



**CUYAHOGA COUNTY
DEPARTMENT OF INTERNAL AUDITING**

TO: Cuyahoga County Executive Armond Budish

FROM: Director of Internal Auditing Cory Swaisgood, CPA

DATE: December 26, 2018

RE: Destination Cleveland Financial Review

Summary

The County Executive requested the Department of Internal Auditing (DIA) to conduct a review of Destination Cleveland's supporting documentation, including budget submitted to County Council and Destination Cleveland's presentation to County Council, to ensure Destination Cleveland complies with the County's agreements regarding the use of lodging tax (referred to as "bed tax" in this memo). The County entered into agreements in 2014 and 2017 on the use of the bed tax. In the 2014 and 2017 agreements the County, under Ohio Revised Code (ORC) 5739.09, agreed to disburse an additional 1.5% of bed tax proceeds to Destination Cleveland for the purpose of using the funds stipulated in the agreements.

DIA's objective was to perform a high-level review on financial data provided by the Fiscal Office and County Council to ensure the additional 1.5% of bed tax funds were used for allowable expenses in 2017. If determined further review was necessary DIA would pursue additional inquires with County Council and Destination Cleveland. Based on the documentation gathered and reviewed, it appears Destination Cleveland expended the additional 1.5% of bed tax on allowable expenses under the County's agreements. DIA did not contact Destination Cleveland for further information.

Although this review was initiated at the request of the Executive and included in our 2018 Audit Plan, it did not constitute an audit per auditing standards.

Background

The County's bed tax, at 5.5%, is made up of the following:

- **3%** - ORC Section 5739.09 (formally ORC Section 5739.024) dictates the administration and allocation of the County's bed tax. This section of the ORC allows the County to levy an excise tax¹ not to exceed 3% on transactions by which lodging by a hotel is or is to be furnished to transient guests (bed tax). The proceeds of such tax, after deducting the cost

¹ Excise Tax is a tax on listed items that are generally collected and disbursed to a state or local government. Cuyahoga County levies an excise tax (bed tax) on lodging of transient guests per the ORC.

of administrating the tax, shall be disbursed to municipalities and the County's convention and visitors' bureau (currently known as Destination Cleveland).

- **1%** - In 2010, the County levied an additional 1% bed tax pursuant to ORC 5739.09(I)(3) of the ORC under a cooperative agreement with Destination Cleveland to generate funds necessary to pay the direct and indirect costs of constructing, improving, expanding, equipping, financing, or operating the County's Convention Center and the Global Center for Health Innovation.
- **1.5%** - Effective December 22, 1992, the General Assembly of the State of Ohio with Substitute Senate Bill No. 359 authorized counties to levy an additional bed tax to transient guests, not to exceed 1.5%. In 1993, the County levied the bed tax pursuant to then Section 5739.024(D) of the ORC for the purpose of providing contributions as provided for in Section 307.671(B)(1) of the ORC under a cooperative agreement entered into with the Cleveland-Cuyahoga County Port Authority, the City of Cleveland, and the Rock Hall to enable the acquisition, construction, and equipping of the Rock Hall and for the purposes of paying debt service on such bonds, or notes in anticipation thereof, issued by the County for the purpose of acquiring, constructing and equipping the Rock Hall.
 - In 2014, the County extended the 1.5% bed tax pursuant to divisions (H)(2) and (H)(6) of Section 5739.09 of the ORC and entered into that certain agreement governing the use of capital improvement bed tax with Destination Cleveland (County Ordinance O2014-0020). The 2014 agreement provided the 1.5% bed tax proceeds must be used for ***the direct and indirect costs of capital improvements, including the financing of capital improvements. Examples of such capital improvements include, but are not limited to, capital improvements through Positively Cleveland (currently known as Destination Cleveland) or other local organizations for the following: major political and/or other large conventions, Rock and Roll Hall of Fame Induction ceremonies and/or events, the support of tourism, and/or other major special events and/or other events.***
 - In 2017, the County and Destination Cleveland entered into an agreement to clarify and elaborate upon the provisions of the 2014 agreement (to which the 2017 agreement was an addendum) relating to the County's expenditure of the 1.5% bed tax, including partially funding the Quicken Loans Arena renovations by using a portion of the 1.5% bed tax. Destination Cleveland would continue to comply with the 2014 agreement. However, the County terminated the 2010 agreement which meant Destination Cleveland would have no further obligation to the County under that agreement, and Destination Cleveland agreed to apply a portion of the gross receipts generated from the 1.5% bed tax to the **Quicken Loans renovations.**

The 1.5% bed tax generated approximately \$6 million in receipts to Destination Cleveland in 2015 and 2016; approximately \$6.5 million in 2017.

Purpose, Results and Conclusion

The County Executive requested DIA to review Destination Cleveland's financial information and presentation to County Council and determine if we can conclude, at a high-level, the 1.5% bed tax was expended for allowable expenses (bolded on page 2) under the 2014 and 2017 agreements. DIA attempted to review Destination Cleveland's financial information to confirm spending for allowable expenses (bolded on page 2) was greater than the County's total annual distributions in 2017. If DIA was unable to conclude, at high-level, that Destination Cleveland was not expending the 1.5% bed tax for allowable expenses, DIA would inquire with County Council and Destination Cleveland for additional information.

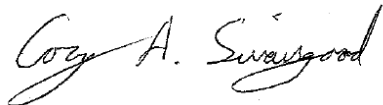
DIA reviewed Destination Cleveland's website, their presentation to County Council on May 15, 2018, the agreements between the County and Destination Cleveland, the documentation from the County's Fiscal Office detailing distributions to Destination Cleveland in 2017, as well as audit reports and publicly available tax information on Destination Cleveland. DIA also reviewed Cohen and Co.'s *Independent Auditors' Report* of Destination Cleveland's financial statements. We were able to extract allowable expenses from those statements and related support. See the following table for the results of our review.

1.5% Bed Tax Distribution per the County Fiscal Office	\$ 6,525,940
Allowable Expenses per Destination Cleveland's 2017 Financials*	\$ 6,768,744
Percentage spent on allowable expenses	104%

**Destination Cleveland's allowable expenses included payments to the Sports Development Fund for events, Rock Hall for ceremonies, Quicken Loans Arena renovation, and Property and Equipment.*

Based on our limited review, we determined no additional questions were necessary. At a high-level review, Destination Cleveland appeared to be following the mandates of the 2014 and 2017 agreements by spending at least the 1.5% bed tax on allowable expenses. Their spending appears to be consistent with the stipulations outlined in the agreements.

Respectfully,



Cory A. Swaisgood, CPA
Director of Internal Auditing

Cc: Audit Committee