



CITY OF BEVERLY HILLS
455 North Rexford Drive
Beverly Hills, CA 90210
Virtual/Teleconference

The Beverly Hills City Council Liaison / Audit and Finance Committee

SPECIAL MEETING HIGHLIGHTS

Wednesday, January 13, 2021
4:30PM

MEETING CALLED TO ORDER

Date / Time: January 13, 2021 / 4:30PM

IN ATTENDANCE: Mayor Lester Friedman, Vice Mayor Robert Wunderlich, City Manager George Chavez, Deputy City Manager Gabriella Yap, City Auditor Eduardo Luna, Principal Performance Auditor Shawneé Pickney, Principal Performance Auditor Abbey Tenn, Marketing & Economic Sustainability Manager Laura Biery, Assistant Director of Finance Tatiana Szerwinski, Chief Executive Officer Conference and Visitors Bureau (CVB) Julie Wagner, CVB Board Member Bill Wiley, CVB Board Member Eliot Finkel, CVB Board Member Peter Humig, CVB Board Member Linda Briskman, CVB Board Member Offer Nissenbaum, CVB Senior Manager of Operations Kristen McCord, and Executive Assistant Evelin Garcia.

Public in attendance: Due to the virtual nature of the meeting, there was no public in attendance.

1) PUBLIC COMMENT

Members of the public were given the opportunity to directly address the Committee on any item listed on the agenda.

None.

2) Audit of the Agreement Between the City of Beverly Hills and the Beverly Hills Conference and Visitors Bureau for FY 2018-2019

Objectives

1. Review reasonableness of performance measures used by the Conference and Visitors Bureau (CVB).
2. Determine whether the Fiscal Year 2018-19 budget and associated expenditures are reasonable and in compliance with the Agreement.

Scope

Fiscal Year 2018-19 Agreement for Promotion of the City



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Methodology

To evaluate whether performance measures were reasonable:

- Interviewed CVB and Policy and Management staff regarding the scope of work described in the Agreement, and
- Reviewed performance measures documented in quarterly and internal tracking reports to the City.

To determine whether the Fiscal Year 2018-19 budget and associated expenditures were reasonable and in compliance with the Agreement:

- Reviewed the CVB's accounting records, and
- Reconciled supporting documentation to initiatives listed in the Agreement's scope of work.

Background

- The Beverly Hills CVB is the City's principal marketing organization with resources for visitors, members of the media, and travel trade.
- The CVB is contracted by the City to conduct tourism and marketing programs which promote Beverly Hills.
- The CVB's budget is funded entirely from Transient Occupancy Tax (TOT) monies. Hotel guests in Beverly Hills are typically charged 14 percent in transient occupancy taxes for their stay. Hotels in Beverly Hills collect TOT on behalf of the City.

FY 2018-19 Work Plan

- Interim funding for July 1, 2018 through September 30, 2018 was provided under Agreement Number 355-18 executed on June 19, 2018 in the amount of \$1,221,746.
- The two Agreements provided the CVB with a total of \$5,102,251 in funding for FY 2018-2019.



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Audit Findings

Finding 1: CVB Lacks Internal Guidance for Marketing-Related Expenditures

- During the audit period, FY 2018-19, the CVB spent approximately \$2.9 million on special targeted marketing events to promote the City to domestic and international visitors.
 - However, an independent assessment of the merits of these programs was not possible as the CVB could not readily provide post-event metrics for all events.
- Additionally, we found that marketing-related expenses for CVB events appear excessive.
 - Special events include receptions and private dinners with costs ranging from a few thousand dollars to over \$60,000 per event.

Recommendation 1:

We recommend that the City of Beverly Hills require the Beverly Hills Conference and Visitors Bureau to:

- a. In conjunction with its Board, establish meal and beverage guidelines for sales mission dinners; and
- b. Establish metrics to determine the ROI generated by each marketing event.

Finding 2: A Lack of Internal and City Oversight of CVB Financial Activities Present Risks for Wasteful Spending

- While reviewing transactions in our audit scope, we found that the CVB CEO's expenditures could be characterized as excessive and personal in nature.
- Moreover, we questioned the utility of chauffeured car services for domestic travel and a personal sightseeing tour during business travel.

Recommendation 2: We recommend that the City require the CVB to update the ground transportation section in the Finance Policies & Procedures by adding a cost-effectiveness component for ground transportation and prohibiting the use of chauffeured car services for domestic travel.

Recommendation 3: We recommend the City require that all expenditures by the CVB CEO be subject to dual approval, and should only be approved if the expenditure has a valid business purpose supported by appropriate and complete documentation.



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Recommendation 4: We recommend the City incorporate into the service agreement greater oversight of the CVB's expenditures by requiring the CVB to submit detailed monthly spending reports to the City (Policy and Management/Finance).

Recommendation 5: We recommend the City require the CVB to notify the City Council of all board meetings and provide agendas with corresponding supporting documentation.

Finding 3: Business Travel Expenses Appear Excessive

- In a sample of 28 travel expenses, we noted eight transactions at luxury hotels (six for the CVB CEO and two for CVB staff) paid on the CVB credit card that appeared excessive.
- Noted that neither the CVB's Finance Policies and Procedures nor the Employee Handbook included comprehensive guidance on per diem for business travel.

Recommendation 6: We recommend that the City disallow CVB staff from receiving reimbursement for personal expenses during business travel. Additionally, we recommend that the City direct the CVB to follow the City's Travel and Meeting Expense Policy which establishes a uniform policy and procedures for reimbursing City employees for travel, meeting, and out-of-pocket expenses incurred while on official business.

Finding 4: Vendor Selection, Approval and Payment Authorization

- The CVB's purchasing approval levels and bid requirements for procurement of supplies, equipment, and non-professional services do not coincide with the City's purchasing approval levels and bid requirements.
- The Agreement does not mandate a specific procurement process for the CVB to follow.
- The CVB's Finance Policies and Procedures do not include guidelines for selecting, approving or authorizing payments to vendors.

Recommendation 7: We recommend the City direct the CVB to include complete and detailed supporting documentation (e.g., flight itineraries, hotel folios, etc.) for all travel expenses prior to payment approval. Additionally, the CVB should retain internally detailed supporting documentation for all travel expenses.



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Recommendation 8: We recommend the City require the CVB to follow the City's procurement policy when purchasing supplies, equipment and services over \$7,500, including purchasing from vendors who have been assigned a vendor number by the City.

Finding 5: CVB Account Codes Did Not Always Tie to Corresponding Budget Line Items and Were Not Always Inclusive of All Expenses

- During the course of the review, we found that account codes did not always tie to the corresponding budget line item.
- For example, the account code 6046 is used by the CVB to denote International Marketing and Tourism activities. Trips under this code are usually identified by location. For the CVB CEO's April 2019 trip to the Middle East, we found the 6046 codes for India and Russia were used instead.
- Hence, the true cost of the CVB CEO's trip to the Middle East was not captured because several trip expenses were coded to the Russia and India sales missions which had been canceled in the middle of the fiscal year.

Recommendation 9: We recommend the City direct the CVB to use account codes which tie to the corresponding budget line item. An employee other than the employee who made the transaction should assign an account code to the transaction. Additionally, we recommend that the CVB immediately notify the City if sales missions are canceled or added during the fiscal year.

Recommendation 10: We recommend the City include in the Agreement a requirement that the CVB only adjust the budget or transfer funds from one budget line item (including categories and subcategories) to another after receiving City approval. Additionally, the CVB should provide the City with justification and supporting documentation for all proposed budget adjustments and transfers.

OPI: The CVB's Current Ratio is Extremely High

The CVB's current ratio as of June 30, 2020 was 17.20 which indicates that the CVB has enough liquid assets to pay its current liabilities over 17 times. The Agreement does not stipulate an appropriate target for the CVB's current ratio. As a result, the CVB may not be using transient occupancy tax funds efficiently and the City may provide the CVB with a larger budget than is necessary to perform the Scope of Work identified in the Agreement.



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While we have no recommendations, it is imperative that the City monitor the CVB's current ratio and establish an appropriate target in the Agreement between the City of Beverly Hills and the Beverly Hills Conference and Visitors Bureau for Promotion of the City.

OPI: The CVB Has a Reserve Fund Balance of Approximately \$300,000 and a Buffer of \$200,000

The CVB has a reserve fund with a balance over \$300,000, which is a combination of a Certificate of Deposit (CD) and a separate brokerage account. Additionally, the CVB maintains a \$200,000 buffer which is separate and distinct from its reserve fund.

As per the CVB CEO, the reserve fund is considered an industry best practice and the initial CD balance was set aside when the CVB was first incorporated. The Agreement does not require the CVB to have a reserve fund.

While we have no recommendations, it is imperative that the City monitor the balances and planned usage of the CVB's reserve fund and buffer.

OPI: The CVB's Finance Policies and Procedures Limit the Use of Service Agreements with Vendors Based on a \$10,000 Dollar Threshold

The CVB limits the use of service agreements with vendors based on a \$10,000 threshold. Failing to execute written agreements with vendors creates legal uncertainty, may increase the CVB's financial risk, and may leave the CVB and City with limited recourse if vendors do not perform as agreed upon.

While we have no recommendations, it is imperative that the City direct the CVB to implement written agreements with all vendors providing goods or services with negotiated terms to the CVB regardless of the project's dollar value.

Summary of Management Response

- Five findings included 10 recommendations. Management agreed with five and partially agreed with five.
- For the OPI Section, there were three recommendations. Management agreed with two and partially agreed with one.



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The Liaisons reviewed each of the findings with the Auditors, Management, and CVB staff.

Finding 1:

Management agreed with recommendation one.

Liaisons:

- Marketing is important, investment in what City is looking for in future revenue and there are areas of improvement that are necessary.
- Destination Marketing Organization's measures state that spending is generated by the effort, which is not all the spending in the City. It is difficult to know what the effort generated as if nothing was done, there would still be spending in the City.
- Also difficult to measure on an event to event basis because over time you build relationships.
- We need to think of other ways to benchmark what the performance is for tourist dollars compared to other cities. For example, in August we normally have BOLD, we can compare "controlled experiments" to measure tourist dollars as a time variant to our comparable regional cities.
- "Half of my dollars on advertising are wasted, I just wish I knew which half".
- Benchmarking by insights, might need to go out of the region to measure luxury.
- Some of the money spent on events does seem high, costs per guest issue is multiple times more than the City has spent in the past.
- Important to do marketing to keep revenue up which is why metrics are necessary.
- Public funds need to be kept in mind when spending.

CVB:

- CVB reviews total TOT generated, revenue per room for which occupancy over the years has grown.
- Incrementality study done about a year ago, sales piece is hard to measure, but concluded on a revenue generated by CVB.
- CVB is sensitive to taxpayer's money and generating a return.
- Beverly Hills is considered one of the most luxurious destinations in the world, the CVB sells to the top 1% of travel agents and like-minded people, and it is necessary to entertain in a way that is equivalent to the product offered in Beverly Hills as the most exclusive City in the world
- CVB is considering at least 3 comparable bids for events so money is spent wisely



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- CVB is working on an event policy, an entertainment policy, a travel policy, and a new business procurement policy.
- Sensitivity towards spending given the times we are currently in.
- Hotels work on highly proprietary numbers, hotels gives CVB names as to who to invite for events, and are not always told revenue generated.
- Lasting relationships are important to bring clients in.

Finding 2:

Management partially agreed with recommendation two.

- Cost effectiveness for ground transportation should be considered, but chauffeured services should not be prohibited due to ADA and medical reasons. In CVB's case, CEO has rheumatoid arthritis and needs assistance with her bags, also international travel is normally at night and necessary for safety issues.

Management agreed with recommendation three.

- Management agrees with dual approvals and will work with CVB going forward.

Management partially agreed with recommendation four.

- Management recommends report be provided on a quarterly basis to match up with the invoicing cycle. CVB provides monthly report to Finance Department and now the CVB has now invited Tatiana, Assistant Director of Finance, to join the meetings.

Management agreed with recommendation five.

- Correspondence for board meetings and agendas has been shared with Laura Biery on a monthly basis. The information can be shared with Council or liaisons.

Finding 3:

Management partially agreed with recommendation six.

- Agree to disallow CVB staff from receiving personal reimbursement during business travel.
- Benchmarking of CVB to match that of the City's will be problematic as it would be better to use destination marketing policies. The City's current policies use federal guidelines which would not work well for the CVB due to international travel and nature of luxury tourism marketing.



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- CVB is creating a new travel policy, a trip planning form, and a trip completion goal. Updating policy so that the treasurer and another member of the executive committee will sign off on CEO's travel plans.

Finding 4:

Management agreed with recommendation 7.

- CVB is creating new forms and enhancing current forms.

Management partially agreed with recommendation 8.

- CVB is establishing a procurement policy and updating policies. Management thinks it would be problematic as all the vendors the CVB uses are not in the City's vendor list and the audit recommends that the CVB can only use vendors on the City's vendor list. City Management would like them to use it when possible, but does not require it. An example as requested by the liaisons would be a NYC vendor for a hotel event, an artist/entertainer, or the CVB's social media agency would not likely be on the City's vendor list as the CVB pays the vendor directly and not CBH.

Finding 5:

Management agreed with recommendation 9.

- Management will ensure that account codes tie with corresponding budget line items.

Management partially agreed with recommendation 10.

- City Management works with CVB through thresholds amounts when they are looking to move money between accounts.

OPI

- CVB current assets/current liabilities will always appear higher because funding is received in advance in quarterly increments.
- Per CVB, in 08/09 a reserve was set up of \$320,000. After the recession if TOT did not perform, the buffer could compensate for the shortage. The City then put aside a \$200,000 buffer each year and the CVB put \$200,000 aside as well. Due to the pandemic, the CVB asked if they could spend the buffer for this year's budget. CVB has money from merchandise that can be used however the City sees fit, tenant improvement account (CVB is responsible for their office space), when pandemic hit the CVB went from 11 to 5 staff. Neighboring cities have reserve policies with



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minimums of 3 months or 10% of overall budget while some are working towards 50% of budget.

- Per Management, other cities have different funding models and use Tourism Business Improvement Districts (TBID) of which some are 2.5%. TBID funds can only be spent on tourism marketing expenditures. The City of Beverly Hills collects a TOT and a portion of that is dedicated to tourism marketing and forms the CVB's budget.
- Per CVB, they had discussed a TBID in Beverly Hills but the City charges a business license tax at 1.5% which is passed on to the consumer which other cities do not charge. The hotels in Beverly Hills are at 15.5% which is the same as our competitors. The Waldorf is at 19% and The Maybourne is at 17%. Hoteliers felt if we added a TBID we would no longer be competitive with neighboring cities.

Liaisons would like more information on the TBID funding model when the audit is presented to Council.

3) Trust and Innovation Portal First and Second Quarter FY 2020/21

Due to time constraints, these topics were treated as C items and were not discussed. The City Auditor will present the reports to the Council during an upcoming meeting.

4) ADJOURNMENT

Date / Time: January 13, 2021 / 5:53PM