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CONTACT: Lenka Wright, Director of Communications, 408-615-5515 or
lwright@santaclaraca.gov

Audit of Tourism Improvement District Finds More Fiscal Mismanagement by the Santa Clara Chamber of Commerce and Need for More City Oversight

Independent audit uncovered weak internal controls, absence of policies and sloppy record keeping by the Chamber of Commerce, TID Fiscal Agent and the Tourism Improvement District Advisory Board

SANTA CLARA, Calif. - At the [Tuesday, Nov. 27 City Council meeting](#), TAP International, an independent auditor, will provide its [audit findings](#) of the Santa Clara Tourism Improvement District (TID). The Santa Clara Chamber of Commerce (Chamber) serves as the TID's fiscal agent.

This is the second City of Santa Clara commissioned audit of the Chamber regarding its management of public funds through contracts or delegated authority. The first involved an audit of its two public contracts totaling approximately \$1.6 million for the management and operations of the Santa Clara Convention Center and Convention Visitors Bureau. The audit found similar patterns of fiscal mismanagement, poor accounting practices, absence of proper transparency and public disclosure, and missing invoices for payments made with public funds.

This latest audit surfaced evidence of the Chamber's awareness of its own fiscal mismanagement through previous independent audits that it had commissioned for review of the TID's financial statements. For example, the audit found that, in an [Oct. 25, 2017 letter to the Chamber](#) regarding its audit of TID financial statements for the year ending June 30, 2017, the certified public accounting firm Johanson & Yau indicated "significant deficiencies" with the Chamber's TID record storage and retrieval, cash disbursement practices, bank account access by personnel no longer involved with TID, and documentation and maintenance of critical information. The City will be reviewing management letters from prior fiscal years to understand how long the Chamber was advised by its own independent auditors of its poor fiscal management of public funds that went uncorrected.

"This audit confirms, again, the Chamber's poor fiscal mismanagement of public funds," said Mayor Lisa Gillmor. "What is more shocking is that the Chamber's own independent audit of the TID's financial statements alerted them about 'significant deficiencies' of their accounting practices and the Chamber neither was transparent with the public about their own audit findings nor took action to correct them. I am pleased with the Council's efforts to request this audit and to continue our reforms."

This particular audit involved a TID fee and financial review from Fiscal Year 2012-2013 to Fiscal Year 2016-2017 including whether hotels participating in the TID accurately submitted TID revenue to the City of Santa Clara. The nine hotels participating in the TID pay a benefit assessment fee to the TID that's based on a payment of \$1 per room per occupied night. The fee is collected by the City and remitted to the TID to fund economic stimulation and business

enhancement. Since inception, about \$8.3 million in TID fees have been collected. The audit findings include:

- Collection of TID fees are generally accurate, despite TID not having proper authority to collect them for most years
 - The City nor the Fiscal Agent did not have the City Council approve the TID assessment until Fiscal Year 2018-2019.
 - TID did not have collection or spending authority for most of its years. However, the TID spending was generally appropriate for expenses related to destination marketing, Santa Clara Convention Center marketing to attract additional conventions, print ads, advertising, and administration costs.
 - If compliance and oversight efforts had been conducted, the City could have collected somewhere between the range of \$14,000-\$96,000 in additional fees. This is due to the inconsistent methods that participating hotels used to determine the TID assessment fees owed.
- Lack of internal controls for Chamber's accounting of TID spending
 - Nearly 70 percent of sampled expense transactions did not comply with proper accounting practices or policies and, per the auditor, can be considered 'significant deficiencies', e.g., missing invoices/documentation, not compliant with expenditure policies, or charged to the wrong accounts.
 - Nineteen expense transactions including credit card charges, totaling about \$308,000, did not have supporting documentation such as receipts to verify the expense.
 - Due to inconsistent financial controls, there's no assurance that expenses were appropriately authorized, reviewed and paid as allowable.
- TID-funded subsidy payments to event sponsors were not consistent with subsidy policies
 - None of the 16 event subsidies reviewed by the auditor could be reconciled to the TID subsidy guidelines.
 - Four of the 16 event sponsors received approximately \$59,000 in transportation subsidies, even though the TID does not have guidance in place offering such subsidies.
 - Five of the nine organizations are repeat subsidy recipients, raising fairness and equity concerns about the TID subsidy program. TID subsidy guidelines do not include "repeat business" as a criterion for providing a subsidy.

This audit found the City did not implement proper oversight of the TID, including the lack of a TID contract manager to ensure compliance with the City ordinance. The City concurs with the auditor's recommendations, will implement them over the next year, and provide quarterly updates to the City Council regarding status of implementation.

The City Council approved the Tourism Improvement District (TID) in January 2005. The hotels within the TID boundaries began collecting the TID assessment in February 2005. Since that time, the Chamber has administered the TID and, in its role as Fiscal Agent, managed the financial accounting and expenditures for the TID. The Chamber had also served as the City's contractor for the Santa Clara Convention Center and Convention Visitors Bureau. Due to fiscal mismanagement concerns raised by the first audit, the City issued a 180-day termination notice to the Chamber related to the Convention Center management contract. Earlier, in June 2018, the City had allowed the second management contract for the CVB to expire. The TID Advisory Board took action in October 2018 to remove the Chamber of Commerce as the TID Fiscal Agent and is currently in the process of updating their bylaws to assign a new Fiscal Agent.

About the City of Santa Clara

Located at the heart of Silicon Valley about 45 miles south of San Francisco, the City of Santa Clara truly is “The Center of What’s Possible.” Incorporated in 1852, Santa Clara covers an area of 19.3 square miles with a population of 120,000. Santa Clara is home to an extraordinary array of high-tech companies, including Applied Materials, Hewlett-Packard, Intel, Nvidia, Oracle, and Ericsson. The City of Santa Clara is also home to Santa Clara University, California’s Great America Theme Park, and Levi’s® Stadium, home of the San Francisco 49ers and Super Bowl 50. For more information, go to www.SantaClaraCA.gov.

About TAP International

TAP International is a consulting firm that provides performance management evaluation has over 100 years of combined experience conducting performance audits. Principal Consultant [Denise Callahan](#) has an extensive auditing background and has performed performance audits of other convention centers, as well as compliance audits, internal audits and best practices reviews for federal, state and local government agencies. Ms. Callahan has been a lecturer at the University of San Francisco and the University of Southern California. She serves on the Audit Committee for the American Society for Public Administration and has won awards for the quality of completed performance audits.

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