

Memorandum
Auditor-Controller Department
County of Placer

TO: Board of Supervisors

FROM: Katherine J. Martinis, Auditor-Controller

DATE: August 10, 2010

SUBJECT: Independent Accountant's Report - North Lake Tahoe Resort Association.

Attached for your information and review is the North Lake Tahoe Resort Association Independent Accountant's Report on Applying Agreed-Upon Procedures. This report is for the fiscal year ended June 30, 2009.

**NORTH LAKE TAHOE
RESORT ASSOCIATION**

Independent Accountant's Report on Applying
Agreed-Upon Procedures

For the Fiscal Year Ended June 30, 2009



COUNTY OF PLACER

OFFICE OF AUDITOR-CONTROLLER

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Board of Supervisors
County of Placer
Auburn, California

We have performed the procedures enumerated below, which were agreed to by the County Executive Office (County), solely to assist you in ensuring the contractual requirements with respect to the agreement between the County and the North Lake Tahoe Resort Association (Association) for the fiscal year ended June 30, 2009, were being followed. Management of the Association and the County are responsible for the accounting records pertaining to contract compliance. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The scope of this engagement was limited to performing the agreed-upon procedures at your direction as set forth in Attachment A.

Attachment B identifies the findings noted as a result of the procedures performed.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion as to the appropriateness of the results summarized at Attachment B. Accordingly, we do not express such an opinion. 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 the County and the Association and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountant

Auburn, California
May 7, 2010

Attachment A – Agreed-Upon Procedures (FY 08/09 Contract)

General:

1. Review the existing contractual agreement between the County Executive Office and the North Lake Tahoe Resort Association (Association).
2. Update our understanding of the Association's financial accounting system by interviewing management and accounting personnel of the Association, then perform the following:
 - a. Document the internal controls over the following major transaction cycles – contracting and procurement; cash disbursements; investments; cash receipts; payroll; and infrastructure.
 - b. Meet with the Association's external auditors to confirm our understanding of the internal control over financial reporting.
 - c. Determine whether the Association has established a reasonable and consistent methodology for the functional allocation of general and administrative expenses.
 - d. Discuss prior agreed-upon procedures report issued by the County Auditor-Controller and determine which recommendations have been implemented.
3. Review the Association's conflict of interest policy and determine if appropriate conflict of interest statements were received from the Board of Directors and Executive staff.
4. Validate the Association has not used funds received from the County for making political contributions.
5. Obtain a list of allocations and/or expenditures of contracts over \$50,000 and determine whether a competitive bidding or procurement process was utilized.
6. Select a representative, random sample of expenses incurred by the Association for each of the activities and/or programs undertaken by the Association, as identified in the Scope of Work (Attachment A) to the contract with the County Executive Office and incorporated into the Association's annual budget, and perform the following:
 - a. Compare actual expenses incurred to the budgeted amounts allocated pursuant to the County contract and determine whether the Association properly records and reports expenses by activity and/or program and the expenses incurred are within the prescribed percentages.
 - b. Determine whether the expenses incurred by the Association are allowable in accordance with the terms and conditions of the contract.

Progress Reports:

7. Obtain the Association's quarterly reports covering the periods from July 1, 2008 through June 30, 2009, and determine whether the quarterly reports contained the following information in accordance with the contract:
 - a. The work performed during the quarter under each of the categories as established in the Scope of Work (Attachment A) to the contract was described in general narrative form;
 - b. A summary recap of budgeted expenses for each category as set forth in the Final Budget, including projects and programs as defined in the Scope of Work; and,
 - c. Infrastructure recap, including project date, project approval, funds allocated and received, and quarter-end fund balance.
 - d. Review progress report measurement indicators and validate accuracy as it relates to the Scope of Work (Attachment A).
8. Review the Association's monthly TOT Revenue and Expenditure Report and validate it provides timely, accurate and supported information, including any recommendations for improvement, if applicable.

Infrastructure:

9. Determine whether the Association incurred and expended Infrastructure Funds only after the approval of the Placer County Board of Supervisors based upon recommendations of the Infrastructure Committee of the Association.
10. Update our understanding of the Association's process for determining overhead and administration expenses specific to the Infrastructure Account and substantiate that total expenses incurred and allocated for FY 2008/09 did not exceed \$157,500.
11. Update our understanding of the processes for accounting and tracking interest earnings on the funds in the Association's Infrastructure Account and to verify that interest earnings are allocated and expended only for approved infrastructure projects.
12. Pursuant to the Association's contract, determine whether Research and Planning funds allocated to the Infrastructure Account were expended on activities that provide for advance studies, concept or preliminary planning, technical fact-finding or analysis, data collection, community workshops, and public opinion surveys that lead toward the advancement of projects eligible for funding from the Infrastructure Account as outlined in the *Tourism and Community Investment Master Plan* (TCIMP).

Marketing:

13. Determine if the Association has established and maintained in the Marketing Account the 15% reserve of annual budgeted expenses.
14. Verify that no Transient Occupancy Tax funds were used for the purpose of operating or maintaining Central Reservations functions of the Central Reservations Department.
15. Determine if the Association has complied with Section 2G.
 - a. Verify a 15% commission was charged on all conference bookings on all leads generated outside Placer County.
 - b. Verify a subcommittee was formed to review commission structure equitability improvements for Washoe County; then, verify these were defined by January 1, 2009 and implemented no later than June 30, 2009.
16. Determine if the Association has complied with Section 2H.
 - a. Verify a policy was created that maintains and promotes cooperative marketing and other business development activities, but that does not result in an inequitable funding allocation to businesses not located with Placer County.
 - b. Review public relations documents disseminated on behalf of the Association through bi-seasonal marketing efforts to determine compliance.

Visitor Support Services:

17. Pursuant to the Association's contract, determine whether Research and Planning funds allocated to the Visitor Support Services Account were expended on activities that provide for advance studies (which include plans, specifications and engineering), concept or preliminary planning, technical fact-finding or analysis, data collection, community workshops, and public opinion surveys that lead toward the advancement of projects eligible for funding from the Visitor Support Services Account as outlined in the TCIMP.
18. Document our understanding of the Association's process for determining overhead and administration expenses specific to the Visitor Support Services Account and substantiate that total expenses incurred and allocated for FY 2008/09 did not exceed \$98,700.

Attachment B – Findings and Recommendations

A General

1. Bylaws

The Association's bylaws were last updated on December 13, 2007 and do not accurately reflect the composition of the Board (bylaws currently state 11 board members but there are actually 12), nor do they accurately reflect all of the standing committees of the Association, specifically the Chamber Advisory, Infrastructure and Transportation Committees. In addition, we noted the Infrastructure Committee meets together with the Transportation Committee and that a County Executive management employee sits on the Association Board.

We recommend the Association's bylaws be updated to reflect the current composition of the Board as well as the composition of the committees (bylaws currently show only Finance and Elections). We further recommend the County and Association consider formally combining the Infrastructure and Transportation Committees as there seems to be value in conducting the meeting together. In addition, and as discussed in our prior report, we recommend the County continue to explore whether the Placer County Executive appointee should continue to be a voting member on the Association's Board of Directors or consider appointing a second non-County employee to the Board of Directors.

B Progress Reports

1. Quarterly Progress Reports

- a. The County created a monthly report to aid in its analysis of day-to-day Association operations. However, this report has not proved very useful to both parties. In addition, the quarterly progress reports for fiscal year 08/09 did not contain financial statements demonstrating budget to actual compliance. However, monthly reports provided to the Finance Committee do contain this information.

We recommend the County eliminate (and replace as discussed below) the current requirement of the Association to submit the monthly financial reports. It also appears there are a variety of financial reports being provided to the Association Board and Committee members and it would be ideal if some of these reports could be consolidated. With guidance from their Board and the County, the Association should develop consistent financial reports (including budget to actual comparisons) that are readily available within the Association's financial system to provide the County with the monthly or quarterly reporting they need.

- b. The Association only submitted 2 of the 4 infrastructure quarterly reports as required by the contract.

We recommend the Association ensure they meet the requirements of the contract by submitting all required reports to the County on a timely basis.

2. Key Performance Objectives

The Association is required to report progress on the following Key Performance Objectives in Attachment A, "Scope of Work", in accordance with the contract. The following Key Performance Objectives were met:

- Increase marketing ROI performance including Advertising Gross Impressions and Unique Visits to the www.GoTahoeNorth.com Web site.
- Increase number of Web site clicks to Lodging Properties
- Continue to engage in communications with marketing partners, including lodging and attraction suppliers and co-op partners; conduct at least one annual “member and partners” workshop to review marketing strategies, investments and performance indicators and solicit feedback and input.
- Host at least two trade FAMs per year, one with a summer focus and one with a winter focus; continue working with NLTRA’s Public Relations team and GSAs to host multiple media FAM trips during the year.
- Increase number of Leisure Sales Site inspections.
- Work to increase awareness and sales of the Ski Tahoe North Interchangeable Lift Ticket.
- Develop additional partnerships and events designed to expand the appeal and success of the Autumn Food & Wine Festival.
- Through partnerships, expand the calendar of events and promotion of the Fabulous Fall Festival.
- Continuously improve the www.GoTahoeNorth.com Web site, focusing on content (design, usability, copy, functionality) and features that will stimulate users to make GoTahoeNorth.com their first choice for Lake Tahoe information, lodging, vacation packages and related services.
- To work with the NLTRA Infrastructure Development program to expand the network of visitor information facilities within Placer County at North Lake Tahoe.
- To improve the quality and distribution of “in market” visitor information and achieve greater coordination of advertising and promotional messages with those of the NLTRA in drive and destination markets.
- Achieve measurable progress in the implementation of Infrastructure projects for which funds have been budgeted in the FY-2008/09 Integrated Work Plan.
- Continue efforts to ensure the new Tahoe Regional Plan will stimulate vital business and community investments and avoid inflexible regulations and stifling regulatory programs.
- Advocate and assist, as appropriate, with implementation of the Placer County/TRPA Community Enhancement Program, intended to help implement innovative mixed use and transit oriented development projects designed to achieve environmental, economic and community goals.

- Continue to work in cooperation with Placer County and other partners to support redevelopment and workforce housing goals and projects for North Lake Tahoe through the regional and local planning process.

The following Key Performance Objectives were not met during the year due to a variety of reasons and circumstances. The Association could describe the circumstances regarding these Key Performance Objectives.

- The Conference Sales Program will continue the work necessary to firmly establish Placer County and North Lake Tahoe in the regional and national meetings market, with the goal of increasing TOT and other revenues associated with group and meetings business.
- Improve competitive position, ease of navigation and quality of content on the NLTRA's Web site from the Conference Marketing and Sales program perspective; increase conference and group lead generation from the Web site.
- Increase the Advertising Equivalency of public relations efforts.
- Increase the number of media contacts and press releases downloaded from the NLTRA Web site.
- To increase the number of visitors served (walk-ins and telephone contacts) at the year-round and seasonal Visitor Information Centers.
- That NLTRA transit service investments continue to result in increased passengers per vehicle service hour for the systems funded all or in part by the NLTRA, including components of the TART system.

We recommend the Association review the Key Performance Objectives required in the contract at the beginning of the fiscal year and outline a plan as to how they will achieve these objectives, as well as capture the information (specifically conference and group leads generated from the website which are currently not tracked.) In addition, we recommend the County provide clarification to the Association on how long they would like them to keep supporting documentation for performance measures.

C Infrastructure

1. Overhead and Administration Allocation

During our review of the Infrastructure budget, it was noted that the Association exceeded the Infrastructure Overhead and Administration allocation cap per the County contract of \$157,500 by \$205. The excess amount was covered by the Association's other funding sources.

We recommend the Association closely monitor allocated amounts as compared to the contract in order to avoid the over-allocation of expenses at the end of the fiscal year. If there is an over-allocation, the Association should transfer the overage to another division with unrestricted revenue sources. We further recommend the County limit the overhead and administration allocation cap to a percentage of TOT revenues recognized or salaries and benefits expenses incurred.

2. Tracking of Projects

- a. The Association and the County are not using the same spreadsheet to track infrastructure projects, unspent funds, interest earnings, etc.

We recommend the Association provide a copy of the Infrastructure Project Tracking spreadsheet on a quarterly basis. This spreadsheet should be used to track the infrastructure cash balance, approved projects, designated and undesignated funds, and interest earned. We also noticed during our infrastructure testing vendors/consultants providing infrastructure (and visitor support) services were not paid within a reasonable period of time. By utilizing the Infrastructure Project Tracking spreadsheet, we believe the time between receipt and payment of invoices would be minimized. In addition, we recommend the County pay for any County project services via journal entry. When County projects and services are agreed to in the contract, no additional review and approval process is necessary. However, for projects initiated following contract approval, the County should follow the approval process similar to other transportation and infrastructure projects.

- b. The Association did not provide a complete listing of procurement contracts exceeding \$50,000 related to infrastructure projects, as requested for this engagement. In addition, it was difficult to determine which Association contracts and agreements were subject to the procurement policy.

We recommend the Association keep track of procurement contracts and other agreements exceeding \$50,000 in order to ensure they comply with the Board adopted Procurement Policy.

- c. Currently, the County allows the Association to carryover research and planning funds related to infrastructure activities to future years.

We recommend that when the Association does carryover research and planning funds related to infrastructure activities to future years, the funds should clearly be labeled as “designated equity” on the face of the audited financial statements.

- d. During our testing of research and planning expenditures, we noted certain legislative advocate expenses that could be considered questionable as these were not defined in the contract in Attachment A, “Scope of Work”.

We recommend the Association clearly list all reasonably foreseeable research and planning expenditures for Infrastructure activities in the County contract.

D Marketing

1. Commission Structure Subcommittee

The Association did appoint a subcommittee to review commission structure equitability improvements for Washoe County acceptable to the County. According to the contract, these improvements were to be defined by January 1, 2009 and implemented no later than June 30, 2009. These improvements have yet to be resolved.

We recommend that the subcommittee continue to work with the County to ensure these improvements are defined and implemented no later than June 30, 2010 in accordance with the extension granted by the County.

2. Central Reservations Service

This engagement confirmed that no TOT funds were used to support a Central Reservations Service as no service exists under the umbrella of the Association.

E Visitor Support Services

1. Overhead and Administration Allocation

During our review of the Visitor Support Services budget, it was noted that the Association exceeded the Visitor Support Services Overhead and Administration budgeted amount per the County contract of \$98,700 by \$1,276. The excess amount was covered by the Association's other funding sources.

We recommend the Association closely monitor allocated amounts as compared to the budget in order to avoid the over-allocation of expenses at the end of the fiscal year. If there is an over-allocation, the Association should transfer the overage to another division with unrestricted revenue sources. We further recommend the County eliminate any overhead and administration cap for Visitor Support Services.

2. Expenditure Testing

- a. Currently, the County allows the Association to carryover research and planning funds related to visitor support services to future years.

We recommend that when the Association does carryover research and planning funds related to visitor support services activities to future years, the funds should clearly be labeled as "designated equity" on the face of the audited financial statements.

- b. During our testing of research and planning expenditures, we noted certain legislative advocate expenses that could be considered questionable as these were not defined in the contract in Attachment A, "Scope of Work".

We recommend the Association clearly list all reasonably foreseeable research and planning expenditures for Visitor Support Services in the County contract.

- c. Currently, the Association does not have contracts in place with certain transportation providers.

We recommend the Association enter into written agreements regarding transportation services to be provided by local jurisdictions (including the County), non-profit organizations, joint powers authorities, etc. that clearly lists the scope of work and reporting requirements back to the Association.