Attached is the final report of the sunset review of the Arizona Office of Tourism (AOT), which was conducted by the Senate Commerce Committee of Reference. A performance audit of the AOT was conducted by the Office of the Auditor General (Report No. 21-114).

This report has been distributed to the following individuals and agencies:

Governor of the State of Arizona
The Honorable Douglas A. Ducey

President of the Senate
Senator Karen Fann

Speaker of the House of Representatives
Representative Russell Bowers

Senator J.D. Mesnard, Chair
Senator Sonny Borrelli
Senator Sean Bowie
Senator Rosanna Gabaldon
Senator Theresa Hatathlie
Senator David Livingston
Senator Tyler Pace
Senator Raquel Terán
Senator Michelle Ugenti-Rita

Arizona Office of Tourism
Office of the Auditor General
Arizona State Library, Archives and Public Records

Senate Resource Center
Senate Republican Staff
Senate Democratic Staff
Senate Research Staff

Office of the Chief Clerk
House Republican Staff
House Democratic Staff
House Research Staff
Background

Pursuant to A.R.S. § 41-2953, the Joint Legislative Audit Committee assigned the sunset review of the Arizona Office of Tourism (AOT) to the Senate Commerce Committee of Reference and the House Commerce Committee of Reference.

AOT was established in 1978 as the Office of Tourism and is responsible for promoting and developing tourism in Arizona. AOT is led by a director who is appointed by the Governor and responsible for promoting and developing tourism business and planning, and developing a campaign of information, advertising, promotion, exhibition and publicity relating to tourism business. The director must have at least five years of management experience in the domestic and international tourism and travel industry, a fundamental understanding of the technical elements of the tourism industry and experience in either marketing or public relations (A.R.S. §§ 41-2301 & 41-2302).

A Tourism Advisory Council (Council) is established consisting of 15 members appointed by the Governor. Members must include representatives from recreational and tourist attractions, lodging, restaurant or food and transportation industries, other tourism businesses and the general public. The Council must also include one member from each of the six outlined geographical planning areas of Arizona. The Council must assist and advise the director in preparation of the budget and in the establishment of policies and programs which promote and develop tourism in Arizona (A.R.S. § 41-2304).

AOT is statutorily set to terminate on July 1, 2022, unless legislation is enacted for its continuation (A.R.S. § 41-3022.13).

Committee of Reference Sunset Review Activity

Pursuant to A.R.S. § 41-2954, the Senate Commerce Committee of Reference met on Wednesday, January 12, 2022, to review the Auditor General's Performance Audit and Sunset Review Report, consider AOT's responses to the statutorily-outlined sunset factors and receive public testimony.

Committee of Reference Recommendations

The Senate Commerce Committee of Reference recommended that AOT be continued for eight years until July 1, 2030.

Appendices

1. Meeting Notice
2. Attachment A: Presentation by the Office of the Auditor General
3. Attachment B: Presentation by AOT
4. Attachment C: Handout from the AOT
5. AOT's response to additional sunset factors
ARIZONA STATE SENATE

INTERIM MEETING NOTICE
OPEN TO THE PUBLIC

SENATE COMMERCE COMMITTEE OF REFERENCE

Date: Wednesday, January 19, 2022
Time: 2:00 P.M.
Place: SHR 1

Members of the public may access a livestream of the meeting here:
https://www.azleg.gov/videoplayer/?clientID=6361162879&eventID=2022011048

AGENDA

1. Call to Order
2. Roll Call
3. Approval of Minutes
4. Sunset Review of the Arizona Office of Tourism
   • Presentation by the Office of the Auditor General
   • Response by the Arizona Office of Tourism
   • Public Testimony
   • Discussion and Recommendations
5. Sunset Review of the Arizona State Board of Funeral Directors and Embalmers
   • Presentation by the Office of the Auditor General
   • Response by the Arizona State Board of Funeral Directors and Embalmers
   • Public Testimony
   • Discussion and Recommendations
6. Adjourn

Members:

Senator J.D. Mesnard, Chair
Senator Sonny Borrelli
Senator Sean Bowie
Senator Rosanna Gabaldon
Senator Theresa Hatathlie
Senator David Livingston
Senator Tyler Pace
Senator Raquel Terán
Senator Michelle Ugenti-Rita

01/13/2022
hf

For questions regarding this agenda, please contact Senate Research Department.
Persons with a disability may request a reasonable accommodation such as a sign language interpreter, by contacting the Senate Secretary’s Office: (602) 926-4231 (voice). Requests should be made as early as possible to allow time to arrange the accommodation.
Arizona Office of Tourism

Presenter: Rosa Ellis
Date: January 19, 2022

Key responsibilities

- Promoting tourism State-wide

- Distributing monies to other tourism organizations in the State for advertising, marketing, and tourism promotion

  - Example: Destination Marketing Organizations (DMOs) promote tourism in a designated city, town, or region
Tourism promotion projects

Did the Office’s spending on joint tourism promotional projects comply with State requirements?

Problem identified

- Did not comply with State requirements when spending more than $81,000 on sponsorships, trade shows, and journalist travel
- Did not complete required cost-benefit analyses, obtain legal counsel review, and/or maintain detailed receipts
Why this matters

- Help ensure that public monies are used for valid public purposes
- State travel and food and beverage reimbursement rates are not exceeded

Key recommendations

- Comply with State requirements for spending public monies for promotional projects
- Consult ADOA-GAO and implement policies and supervisory review processes
Maricopa County tourism promotion revenue distributions

Did the Office monitor and account for Maricopa County hotel and bed tax tourism revenues it distributed, as required?

Maricopa County tourism promotion program requirements

- Office distributes Maricopa County hotel and bed tax tourism revenues for Maricopa County tourism promotion
- DMOs required to apply annually and submit proposed spending plans for review and approval
- DMOs required to submit spending plans changes for review and approval
Problem identified

- Nearly $41,000 in DMO spending plan changes not reviewed and approved as required
- Did not review spending during or at the end of fiscal year 2020 as required

Why this matters

- Public monies Office distributed at risk of misuse, loss, or theft
- Organizations at risk of overspending or having unaccounted-for public money
Key recommendations

- Comply with State requirements for accounting for monies it distributes
- Formalize change request process
- Standardize reporting templates

Office has established processes related to statutory objectives

- Distributing tourism monies to rural DMOs
- Measuring effectiveness of its advertising and marketing campaigns
- Selecting major cities and metro areas to focus its advertising and marketing campaigns
Recommended improvements to Office processes

- Conflict-of-interest process
- Incorporating long-term economic and environmental impacts in its existing strategic planning process
- Procurement process

Arizona Office of Tourism

Presenter: Rosa Ellis
Date: January 19, 2022
Arizona Office of Tourism - Who We Are

Our Vision: Create an Arizona experience that captures and nurtures the hearts and minds of people who call it home and travelers in search of extraordinary adventure and natural wonders.

Our Mission: We stabilize and strengthen local economies, protect environmental and cultural resources, create a meaningful visitor experience and enhance the quality of life for Arizonans through tourism collaboration, promotion and development.

Our Brand Pillars:
- Culinary
- Outdoor Adventure
- Heritage & Culture
- Wellness
Audit Findings & AOT Response

Finding 1

Recommendation 1
Comply with GAAP requirements for spending public monies for promotional purposes, such as sponsorships, promotional items, travel, and food and beverages.

- AOT has updated internal forms to ensure compliance with GAAP including a cost-sharing justification memo template and an F&M event justification template.

Recommendation 2
In consultation with the ADOA, General Accounting Office, develop and implement policies, procedures, and guidelines for spending public monies for promotional purposes that incorporate supervisory review.

- AOT is working with GAO to define promotional items, travel and food and beverages and receive exemptions from GAO (journalist travel, promotional items, food & beverage).
- AOT developed justification memo to document public purpose and benefit and new assessment form for journalist travel.

Recommendation 2 continued
- AOT has enhanced the existing accounting process for travel-related entities to report in accordance with the cost-sharing agreement.
- AOT is working on an exemption for payment of journalist and other non-employee travel.
- Ongoing consultation with Attorney General’s office on cost-benefit analysis documentation and legal review.
Audit Findings & AOT Response

Finding 2
Recommendation 3
Comply with SAAM requirements for spending public monies.

- AOT has reviewed SAAM requirements for spending public monies in relation to the Prop 302 program and will update relevant guidelines as needed.

Recommendation 4
Continue to develop and implement change request policies and procedures impacting the Prop 302 program.

- AOT has updated the change request form and process and new updates have been implemented. AOT staff trained all program participants on new form and process and all committee members on the change request process and responsibilities.

Recommendation 5
Develop and implement standardized mid-year and end-of-year expense reporting templates for DMOs to help ensure spending information is consistently and accurately reported.

- AOT developed standardized expense reporting templates and trained all program participants on their use.

Audit Findings & AOT Response

Finding 2
Recommendation 6
Develop and implement policies and procedures for reconciling DMOs’ spending against approved marketing plans and the OIT’s distribution and accounting records and timely closing out spending at the end of the fiscal year.

- AOT is continuing to work on the development of policies and procedures for Prop 302 Program.

Recommendation 7
Train DMOs, Office staff, and Committee members on these policies, procedures, and reporting templates.

- AOT has updated training procedures for DMOs, office staff, and committee members on Prop 302 policies, procedures and reporting templates.
Finding 3

Recommendation 8

Continue to develop and implement conflict-of-interest policies to help ensure compliance with State conflict-of-interest requirements.

- AOT collected annual COI disclosure forms from staff, TAC members, and Prop 305 members and is sharing all disclosure forms in a special file for public inspection.
- AOT enacted a new process for review and remediation of disclosed conflicts.

Recommendation 9

Develop and provide periodic training on the conflict-of-interest requirements, process, and disclosure forms to its employees and Council and Committee members on how the State’s conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

- AOT developed periodic training on COI for staff, TAC and Prop 305.

Sunset Factor 2

Recommendation 10

Office should identify and incorporate economic, socio-cultural, and/or environmental impacts in its strategic planning efforts.

- AOT released its latest three-year strategic plan.
- AOT is developing a 10-year sustainability plan incorporating economic, socio-cultural and environmental impacts.

Sunset Factor 12

Recommendation 11

Office should comply with statutory procurement requirements.

- AOT will continue to follow applicable competitive procurement requirements.
- AOT delegated procurement authority threshold was raised.
- AOT obtained annual procurement disclosures statements from staff with procurement roles.
Finding 1: Office spent $81,239 on promotional activities, events, and projects conducted jointly with other tourism entities without required justification and documentation, which placed these public monies at potential risk of misuse.

Recommendation 1: Comply with SAAM requirements for spending public monies for promotional purposes, such as sponsorships, promotional items, travel, and food and beverages.

- AOT has updated internal forms to ensure compliance with SAAM including a cost/benefit justification memo template and an F&B event justification template.

Recommendation 2: In consultation with the ADOA, General Accounting Office, develop and implement policies, procedures, and guidelines for spending public monies for promotional purposes that incorporate supervisory review.

- AOT is working with GAO to define promotional items, travel and food and beverages and receive exemptions from GAO (journalist travel, promotional items, food & beverage).
- AOT developed justification memo to document public purpose and benefit and new assessment form for journalist travel.
- AOT has enhanced the existing accounting process for tourism-related entities to report in accordance with the cost-sharing agreement.
- AOT is working on an exemption for payment of journalist and other non-employee travel.
- Ongoing consultation with Attorney General’s office on cost-benefit analysis documentation and legal review.

Finding 2: Five changes to fiscal year 2020 DMO spending plans were not approved, and Office approved inaccurate fiscal year 2021 spending plans, which placed public monies distributed to tourism entities at potential risk of misuse, loss, or theft.

Recommendation 3: Comply with SAAM requirements for spending public monies.

- AOT has reviewed SAAM requirements for spending public monies in relation to the Prop 302 program and will update relevant guidelines as needed.

Recommendation 4: Continue to develop and implement change request policies and procedures impacting the Prop 302 program.

- AOT has updated the change request form and process and new updates have been implemented.
- AOT staff trained all program participants on new form and process and all committee members on the change request process and responsibilities.

Recommendation 5: Develop and implement standardized mid-year and end-of-year expense reporting templates for DMOs to help ensure spending information is consistently and accurately reported.

- AOT developed standardized expense reporting templates and trained all program participants on new form.

Recommendation 6: Develop and implement policies and procedures for reconciling DMOs' spending against approved marketing plans and the Office's distribution and accounting records and timely closing out spending at the end of the fiscal year.

- AOT is continuing to work on the development of policies and procedures for Prop 302 Program
Finding 2:  Continued

Recommendation 7: Train DMOs, Office staff, and Committee members on these policies, procedures, and reporting templates.

- AOT has updated training procedures for DMOs, office staff and committee members on Prop 302 policies, procedures and reporting templates.

Finding 3:  Office did not comply with some State conflict-of-interest requirements, increasing risk that employees and public officers had not disclosed substantial interests that might influence or could affect their official conduct.

Recommendation 8: Continue to develop and implement conflict-of-interest policies to help ensure compliance with State conflict-of-interest requirements.

- AOT collected annual COI disclosure forms from staff, TAC members, and Prop 302 members and is storing all disclosure forms in a special file for public inspection.
- AOT enacted a new process for review and remediation of disclosed conflicts.

Recommendation 9: Develop and provide periodic training on its conflict-of-interest requirements, process, and disclosure forms to its employees and Council and Committee members on how the State’s conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

- AOT developed periodic training on COI for staff, TAC and Prop 302.

Sunset Factor 2:  The extent to which the Office has met its statutory objective and purpose and the efficiency with which it has operated.

Recommendation 10: Office should identify and incorporate economic, socio-cultural, and/or environmental impacts in its strategic planning efforts.

- AOT released its latest three-year strategic plan.
- AOT is developing a 10-year sustainability plan incorporating economic, sociocultural and environmental impacts.

Sunset Factor 12:  The extent to which the Office has used private contractors in the performance of its duties as compared to other states and how more effective use of private contractors could be accomplished.

Recommendation 11: Office should comply with statutory procurement requirements.

- AOT will continue to follow applicable competitive procurement requirements.
- AOT delegated procurement authority threshold was raised.
- AOT obtained annual procurement disclosure statements from staff with procurement roles.
September 16, 2021

Paul Benny
Arizona House of Representatives
1700 West Washington
Phoenix, AZ 85007

Mr. Benny,

Please see the Arizona Office of Tourism’s responses to the required factors below.

1. An identification of the problem of the needs that the agency is intended to address.

Pursuant to A.R.S. § 41-2305, the Arizona Office of Tourism (AOT) serves as the only public agency responsible for leading the destination marketing efforts for the state of Arizona.

2. A statement, to the extent practicable, in quantitative and qualitative terms, of the objectives of such agency and its anticipated accomplishments.

Created in 1975, and established as a cabinet-level agency of the Executive Branch of Arizona government in 1978, Arizona Office of Tourism is required by statute to engage in tourism promotion, tourism development and comprehensive research. AOT accomplishes this by executing a fully integrated marketing strategy, highlights include:

- Implementing research-based, multi-platform travel campaigns to stimulate interest and encourage travelers to choose Arizona as a travel destination. This is executed through marketing tactics which include social media, digital, print, radio, online, outdoor and television advertising. For instance, in the agency’s newest advertising effectiveness survey, the Rediscover Arizona Marketing Campaign garnered a return on investment of $203 for every taxpayer dollar invested. Additionally, AOT provides a Rural Cooperative Marketing program for rural communities and tribes to extend their market reach.

- By statute, the agency serves as the research repository for all travel-related tourism information in the state. As such, AOT tracks, analyzes, generates and reports data about domestic and international travel behavior and economic impacts of the travel industry to Arizona’s economy.

- AOT provides Arizona travel product information to domestic and international travel trade industry (tour operators, receptive tour operators and travel agents). Additionally, the agency works with domestic and international travel media (newspapers, magazines, broadcasts, online, etc.) to share unique story ideas about Arizona’s travel experiences to secure positive third-party editorial exposure (earned media).
AOT collaborates with statewide industry partners to strengthen Arizona’s tourism offerings for visitors. AOT provides technical assistance and webinars to assist and educate community/business leaders and tribal representatives in their tourism marketing and development efforts.

Tourism is responsible for injecting $41 million dollars a day into Arizona’s economy, providing $15 billion dollars in annual economic impact to the state. Industry related revenue generation supports nearly 300,000 direct and indirect jobs. Travel and tourism ranks among Arizona’s top export related industries.

3. An identification of any other agencies having similar, conflicting or duplicate objectives, and an explanation of the manner in which the agency avoids duplication or conflict with other such agencies.

Not applicable to the Arizona Office of Tourism, as the agency is the only state office to market all of the state’s tourism destinations.

4. An assessment of the consequences of eliminating the agency or of consolidating it with another agency.

While the termination of the Arizona Office of Tourism will not directly harm the health and safety of Arizona residents, it would impact the welfare of the general public by increasing the tax burden. The Arizona tourism industry annually generates more than $3.7 billion in local, state and federal taxes. Taxes generated by tourism reduced the average annual tax burden for Arizona households by more than $1,400 annually. Furthermore, the $1.05 billion generated in 2019 for the state’s general fund supports statewide programs including public safety, health services and education. Without the agency encouraging visitation to Arizona, this level of tax generation does not happen.

5. The extent to which the agency potentially creates unexpected negative consequences that might require additional review by the committee of reference, including increasing the price of goods, affecting the availability of services, limiting the abilities of individuals and businesses to operate efficiently and increasing the cost of government.

Not applicable to the Arizona Office of Tourism, as the agency does not sell goods, provide public services, or issue occupational licenses.

6. The ability of the agency to timely investigate and resolve complaints within its jurisdiction.

The Arizona Office of Tourism is not aware of any complaints to review, investigate and/or resolve. However, the agency has established policies, procedures and processes for receiving, investigating and resolving complaints within its jurisdiction.

1. The extent to which the occupational regulation meets the requirements of A.R.S. § 41-3502, as amended, transferred and renumbered by Laws 2021, Chapter 176.

Not applicable to the Arizona Office of Tourism.
2. The extent to which the failure to regulate a profession or occupation will result in:
   a. The loss of insurance.
   b. An impact to the ability to practice in other states or as required by federal law.
   c. An impact to the required licensure or registration with the federal government.
   d. The loss of constitutionally afforded practices.

Not applicable to the Arizona Office of Tourism.

Please let me know if you have any questions.

Respectfully

Debbie Johnson
Director
Arizona Office of Tourism