakens MM's corporate compliance culture.

Testing Results:

MM had an established Col policy. This policy was reviewed annually by the MM Board of Directors, and required any changes to the policy be communicated immediately to all officers, employees, and members of the board.

Gift Limits

The Col policy included a description of different potential conflicts of interest, and specifically identified that accepting a gift, entertainment, or other favors exceeding \$50 from certain individuals or entities was considered a conflict of interest. The MM employee handbook, however, identified that gifts of \$100 or less were acceptable.

Annual Potential Conflict Disclosures

The Col policy required MM officers, employees and Board of Directors to acknowledge in writing the receipt of the Col policy, and required annual completion of a disclosure identifying relationships, positions or circumstances they were involved in that could contribute to a conflict of interest arising.

MM did require and collect Col policy acknowledgements from all covered individuals, but only collected annual disclosures from its Board of Directors. MM stated it relied on its employees and officers to provide updated disclosures as needed. The MM employee handbook code of conduct section did not mention this annual Col policy requirement.

During the audit MM stated that it was in the process of updating its employee handbook and would consider Internal Audit's suggestion to align the handbook with the Col policy.

Recommendations

Internal Audit recommends the MCC:

- Work with MM to update Contract section 7.21, which states that the City will allow MM to follow its approved Code of Business Conduct policy, to include reference to the MM Board of Directors-reviewed Conflict of Interest Policy. This update could be in the form of an amendment, or as part of contract extension or renewal.

Internal Audit also recommends MM:

- Consider resolving the gift limit discrepancy between its handbook and Col Policy.
- Consider implementing a process to enforce the annual disclosure requirements set forth in its Col Policy.

MCC/MM Response

MCC/MM agree with the findings.

As part of the contract process to be undertaken in 2019, the MCC and MM will update section 7.21, as recommended by Internal Audit. Additionally, MM will review its Col policy and resolve any discrepancies between its handbook and Col Policy.

Finding 3: Contract-Required Reporting Elements

The Contract set forth specific requirements for MM reporting to the City, and listed elements that must be included in a quarterly report, year-end report, budget plan, and sales and marketing plan. Internal Audit reviewed these reports and noted certain elements identified in the contract were not included, or could be included in a more usable manner. Incomplete reporting impacted the amount of information available to the City for contract oversight. Limited documentation of MM results made reviewing past activities difficult.

Testing Results:

MM is required to submit quarterly reports, with the 4th quarter report deemed the year-end report and having additional reporting elements. MM also submitted a budget plan, and a sales and marketing plan.

Budget Plan

The Contract requires that the MM budget plan consist of five sub-programs: Sales, Services, Marketing, Tourism, and Administration. Contract section 2.3.a.iii requires that each sub-program in the budget plan include a narrative that addresses the outcomes provided by each of the funding sources.⁷ The budget plans provided to Internal Audit did not include any narratives.

The same Contract section requires that the total of all sub-program budgets equal the total Base, Incentive, and Additional Services funding provided by the City. Internal Audit observed that MM budgets included other revenue sources, and had carryover revenues and expenses. These modifications to the budget plan structure appeared reasonable but were not in line with the Contract which, as written, expected MM to use only City-provided funds for its programs without carryover.

Quarterly Reports

Contract section 2.6 requires that MM's quarterly reports include a narrative overview of the previous quarter's activities and initiatives highlighting successes and challenges. Internal Audit noted only brief descriptions of special initiatives in these quarterly reports. MM and MCC staff stated that a verbal presentation of results accompanied quarterly results; however this is not in line with Contract requirements. A user of the quarterly reports would not be able to obtain the information the Contract expects reports to contain, reducing their usefulness for oversight of the MM contract.

Year-End Report

Contract section 2.6.a.i requires that MM's year-end report include documentation needed to explain material deviations from the approved budget plan, and from the sales and marketing plan.

7 - The funding sources are: Base Funding, provided by the City under the Contract; Incentive Funding, provided by the City if MM achieves KPI targets set by the Contract; and Additional Services Funding, provided by the City for specific additional services in addition to the Contract.

The 2015, 2016 and 2017 year-end reports provided to Internal Audit had no references to the sales and marketing plan, did not discuss deviations, and included no supporting documentation. These year-end reports did include budget to actual financial reviews; however the presentation was at a very high level - total revenues and expenditures. Because the approved budget plan was developed in more detail, a review at a higher level can obfuscate material deviations. A note explaining a material deviation for 2017 was noted; however the year-end reports did not include any documentation explaining material deviations.

Recommendations

Internal Audit recommends the MCC:

- Work with MM to update Contract section 2.3.a to provide a budget plan sub-program-to-funding presentation structure that incorporates non-city revenues and carry-over amounts. This update could be in the form of an amendment, or as part of contract extension or renewal.
- Require MM to include narratives of sub-program outcomes in submitted budget plans, as required by Contract section 2.3.a.iii.
- Require MM to include in their quarterly reports narrative overviews of prior quarter activities and initiatives, with highlights of successes and challenges, as required by Contract section 2.6.
- Require MM to include in their Year-End Report:
 - A comparison of the sales and marketing plan for the year to results that clearly identifies deviations and highlights material deviations.
 - A comparison of the budget plan for the year to results, presented in the same level of detail as the budget plan that clearly identifies deviations and highlights material deviations.
 - Documentation explaining the material deviations.
- Develop a review process for submissions from MM that identifies whether required elements are included in the reports and plans, and whether documentation provided is adequate to support deviations.

MCC/MM Response

MCC/MM agree with the findings.

MM does provide narrative for its reports, which also include filed agendas and information provided in board meetings. In addition, MCC, MM and City Coordinator have a robust schedule of more than a dozen meetings throughout the year to ensure information sharing and transfer.

To ensure alignment with expectations, MCC will work with the Internal Audit team to develop a template for future reporting.

Finding 4: City of Minneapolis Contract Oversight

MM did not submit any supporting documentation confirming completion of its KPIs. The City was to verify the accuracy and applicability of that documentation, as acceptable to the City Coordinator, but accepted verbal discussions in lieu of supporting documentation. Without documentation there were no records to assess the effectiveness of the City's oversight of the Contract.

Testing Results:

Payment of incentive funding up to \$500,000 was based on MM achievement of its four KPIs. Contract section 3.2 (b)(iii) stated incentive funding was contingent on MM's submission of, and the City's verification of the accuracy and applicability of the documentation confirming completion of the KPIs, as reasonably acceptable to the City Coordinator.

To understand the City's contract oversight process, Internal Audit requested copies of documentation confirming KPI completion, and any documentation of the verification steps taken by the City. One of the KPIs was MCC revenue, a figure generated by the MCC and did not require supporting documentation from MM. Internal Audit learned that MM submitted a two-page year-end report summarizing the results, but did not submit any documentation to support the completion of KPIs. The City stated the process to verify completion of KPIs consisted of a verbal discussion with MM.

MM did not submit contract-required documentation, and the City did not request it. Because the verification process was conducted verbally, there were no records or materials demonstrating the adequacy of the City's oversight process.

Recommendations

Internal Audit recommends the MCC:

- Improve contract oversight by requesting supporting documentation from MM to confirming completion of the KPIs.
- Document the steps taken by the City to verify the accuracy and applicability of that documentation. MCC should consider developing a formal written review process for how verification will occur.

Corrective Actions Taken

For validation performed in 2018, the City requested and reviewed additional documentation and requested MM provide a third-party audit testing and validating metrics. This audit is to become part of the yearly process.

MCC/MM Response

MCC believes that the corrective actions taken have addressed the recommendations identified by Internal Audit. The third party review of the KPI validation is attached to this document [as part of the MCC and MM response in Attachment A] and has been provided to the City Auditor.

Improvement Area: Records Retention

MM did not retain supporting documentation for certain expense transactions when changing employee expense management system providers. As a result, this supporting documentation was not available for Internal Audit to review during fieldwork.

As part of MM's efforts in responding to the draft audit report, the prior expense management system provider was contacted and a plan to access documentation and comply with contract record retention requirements was established. This should resolve the retention issues identified during the audit.

Internal Audit suggests MM review its record retention policies and controls to ensure that future provider transitions do not result in a loss of access to records.

MCC/MM Response

MM agrees with the identified improvement area.

MM will review its record retention policies and controls to ensure that future provider transitions do not result in a loss of access to records, as recommended by Internal Audit, within the next 90 days.

Acknowledgments

The City of Minneapolis Internal Audit team would like to thank Meet Minneapolis staff for the time and effort put forth in response to our meeting and information requests. Requests for staff time were answered promptly, and requests for information were generally timely fulfilled. Internal Audit would also like to thank the Minneapolis Convention Center staff that supported our work, and provided prompt data responses and interviews.

Attachment A: Minneapolis Convention Center and Meet Minneapolis Response

The City of Minneapolis has a longstanding relationship with Meet Minneapolis, the organization charged with marketing and selling the city and the convention center as a destination for meetings and leisure visitors.

To better inform our contract planning in advance of the end of the current agreement on December 31, 2019, several years ago the Minneapolis Convention Center asked the City Auditor to perform an Audit of the Meet Minneapolis and City contract relationship. Our hope was to gain knowledge about what was working well and what could be improved for any proposed contract renewal/extension. We appreciate the efforts of the City Auditor's office to complete this audit and provide valuable feedback to us.

The initial contract with Meet Minneapolis goes back more than 30 years, with a major overhaul in 2010 to align the Meet Minneapolis contract with the Results Minneapolis objectives. For the first time, the City's contract with Meet Minneapolis contained goals that were tracked for performance monitoring. Of the goals, four were considered Key Performance Indicators, which allowed for incentive payments upon achievement. At the time, this was a radical improvement to the transparency of performance monitoring of Meet Minneapolis and added to the depth of understanding and conversation between the City and Meet Minneapolis.

In the almost ten years that have followed the 2010 contract, the City and Meet Minneapolis have established the following oversight measures.

- Quarterly Meetings for review of contractual goals with the City Coordinator, Executive Director of the Convention Center, and Meet Minneapolis President and CEO
- Bi-weekly meetings between the Executive Director of the Convention Center and the President and CEO of Meet Minneapolis
- Weekly inclusion of the Senior Vice President of Sales and the Director of Sales and Marketing at the Minneapolis Convention Center Executive Management Meeting
- Meet Minneapolis Board Meetings (five per year) with the Mayor and six Council Members included

Through these measures and a results focus, the hospitality community has thrived in Minneapolis. The Convention Center has had record revenue five of the last six years and 2018 looks to be another record breaker. Our relationship with Meet Minneapolis and our change to a more results-based oversight is a major reason for this success.

While we appreciate the success of the current contractual agreement, we also know that many things have changed in the world since 2010. The Minneapolis Convention Center looks forward to bringing forth an updated agreement with Meet Minneapolis to begin in 2020, with new goals and performance measures. This audit reinforces areas to address as we refine our goals and measurement calculations to ensure our agreement leverages the success of the past with the challenges of the future.

Attachment A: Minneapolis Convention Center and Meet Minneapolis Response

Economic Impact Memo



City Coordinator
350 South 5th Street, Room 301M
Minneapolis, MN 55415
TEL 612.673.2032
www.minneapolismn.gov

Memorandum

To: Melvin Tennant

cc: Spencer Cronk

From: Jeff Johnson

Date: 3-17-2017

Subject: Economic Impact Model

A third-party economic impact model is desired to capture estimated hospitality industry economic data pertaining to events and conventions that Meet Minneapolis books for the City of Minneapolis through the Minneapolis Convention Center and other venues. The hospitality industry has created a model that was commissioned by the Destination Marketing Association International (DMAI) through a third party with localized data and multipliers. The convention center industry is partnering with DMAI through the International Association of Venue Managers (IAVM) to make the DMAI calculator the standard tool used across the country for this purpose.

The City of Minneapolis recognizes the importance of the hospitality industry and wishes to receive economic impact information both to vet possible events as to their economic significance and to understand the proposed and actual impact that events have on our community.

The City of Minneapolis will accept economic impact information from the DMAI model with the following conditions:

- Estimated Direct Economic Impact numbers will always be presented in reporting to the City of Minneapolis
- Estimated Direct Tax numbers will always be presented in reporting to the City of Minneapolis
 - Direct Tax numbers will not include any property taxes
 - Events with more than 25% of booked hotel room nights outside of the City of Minneapolis must show an equivalent percentage reduction in the Direct Tax number
- Beginning in 2017 for the year 2016, at least 5 events (3 large, 1 medium, 1 small) will be audited each year by a third party to find the difference between the estimated economic impact and tax modeled versus the actual economic impact and taxes received
 - Significant discrepancies in the numbers will cause Meet Minneapolis to determine if changes to the DMAI model are appropriate

Third-Party Audit



CliftonLarsonAllen LLP
CLAnetconnect.com

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Meet Minneapolis and the City of Minneapolis
Minneapolis, Minnesota

We have performed the procedures enumerated below, which were agreed to by Meet Minneapolis and the City of Minneapolis (the specified parties), on the incentive funding goal calculations of Meet Minneapolis for the 12-month period ended December 31, 2017. Meet Minneapolis' management is responsible for the incentive funding goal calculations. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

Future Meeting Room Nights

1. Obtain a listing from management of the future meeting room nights reported as being committed in 2017 and report the total number of room nights on the listing.

Finding – Total room nights of 555,897

2. Based on the future meeting room nights listing, select 20 meetings including the 10 with the largest number of rooms committed, and 10 haphazardly from the remaining listing and perform the following:
 - a. Observe the documentation to support the meeting commitment to ensure that it is obtained. Acceptable supporting documentation includes a letter of commitments with Meet Minneapolis, permit for occupancy with the convention center, executed hotel contracts, signed letters of confirmation from the hotel, or in the case of sporting event an internally generated report following the process outlined in a February 9, 2015 memo by using the DMAI event impact calculator to determine the room nights.

Findings – None

- b. Compare the date of the executed contract or completed documentation observed in 2a to determine if the commitment was established in 2017. Report if commitment was not made in 2017.

Findings – One commitment had documentation supporting a letter of commitment signed in 2016 but management deferred due to uncertainty in the contract surrounding the hotel contract terms until these issues were resolved in 2017.

- c. Compare the number of room nights listed on the listing of future meeting room nights to the executed contract or completed documentation observed in 2a.

Finding – One commitment was listed as 30 rooms in the schedule but the actual commitment based on the documentation obtained was 34. Meet Minneapolis under reported.



Attachment A: Minneapolis Convention Center and Meet Minneapolis Response

Third-Party Audit

Meet Minneapolis and the City of Minneapolis
Page 2

Future Leisure Room Nights

1. Obtain a listing from management of the leisure room nights reported as being committed in 2017 and report the total number of room nights on the listing.

Finding – Total room nights of 92,449.

2. Based on the leisure room nights listing, haphazardly select 5 items and perform the following:
 - a. Observe that documentation to support the room commitment. Identify the third party source of the documentation and report the basis for how the amount was calculated for the 5 items selected.

Findings –

1. Receptive Operator – based on communication from operator with the number of travelers listed and number of nights by city.
2. Expedia Ad Buy – based on report from Expedia on number of booked nights.
3. Receptive Operator – based on communication from operator with number of travelers listed and number of nights by city.
4. Group Tour – Based on correspondence from planner on the estimated number of nights.
5. Wedding Event – Based on correspondence from planner on estimated number of nights.

- b. Compare documentation noted in 2a to determine if the commitment was established in 2017. Report if commitment was not made in 2017.

Findings – None

- c. Compare the number of room nights listed on the listing of leisure room nights to documentation observed in 2a

Findings – Receptive Operator, item 1 and 3 above, incorrectly included room nights for Rochester and Duluth. The total overstated was 282 out of 778 on the first item and 451 out of 17,490 on the third report.

Wedding room nights were overstated on the schedule by 50 for December 2017. The amount included in the total was 2,365 but the detail schedule reported 2,315.

Attachment A: Minneapolis Convention Center and Meet Minneapolis Response

Third-Party Audit

Meet Minneapolis and the City of Minneapolis
Page 3

Private Revenue

1. Recalculate and report the total amount of revenue recognized by Meet Minneapolis as reported in the trial balance used for the 2017 audit excluding amounts from the City of Minneapolis or the Convention Center.

Finding – Recalculated revenue totaled \$3,000,565. Management's calculation was reduced by the amount of in-kind services provided by the convention center.

2. Haphazardly select 10 membership revenue transactions from the detailed general ledger and perform the following:

- a. Trace the amount to the respective invoice

Findings – None

- b. Compare the amount to a copy of the receipt for payment

Findings – None

- c. Identify the date of the membership period, by observation of date on invoice, to determine if the membership period started in 2017. Report if a portion of the revenue was not reported in the correct year.

Findings – None

3. Haphazardly select 10 sponsorship revenue transactions from the detailed general ledger and perform the following:

- a. Trace the amount to the respective invoice

Findings – None

- b. Compare the amount to a copy of the receipt for payment

Findings – None

- c. Identify the date of the sponsorship period, by observation of start date on invoice, to determine if the sponsorship started in 2017. Report if a portion of the revenue was not reported in the correct year.

Findings – None

Attachment A: Minneapolis Convention Center and Meet Minneapolis Response

Third-Party Audit

Meet Minneapolis and the City of Minneapolis
Page 4

Private Revenue (Continued)

4. Haphazardly select 10% barter trade agreements based on dollar value from the detailed general ledger, but not more than 10, and perform the following:

a. Trace the amount to the respective invoice

Findings – None

b. Compare the amount on the invoice a copy of documentation by the other party to the barter, and observe the value of the exchange. Report as a finding any agreements where the amount on the documentation is less than the value noted by Meet Minneapolis in step 8a.

Findings – None

c. Identify the date of exchange, by observation of the start date on the invoice or documentation, to determine if a portion of barter revenue was recognized in 2017. Report if a portion of the revenue was not reported in the correct year.

Findings – None

5. Haphazardly select 10 in-kind revenue transactions from the detailed general ledger and perform the following:

a. Trace the amount to an invoice, letter, or email documentation between Meet Minneapolis and the contributor.

Findings – None

b. Inquire of management as to the method for determining value for in-kind transactions and observe documentation of the fair value. Report as finding if in-kind revenue is not supported with documentation of fair value or if the item is not a donated good, leased space, or professional service.

Finding – None

c. Identify the date the in-kind revenue was received, by observation of the date on invoice to determine if a portion was recognized in 2017. Report if a portion of the revenue was not reported in the correct year.

Finding – None

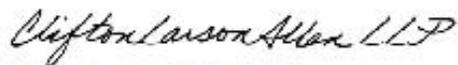
Attachment A: Minneapolis Convention Center and Meet Minneapolis Response

Third-Party Audit

Meet Minneapolis and the City of Minneapolis
Page 5

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the incentive funding goal calculations. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Meet Minneapolis and the City of Minneapolis and is not intended to be and should not be used by anyone other than the specified parties.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
May 7, 2018