# Brazos Valley Convention and Visitors Bureau Audit

**August 2011**

**City Internal Auditor's Office**

**City of College Station**

File#: 11-01

# Audit Executive Summary:
Convention and Visitors Bureau

### *Why We Did This Audit*

This audit was conducted per direction of the City Council. The City collects approximately $3.5 million in hotel occupancy tax (HOT) per year, and the Convention and Visitors Bureau (CVB) is the largest recipient of these funds.

### *What We Recommended*

- The CVB should not use city HOT funds to hire consultants for the purpose of influencing city policy decisions.
- The CVB should update performance measures and increase their efforts to collect more accurate and reliable data.
- Management should develop more comprehensive written policies and procedures.
- Employees should be required to submit adequate documentation of purchases.
- Entertainment and party purchases for CVB staff should not be endorsed by management.
- Controls over check processing procedures need to be updated and enforced.
- Management should improve supervision of purchasing and accounting processes.

### *What We Found*

During this audit, we examined financial processes to determine whether or not adequate controls were in place to prevent fraud, waste, or abuse. We also examined the accuracy and completeness of the Convention and Visitors Bureau's (CVB) reporting to the City. Controls were determined to be lacking in several financial processes that we examined. In addition, data contained in CVB performance reports were found to be unreliable.

Some of the errors we identified with performance reporting are the result of the large number and confusing language of performance measures that the CVB is required to submit. For example, definite room nights *booked* are actually potential room nights *reserved*. In addition, the CVB uses unreliable data to calculate the economic impact of individuals attending sporting events or conferences. This estimated economic impact, according to CVB estimates, is nearly four times greater than the impact we calculated.

Financial controls are inadequate. We found significant errors when we observed oversight of the financial system; conducted a review of bank statements and receipts; and reviewed employee expense reports. Some of the major errors we found were: (1) inadequate separation of duties and oversight, (2) HOT fund expenditures on alcohol, gifts, entertainment, and parties, (3) insufficient documentation of purchases, and (4) inadequate check processing controls. The lack of working internal controls subjects the CVB to a higher risk of fraud, waste, or abuse.

# Convention and Visitors Bureau Audit

## Table of Contents


Introduction ..... 2

**Brazos Valley Convention and Visitors Bureau Background** ..... 3

**The Majority of CVB Funding Comes from City HOT Funds** ..... 3

**The Use of HOT Funds are Limited by State Law** ..... 6

**CVB Funding is Subject to the City's Funding Agreement** ..... 7

**CVB Staffing Levels are Comparable to Benchmark Cities** ..... 7

**Audit Objectives** ..... 9

**Scope and Methodology** ..... 9

Findings and Analysis ..... 12

**The CVB Performance Measure Reporting is Inaccurate** ..... 12

**Few CVB Measures are Useful Indicators of Performance** ..... 12

**Key CVB Performance Measures are Overstated** ..... 13

**The CVB May Offer a Low Return on Investment of HOT Funds** ..... 17

**Financial Controls are not Adequate** ..... 19

**Inadequate Separation of Duties & Management Oversight Exist** ..... 19

**There is a Lack of Well Communicated Policies & Procedures** ..... 20

**Computers Sold to Employee were not Adequately Documented** ..... 23

**Check Processing Controls can be Circumvented** ..... 24

Recommendations ..... 26


## Appendices


Appendix A: Methodology Used to Determine CVB Impact . . . . . 29

Appendix B: Summary of Possible Inappropriate Transactions . . . . . 31

Appendix C: Management's Response to the Audit Recommendations . . . . . 34

# Introduction

The City Internal Auditor conducted this performance audit of the Brazos Valley Convention and Visitors Bureau pursuant to:

1. Article III Section 30 of the College Station City Charter, which outlines the City Internal Auditor's primary duties; and

2. The annual funding agreement between the City of College Station and the Convention and Visitors Bureau that contains a provision for the City to conduct monitoring reviews of the Agency as deemed necessary by the City so as to evaluate the Agency's compliance with the provision of the agreement.

A performance audit is an objective, systematic examination of evidence to assess independently the performance of an organization, program, activity, or function. The purpose of a performance audit is to provide information to improve public accountability and facilitate decision-making. Performance audits encompass a wide variety of objectives, including those related to assessing program effectiveness and results; economy and efficiency; internal control; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information.

A performance audit of the Brazos Valley Convention and Visitors Bureau was included in the fiscal year 2011 audit plan based on direction given by the Audit Committee and City Council. On August 12, 2010, the City Council approved the City Internal Auditor's audit plan.

## Brazos Valley Convention and Visitors Bureau Background

The Brazos Valley Convention and Visitors Bureau (CVB) was formed in 2003 to enhance economic and social growth in the Brazos Valley by marketing, promoting, developing and coordinating tourism, conventions, sports, and hospitality opportunities in the area. To accomplish this mission, CVB staff members attend numerous trade shows and advertise through various magazines. In addition, the CVB offers assistance to convention, sporting, or tourism related event coordinators through providing:

- Hotel room blocks – contacting area hotels to request rates for a portion of their inventory of rooms to be set aside for a particular period of time for the client. Blocking hotel rooms through the CVB may result in lower rates because hoteliers are asked to bid on hotel blocks based on customer provided criteria.
- Visitor information – providing maps, lists of area caterers, speakers, entertainers, meeting/banquet venues, visitor guides, brochures, or convention bags to event attendees.
- Event planning and scheduling – planning and coordinating special group activities, children's programs, entertainment, and guest activities. This may also include registration assistance, creating gift baskets for event speakers or other special quests, and providing name tags for event attendees.
- Public relations and promotion assistance – providing local media contacts or media lists, adding events to the CVB calendar, producing promotional material, or assisting with news stories, press releases, or other various marketing efforts.
- Event Sponsorships – providing monetary support and/or servicing the event being held.

### The Majority of CVB Funding Comes from City HOT Funds

The CVB is a non-profit organization that receives approximately 78 percent of its operating revenues from hotel occupancy tax (HOT) funds collected by the City of College Station. In addition, College Station allows the CVB to operate out of a city-owned facility without rental compensation. Table 1 on the next page provides a summary of CVB revenue. A large portion of donated services portrayed in this table is the value of the occupation of the city-owned facility without charge—if this amount is taken into account, College Station provides over 80 percent of the Convention and Visitor Bureau's funding. It is important to note, however, that the CVB spent over $21,000 in fiscal year 2010 and

$35,000 in 2011 on building repairs and maintenance to this city-owned facility.

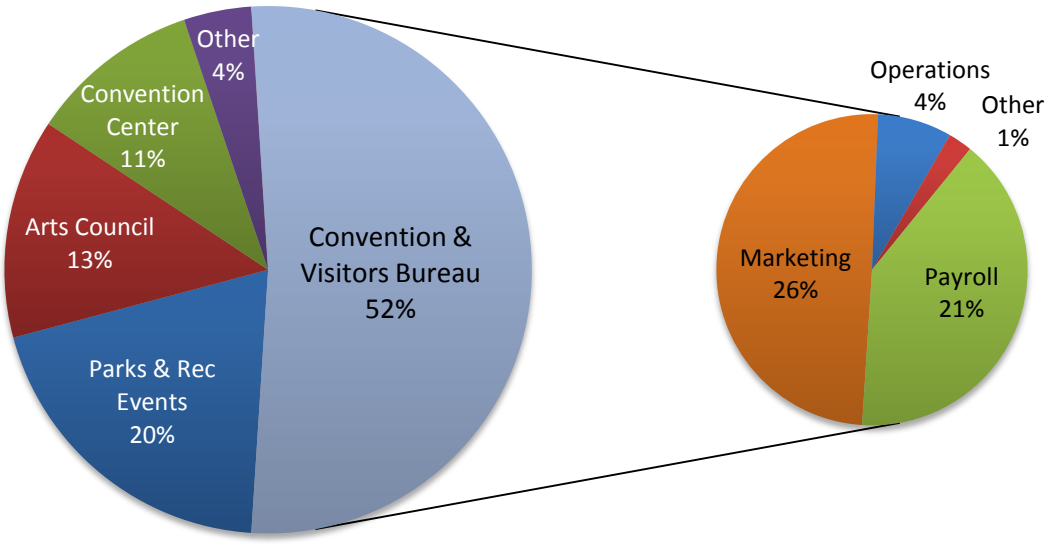
**Table 1:** CVB Revenues from Fiscal Year 2010 through 2008

| CVB Revenue | FY10 | FY09 | FY08 | %* |
|---|---|---|---|---|
| College Station HOT | $1,107,000 | $1,160,000 | $1,060,000 | 78% |
| Bryan HOT | 133,400 | 116,900 | 110,000 | 8% |
| Donated Services | 107,100 | 76,000 | 99,500 | 7% |
| Other Revenue** | 128,500 | 87,100 | 98,100 | 7% |
| **Total Revenue:** | **$1,476,000** | **$1,440,000** | **$1,367,600** | |

* Average percent of total revenue of fiscal years 2010, 2009 and 2008.
** Includes event income, industry participation, interest income, commissions, rental income, and $25,000 in Brazos County HOT in FY10 only.

**The CVB represents over 50 percent of HOT spending.** From fiscal years 2004 through 2008, an average of 56 percent per year of College Station HOT spending was by the CVB. HOT fund spending in fiscal year 2009 is not representative due to the large one-time expenditure to purchase land for a future convention center. In fiscal year 2010, CVB spending represented 52 percent of total city HOT fund spending—26 percent of the city HOT funds spent went to fund CVB related marketing and 21 percent funded CVB payroll. Figure 1 below summarizes city HOT spending in fiscal year 2010.

**Figure 1:** Fiscal Year 2010 College Station HOT Spending



**The College Station HOT fund balance is expected to be over $4.8 million by the end of fiscal year 2011.** From fiscal year 2004 through 2008, the College Station HOT collections were on average 34 percent greater than expenditures per year; and the city has earned approximately $915,000 in interest revenue during this same period. As a result, the ending HOT fund balance for fiscal year 2008 was over $7.5 million. In fiscal year 2009, a $9.6 million purchase of land for a future hotel and convention center was made—$7 million was in cash, which depleted the majority of the HOT fund balance. However, HOT collections in fiscal year 2010 were 38 percent greater than expenditures. In addition, 2011 collections are estimated to be 39 percent greater than expenditures and HOT fund related grants for over $249,000 are expected—resulting in an estimated fund balance of $4.8 million by the end of fiscal year 2011 (see Table 2 below).

**Table 2:** City Hotel Occupancy Tax (HOT) Fund Summary

| | FY11 Estimate | FY10 Actual | FY09 Actual |
|---|---|---|---|
| Beginning Fund Balance | $ 3,242,000 | $ 1,939,000 | $ 7,580,000 |
| HOT Revenue & Earnings* | 3,617,000 | 3,442,000 | 3,587,000 |
| **Total HOT Revenue:** | **6,858,000** | **5,381,000** | **11,167,000** |
| City Expenditures | 457,000 | 450,000 | 527,000 |
| Convention Center | 223,000 | 224,000 | **7,000,000** |
| Brazos Valley CVB | 1,032,000 | 1,107,000 | 1,160,000 |
| Other Outside Agency | 314,000 | 347,000 | 539,000 |
| **Total HOT Expenditures:** | **2,026,000** | **2,128,000** | **9,226,000** |
| Adjustments | 0 | (12,000) | (1,000) |
| **Ending Fund Balance** | **$ 4,833,000** | **$ 3,242,000** | **$ 1,939,000** |

*** Contains both HOT collections & interest earning made from investing the fund balance**

**City HOT revenue has experienced recent declines.** From fiscal year 2004 through 2010, the average per year percent increase of City of College Station HOT fund revenue was 7.96 percent. During this same period, the average per year percent increase of College Station HOT funds remitted to the CVB was 3.33 percent. However, from fiscal year 2008 through 2010, College Station HOT revenue has experienced an average per year decrease of 2.36 percent, while CVB funding from College Station HOT revenues has increased an average of 2.43 percent per year—this average increase is due to an increase in funding of $100,000 from fiscal year 2008 to 2009; CVB funding decreased by $53,000 in 2010.

**The percentage of CVB HOT funding from the City has decreased somewhat over the years.** From fiscal year 2004 through 2010, CVB HOT funding from College Station as a percentage of City HOT revenue and spending has experienced some declines. Table 3 below summarizes City of College Station HOT revenue and expenditures over the last seven fiscal years and compares these amounts with the level College Station has funded the CVB through HOT contributions.

**Table 3:** City HOT Fund Compared to CVB Funding (in thousands $)

| Fiscal Year | FY10 | FY09 | FY08 | FY07 | FY06 | FY05 | FY04 |
|---|---|---|---|---|---|---|---|
| City HOT Revenue | 3,417 | 3,575 | 3,586 | 2,980 | 2,671 | 2,307 | 2,201 |
| City HOT Spending | 2,128 | 9,226 | 1,937 | 1,919 | 1,745 | 1,740 | 1,505 |
| CVB HOT Funding | 1,107 | 1,160 | 1,060 | 1,060 | 980 | 960 | 915 |
| CVB % of Revenue | 32% | 32% | 30% | 36% | 37% | 42% | 42% |
| CVB % of Spending | 52% | 13%* | 55% | 55% | 56% | 55% | 61% |

*** The City purchased ground for a Convention Center in fiscal year 2009, resulting in the outlier in HOT spending.**

### The Use of HOT Funds are Limited by State Law

The hotel occupancy tax is a consumption type tax authorized under state statute. This tax allows the City of College Station to collect up to its current tax rate of 7 percent on rental income of hotels and motels within city limits. The use of funds derived from HOT funds can only be spent if the following two-part test is met. First, all expenditures must directly enhance and promote tourism and the convention and hotel industry. Second, all expenditures must clearly fit into one of nine statutorily provided categories.

1. Funding the establishment, improvement, or maintenance of a convention or visitor information center.
2. Paying for the administrative costs for facilitating convention registration.
3. Paying for tourism related advertising, and promotion of the city or its vicinity.
4. Funding programs that enhance the arts.
5. Funding historical restoration or preservation projects.
6. Sporting events where the majority of participants are tourists in cities located in a county with a population of 290,000 or less.
7. Enhancing and upgrading existing sport facilities or fields for certain municipalities.
8. Funding transportation systems for tourists.

9. Paying for signs that direct the public to sites and attractions that are visited frequently by hotel guests.

**CVB Funding is Subject to the City's Funding Agreement**

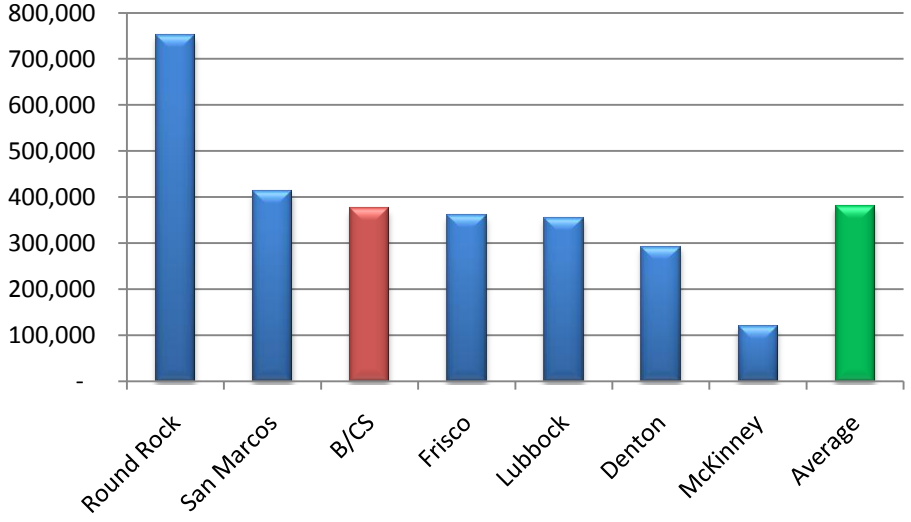
In order to receive HOT funds from the City of College Station, the CVB has a contractual agreement with them to fulfill specified requirements. According to the CVB's funding agreement with the City, the CVB is required to:

1. Submit to the City an annual budget to be approved by the City Council for each fiscal year, for CVB operation funded by HOT revenues.
2. Maintain an accounting system whereas HOT revenue is segregated from other CVB revenues in such a way that any reasonable person can ascertain the revenue source of any given expenditure. These funds are required to be classified as restricted funds for audited financial purposes.
3. Provide the City with a copy of the annual financial audit report.
4. Submit quarterly to the City a financial activity report that summarizes the fiscal activity of the CVB during a three month period. In addition, the CVB must provide a detailed expenditure report that contains every CVB line item purchase related to HOT revenue.
5. Submit quarterly a list of 34 CVB performance measures.

**CVB Staffing Levels are Comparable to Benchmark Cities**

There are eleven Texas cities that the College Station City Council has directed city staff to incorporate into comparative analysis for benchmarking purposes. These cities include: Bryan, Round Rock, San Marcos, Frisco, Lubbock, Denton, McKinney, Plano, Sugarland, Flower Mound, and Carrollton. When conducting staffing comparative analysis, it is important to take into account factors that drive workload. For example, larger CVB staffing levels may be justified for a city that has a greater number of visitors who stay in hotel rooms. Obtaining the actual number of hotel guests per benchmark city is difficult. Fiscal year 2010 staffing and HOT revenue data, however, was available for seven of the eleven benchmark cities. Therefore, staffing data was normalized by calculating the ratio of city HOT collections to CVB full-time equivalents. Figure 2 on the next page, summarizes these results.

**Figure 2:** FY10 HOT Collections per CVB Full-time Equivalent (FTE)




Although McKinney's CVB only has 4 FTE compared to 10 for the Brazos Valley CVB, the City of McKinney collected approximately 472,000 in HOT revenue in fiscal year 2010 compared to $3.74 million in HOT collection in College Station and Bryan. Therefore, McKinney's CVB is staffed at a higher level compared to the Brazos Valley CVB—when possible workload demand is factored into the analysis.

**The CVB Board is larger than its professional staff.** The CVB has a staff that consists of nine full-time positions and three part-time paid positions. The three part-time employees combined work a total of 40 hours a week, resulting in a total of 10 FTE. In addition, the CVB employs up to 5 unpaid student interns. The staff is led by an Executive Director, who reports to an Executive Board consisting of four executive members and one chairman—the current director assumed leadership of the CVB in September 2008. Historically, the executive members of the board voted on all business matters of the CVB. Currently, however, there are an additional 10 voting members on the board—bringing the total to 15 voting members.

## Audit Objectives

This audit addresses the Brazos Valley Convention and Visitors Bureau's use of Hotel Occupancy Tax funds, as well as a review of the program's reporting mechanisms and practices. This report answers the following questions:

- Does the CVB fulfill its contractual obligation by submitting all required performance and financial reports in a manner that is complete, accurate and free of tampering?

- Are there adequate controls to prevent fraud, wasteful spending, and monetary abuse involving HOT funds remitted to the CVB by the City of College Station?

## Scope and Methodology

This audit was conducted in accordance with government auditing standards, which are promulgated by the Comptroller General of the United States. Audit fieldwork was conducted from June 2011 through August 2011. For the purpose of evaluating the adequacy of CVB reporting, the scope of review was fiscal year 2010. For the purpose of evaluating internal controls over HOT funds, the scope included a review of revenue and expenditure transactional data from October 2007 through June 2011.

The audit methods used to complete both audit objectives included:

- Reviewing the work of auditors in other jurisdictions and researching professional literature to identify best practices for the reporting of CVB impact and performance measurement.

- Interviewing the City of College Station CFO, Director of Economic & Community Development, Director of Parks and Recreation, and Parks and Recreation personnel responsible for bidding on and organizing regional, state, and national sporting events at city athletic facilities.

- Conducting several interviews of CVB staff; including the Executive Director, Accountant, and Director of Group Sales and Marketing.

For the purpose of evaluating the adequacy of CVB reporting, the audit methods used included:

- Examining the CVB funding agreement, quarterly financial reports, external audit reports, and performance reports.

- Obtaining documentation of all events serviced by the CVB in fiscal year 2010 through the CVB's information tracking system. Information obtained included: comprehensive internal and external correspondence related to each event, number of bookings, event attendees, estimated spending, actual hotel stays, and various descriptive data related to the event.

- Reviewing the reports of consultants hired by the CVB in order to determine the analysis and methodology used to develop the economic impact data the CVB reports to the City.

- Developing a systematic rating methodology of CVB impact for recruiting an event to come to the Brazos Valley based on information obtained from the information tracking system. See Appendix A at the end of this report for a more detailed explanation of this methodology.

For the purpose of evaluating internal controls over HOT funds, the audit methods used included:

- Gaining an understanding of all HOT regulations by attending a HOT seminar conducted by a HOT expert, examining all state HOT legislation, reviewing the court transcripts and other applicable documents of a nearby agency that was recently found liable for misuse of HOT funds, and reading professional publications regarding the appropriate use of HOT funds.

- Holding confidential interviews where every member of the CVB staff was individually questioned on specific fraud related topics relating to CVB operations, personnel, policies, and procedures.

- Conducting data analysis using specialized auditing software to test for fraud indicators and system control failings.

- Observing a CVB board meeting to examine the board's governance role in decision making, policy formation, and oversight.

- Conducting a comparative analysis of budget to actual expenditures by sub account, and performing a trend analysis by year, quarter and month for each account to identify fraudulent or wasteful spending patterns.

- Obtaining the log of the audit trail and voided transactions from the CVB's financial system and analyzing every entry in these two logs within the scope of the audit objective.

- Selecting a sample of 168 transactions based on (1) findings from audit work described in the methods above and (2) a review of all line-item expenditures recorded in the CVB's financial system within the audit scope to identify specific transactions that appeared to be inappropriate uses of HOT funds. For the 168 transactions in the sample, expense reports were examined, vendors were verified, transaction support documentation was scrutinized, and CVB staff was interviewed regarding certain transactions.

- Bank statements and support documentation was reviewed for fiscal year 2010. CVB checks were also examined for compliance with understood CVB check writing policies and procedures.

# Findings and Analysis

## The CVB Performance Measure Reporting is Inaccurate

Effective performance measure reporting has the following elements (1) the measures should be relevant and easily understood, (2) they should be accurate, and (3) they should adequately reflect actual performance. The performance reporting of the CVB to the City fails in all three areas. There are too many measures reported to the City, and the methodology to calculate them and their descriptions are confusing. The CVB reported measures are also overstated or misleading. Finally, the reported measures do not adequately reflect the City's return on investment.

### Few CVB Measures are Useful Indicators of Performance

The CVB has three target markets that serve as performance measures to the City of College Station: business, leisure, and sports travel. The CVB reports 34 performance measures on a quarterly basis in order to quantify the CVB's impact on these three market segments. The table below contains the 24 convention and sporting event performance measures that the CVB reported to the City in fiscal year 2010.

**Table 4:** FY10 CVB Reported Convention and Sporting Event Measures

| | Bookings** | | Leads | | Serviced | |
|---|---|---|---|---|---|---|
| **Measure*** | Convention | Sports | Convention | Sports | Convention | Sports |
| Events | 183 | 88 | 191 | 116 | 218 | 72 |
| Nights | 21,130 | 25,574 | 26,787 | 48,356 | 62,683 | 29,293 |
| Attendees | 28,701 | 45,155 | 39,826 | 64,645 | 63,191 | 46,322 |
| Spending | 14,709,263 | 14,675,375 | 20,410,825 | 21,009,625 | 32,385,388 | 15,054,650 |

* **For bookings, these measures are described as number of events booked, definite room nights, number of attendees, and estimated spending.**

** **Only contains the events the CVB impacted on coming to the area (according to CVB).**

According to CVB personnel, booking measures are recorded only for those events the CVB directly impacts in coming to the Brazos Valley. These include the number of events booked, definite room nights booked, and the number of attendees and amount of estimated spending from events booked by the CVB. These four performance measures are the most relevant performance data currently reported to the City, because they are the only measures that attempt to gauge CVB impact. Table 5 on the next page summarizes the booking performance measures for

both conventions and sporting events that the CVB reported to the City the last three fiscal years.

**Table 5:** CVB Booking Measures Reported to the City from FY08 to FY10

| Reported Bookings | FY08 | FY09 | FY10 |
|---|---|---|---|
| Number of Events Booked | 299 | 265 | 271 |
| Definite Room Nights | 91,340 | 70,537 | 46,704 |
| Total Event Attendees | 104,280 | 97,258 | 73,856 |
| Total Estimated Spending | $32,646,750 | $38,513,725 | $29,384,638 |

According to the CVB Executive Director, a lead is recorded when event coordinators consider holding their events in the Brazos Valley. Therefore, leads are measures of potential, not actual outcomes. Collecting lead data for internal reporting reasons could be beneficial, but these measures are not useful for external accountability purposes when other comparable and more meaningful measures are available.

The list of services the CVB offers was discussed in the background section of this report. When the CVB renders any of these services to an event held in the Brazos County, it is counted in the "serviced" measures. CVB serviced measures could be useful as indicators of workload. The most beneficial aspect of workload indicators is for staffing level determinations. These types of measures, however, are less useful as performance indicators used for accountability purposes.

The CVB also reports to the City 10 performance measures related to the leisure travel market. These measures are organized into the following three categories: overnight group tours booked, day trip group tours booked, and individual travel requests for information from advertising. According to the CVB Executive Director, data for the leisure travel market is difficult to reliably and consistently collect. Consequently, the leisure measures reported were treated as not being reliable; and independent testing to verify their accurateness was not included in the scope of the audit.

### Key CVB Performance Measures are Overstated

According to the Destination Marketing Association International (DMAI) 2011 performance reporting handbook for Destination Marketing Organizations (DMO), "one of the chief failings of conversion and effectiveness studies in the past was they failed to exclude individuals who had already decided to come to the destination before they

contacted the DMO. As a result, the results tended to overstate the number of visitors generated by the particular DMO marketing effort being reviewed." Similar to other DMOs, the CVB has overstated key performance measures by not accurately excluding individuals who had already decided to come to the Brazos Valley before they contacted the CVB.

**Audit findings related to booking data differed from CVB statements.** We were told that the blocked performance measures only included events that the CVB had a direct impact on influencing to come to the Brazos Valley. Our findings, however, drastically differed from what we were told. When we conducted our own independent analysis of every event serviced by the CVB in fiscal year 2010, we discovered that several events that are reported as booked are not actually recruited by the CVB (see Appendix A for a description of the methodology utilized). Table 6 below, summarizes these results.

**Table 6:** Comparison of FY10 Reported CVB Impact to Audit Findings

| Description | Attendees | Room Nights | Pick-ups* | Estimated Spending |
|---|---|---|---|---|
| Can't Determine | 7,810 | 5,622 | 6,076 | $ 3,303,564 |
| Some CVB Impact | 8,532 | 2,274 | 2,043 | $ 2,946,338 |
| Likely CVB Impact | 3,950 | 4,828 | 3,222 | $ 1,790,000 |
| **Max CVB Impact** | **20,392** | **12,724** | **11,341** | **$ 8,039,902** |
| | | | | |
| Reported Measures | 73,856 | 46,704 | NA | $ 29,384,638 |
| Min Over-reported | 53,464 | 33,980 | NA | $ 21,344,736 |
| % Over-reported | 72% | 73% | NA | 73% |

*** Pick-ups are the number of actual room nights stayed at hotels. The CVB collect this statistic from area hotels, but it is not reported to the City.**

There were a number of events in fiscal year 2010, where there was insufficient evidence to make a determination of CVB impact. It is unlikely that the CVB directly influenced all of these events in coming to the Brazos Valley. However, they were all included to calculate the minimum amount the CVB over-reported for attendees, blocked room nights, and estimated spending. It is important to note that the data presented in Table 6, is based on the CVB's methodology in calculating these measures. As will be described in later sections of this report, there are weaknesses in the way the CVB developed their methodology to calculate these measures.

**The definite room night measure is not a measure of actual hotel room stays.** The CVB reported 46,704 definite room nights booked in fiscal year 2010. A definite room night, however, is not actually a definite room night. The "definite room night" measure represents the CVB's tracking of hotel room reservations per night for events held in College Station during a specific period. In other words, it is an estimate of the maximum number of hotel rooms that may be needed for a specific event. The number of people that actually stay in a hotel for the event is often much lower. The CVB tracks the number of actual hotel nights stayed through a statistic called "pick-ups". Although the CVB tracks pick-ups, they do not report this information to the City.

**Booking data is sometimes reported over a year before the event is held**. There is also a timing problem with how booking data is recorded. For example, we found an event where 450 definite room nights were booked in July 2008; but the event didn't actually occur until July 2010. Included in their fiscal year 2008 estimated spending numbers, was $230,625 the CVB recorded in spending from this event—even though the event didn't actually occur until two years later.

**CVB derived estimated spending equations are unreliable.** Estimated spending is calculated for conventions and sporting events through the use of the following two equations:

| | | | | | | |
|---|---|---|---|---|---|---|
| Conventions | = | # of attendees | × | $205 | × | 2.5 days |
| Sporting Events | = | # of attendees | × | $130 | × | 2.5 days |

The first weakness in using these formulas is that they are dependent on an estimated number of attendees. The number of attendees reported for an event is reliant on the event coordinator providing an estimate of attendance—sometimes before the event actually occurs. Therefore, the estimated number of attendees could be very different from the actual number of people who participated in the event.

In 2005, the CVB commissioned the Department of Recreation, Park and Tourism Sciences at Texas A&M University to survey a sample of conference attendees to identify how much delegates spent while they were in the community. According to the CVB Executive Director, the conventions estimated spending equation was based on findings from this report. We asked for a copy of this report, and the Executive Director was only able to provide us with a draft copy. In no place in the report does it suggest using the equation the CVB uses to calculate estimated

spending for conventions. The consultants surveyed participants from 20 different conferences over an 18 month period, and grouped conferences into three market segments: national, state, and local/regional. Towards the end of the report, it states "the best estimates of expenditures per delegate *per night* for the three segments are approximately $220 for national conferences, $205 for state conferences, and $165 for local or regional conferences."

There are at least three errors in how the CVB chose to apply information from the convention spending report. First, they chose to use the $205 number for state conferences for their equation and apply it to all conference events. Of the events serviced in fiscal year 2010, the CVB recorded 14 percent as national or international events, 36 percent as state events, 42 percent as local or regional events, and did not give any designation for 8 percent of the events. Second, they used a 2.5 day multiplier. Not only have we been unable to determine how the CVB determined this multiplier, but the report also clearly states that the data is based on a per night amount. In addition, the consultants only surveyed overnight visitors; whereas, event attendees used in the CVB's equation includes day travelers. Finally, the CVB made inferences to their entire population of conference events based on data from this report despite the consultants clearly stating that they did not use scientific sampling procedures. In fact, the consultants warn against this in their report by stating "these procedures mean that the results reported here should be viewed as an approximation or *best guess*, rather than be interpreted in literal, precise terms."

The CVB also commissioned the Texas AgriLife Extension, Texas A&M University, to survey participant spending in the area at a selection of local sporting events hosted in 2009 and one event that occurred in 2007. Similar to the convention report, the CVB misapplied information from this study to form their spending equation for sporting events. Like the convention report, a non-scientific sampling method was used. The CVB also directed the consultant to study events that are not representative of a typical sporting event held in College Station. The average number of participants for the 11 sporting events selected in the study was 1,060. According to CVB records, the average number of attendees for sporting events serviced by the CVB in fiscal year 2010 was 705. In addition, the event that occurred in 2007 was arguably one of the largest national sporting events ever held in the City, with 1,810 participants and an estimated economic impact of over $2 million (according to the consultant's study). Finally, the consultant uses a very different

methodology than the equation used by the CVB to calculate estimated spending for the events they studied.

### The CVB May Offer a Low Return on Investment of HOT Funds

Return on investment (ROI) is a performance measure used to evaluate the efficiency of an investment. To calculate ROI, the benefit (return) of an investment is divided by the cost of an investment. The calculation of ROI can be modified to suit the situation—the calculation depends on what the user defines as returns and costs. Therefore, there is not a single "right" calculation.

**Calculating ROI using CVB reported information is difficult because of flaws in the data.** In calculating the ROI for the CVB, the City should be interested in the cost of funding the CVB and a return in tax dollars it receives from CVB efforts. Tax dollar benefit comes in two forms: (1) sales tax receipts and (2) HOT tax receipts. The City's sales tax rate is 1.5 percent and the HOT rate is 7 percent. Using existing CVB data (albeit unreliable based on audit findings), we were able to estimate a ROI of HOT and sales tax. Table 7 describes this ROI calculation.

**Table 7:** ROI Using HOT & Sales Tax Method

| Reported Bookings | CVB Reported | Max Amt | Min Amt |
|---|---|---|---|
| Total Estimated Spending | $29,384,600 | $8,039,900 | $4,736,300 |
| Spending × 1.5% × 51% | 224,800 | 61,500 | 36,200 |
| Spending × 7% × 49% | 1,007,900 | 275,800 | 162,500 |
| CVB HOT Funding | $1,265,400 | $1,265,400 | $1,265,400 |
| ROI Sales Tax | $0.18 | $0.05 | $0.03 |
| ROI HOT | $0.80 | $0.22 | $0.13 |
| Total ROI | $0.98 | $0.27 | $0.16 |

The weakness in the method of estimating ROI described in Table 7 is twofold. First, the estimated spending amounts are based on the convention and sporting equations devised by the CVB. As previously discussed, these equations are not reliable. Second, we used data from the report on spending at sporting events to estimate the percentage of estimated spending on hotel rooms. As mentioned previously, this study didn't use scientific sampling methods. Therefore, using this data to make inferences about a population is inappropriate. Using this method does, however, give a sense of what the CVB's ROI would be if all the information they reported to the City was accurate and reliable—i.e. the CVB's ROI would be 98 cents for every dollar of HOT funding they

receive. The maximum and minimum amounts seen in Table 7 are based on the audit findings of CVB impact of recruiting events to come to the Brazos Valley (see Table 6 discussed previously in this report).

**Other methods used to more accurately calculate ROI led to extremely low results.** An alternative method to estimating HOT dollar benefit is to multiply the room nights by room rates by the HOT rate of 7 percent. The major weakness of this method is that it does not take into account sales tax collections resulting from estimated spending created through CVB impact. However, this method may be a more accurate way to estimate the amount of HOT revenue the City gets back for every HOT dollar the City invests in the CVB. The equation below summarizes this ROI methodology.

$$\text{ROI} = \frac{(\text{Room Nights} \times \text{Room Rate} \times 7\%)}{\text{HOT Funding}}$$

This method yields an extremely low ROI. For example, using the number of definite room nights the CVB reported in fiscal year 2010 yields in ROI of 24 cents; if we assume that the average room rate in Brazos Valley hotels is $93 a night.

$$\text{ROI} = \frac{(46{,}704 \times \$93 \times 7\%)}{\$\,1{,}265{,}400} = \$0.24$$

Using actual hotel room rate data collected by the CVB and the actual hotel stays (i.e. pickups) the CVB impacted in coming to the Brazos Valley yields a ROI of between three and six cents on the dollar. According to the CVB staff, pickup and room rate data is dependent on area hotels accurately supplying the information. As a result, sometimes the data may be incomplete or inaccurate.

## Financial Controls are Not Adequate

Several control deficiencies were identified that could increase the risk of fraud, waste, or abuse. For example, some internal controls can be circumvented and management oversight is lacking given the absence of separation of duties over the CVB's financial system and records. We also found written policies and procedures were either absent, not communicated, or ineffective. As a result, we found several expenditures that may have been an inappropriate use of HOT funds.

### Inadequate Separation of Duties & Management Oversight Exist

According to the Association of Certified Fraud Examiners, 30 percent of all fraud occurs in small businesses. A common reason is that small companies generally have single person accounting staffs and limited internal controls. Similarly, the CVB has one accountant and there is limited management oversight over daily accounting operations.

The CVB's accountant currently uses the QuickBooks system to manage accounting records. QuickBooks has a built-in audit trail feature that allows managers to review transactions that have been voided, changed, or altered. Despite having this control functionality, it has never been used by CVB personnel. Based on our review, we found there to be little oversight or review of the bookkeeping duties. The CVB's accountant was the only employee who demonstrated any knowledge of the QuickBooks system. In addition, this employee has access to all functions within the entire financial system.

Separation of duty, as a security principle, has as its primary objective the prevention of fraud and errors. This objective is achieved by disseminating the tasks and associated privileges for a specific business process among multiple users. To achieve the highest level of internal control no single employee should have access to two or more of the following functions: authorization, custodianship, and record keeping. Not only does the CVB's accountant have super user access (with limited oversight over the financial system) she also has access to check stock, reconciles bank statements, makes bank deposits, and maintains physical control over incoming checks.

Small organizations sometimes lack sufficient staff to have appropriate separation of duties. In these instances, management should mitigate for this lack of control by providing sufficient oversight of the accounting system and records. The CVB's Executive Director's lack of oversight and

knowledge of the financial system constitutes a significant control deficiency.

**There is a Lack of Well Communicated Policies & Procedures**

According to the CVB Director, all CVB employees are required to have an understanding of HOT codes. However, the CVB does not currently have written policies to guide employees on proper purchasing processes using their business credit cards. The lack of effective written policies has increased the number of opportunities for employees to use their cards inappropriately. For example, on multiple occasions during business trips employees have used their cards to purchase admission to local attractions. Additionally, several employees used their cards to purchase alcohol while dining during reimbursable travel meals.

**There is inadequate oversight of employee expense reports.** The CVB uses employee expense reports to account for employee purchases. Employee expense reports should be signed by an employee and his/her supervisor. We found two instances where there were no signatures on employee expense reports. Additionally, we found a minimum of 11 expense reports that only contained the signature of the purchaser. There were at least two instances where a subordinate and their supervisor went on a business trip together, and the supervisor approved the expense report. The inability of the CVB to adequately prevent the circumvention of internal controls has made the organization suspect to several types of wasteful expenditures.

**The CVB's accountable plan is not sufficiently monitored.** There are two methods which an organization may use to reimburse employees for purchases made on business-related travel. The first method is a per diem plan. Under this plan, employees are allocated a certain amount of funds to expend on meals and lodging each day during travel. The amount allotted varies by locality, which effectively ensures that employees receive adequate reimbursement for expenditures. The other method used is the accountable plan. Under an accountable plan, employees may spend what they wish, but they must provide adequate documentation to prove that their expenses are legitimate business purchases. The documentation is then reviewed and approved by an employee with sufficient authority to approve or deny the expense reimbursement.

If an organization determines that an accountable plan is the best reimbursement plan for the organization, several factors should be

incorporated into their decision. Accountable plans are intended to save organizations money. The entity needs to evaluate whether or not it is more cost effective to reimburse employees for actual expenses. This includes actual costs incurred during travel, the administrative costs of reviewing expense reports, and the burden placed on organizational staff to adequately document purchases.

The CVB used the per diem plan in the past, but found it to be ineffective since employees sometimes take meeting planners out for meals. The CVB currently uses an accountable plan. Under the accountable plan, we found evidence of wasteful or inappropriate expenditures and instances of inadequate documentation. For example, we found an employee spent $120.47 on meals for one day of travel to West Palm Beach, Florida. Under the per diem reimbursement method, this employee would have received $64 per day. The employee also failed to submit itemized receipts for their meals during this trip, which are mandatory under an accountable plan. Federal income tax rules state that failing to submit adequate documentation constitutes a non-accountable plan—which would require the CVB to include the amounts of any expense allowance with the employee's wages on his W-2 form.

**Itemized receipts are not required for reimbursement of expenses**. The CVB failed to produce itemized receipts for 22 percent of the records we reviewed (see Appendix B). We did not find any instances where an employee was required to remit payment to the CVB for purchases that lacked sufficient documentation. We also found multiple expenditures that (1) occurred after normal business hours, (2) were for an amount greater than $1,000, and (3) were not accompanied by an itemized receipt. For example, no itemized receipts were found for approved purchases made in 2010 of $2,586.25 at a local bar occurring at 10:44 PM on a Saturday night, $1,000 at a local steakhouse, and $2,015 at a restaurant in Austin.

**HOT funds are used to pay for staff parties and receptions.** The CVB used HOT funds on multiple occasions to pay for Christmas, birthday, and going away parties. For example, in December 2010, the CVB staff held a Christmas party at Café Excel in College Station; the bill was for $577.25 and purchases for alcohol were $107.50 of the total. In 2009, $1,587 was spent on the staff Christmas party. In September 2008, the CVB held interviews for candidates for the executive director position. Following the interviews, the three candidates, the CVB board and two staff members attended an after-hours "reception" at Christopher's World Grille in Bryan, Texas. The total bill for the reception

was $1,597.20, of which $329 was spent on alcohol. In Fiscal Year 2008, a going away party was held for the previous CVB Director that cost $3,931.20, of which $1,404 was spent on alcohol. The same director also had an inter-organizational going away party at Grand Station, a local entertainment facility. The party used $122.38 in HOT funds, including $34 for employees to play laser tag.

**CVB employees frequently use their CVB credit cards to purchase alcohol for non-business related purposes.** During our examination of high-risk receipts, we discovered that employees frequently use their cards for alcohol purchases. There are no controls currently in place to prevent or limit when employees use their credit card for non-business related purchases of alcohol. During an interview with the CVB Director, we determined that the practice of purchasing alcohol during meals is endorsed. We were not able to determine an exact or estimated number of instances, because employees frequently submit non-itemized receipts.

Some alcohol purchases may be legitimate due to the nature of the destination marketing business culture. For this reason, alcohol purchases were intensively reviewed to determine if there was a possible business-related purpose for making the purchase. We found multiple instances where no such reasoning could be identified.

For example, in November 2009, the CVB Director submitted an employee expense report that contained a purchase totaling $12 for "drinks at a cash bar" for her and a subordinate. On the same expense report, the director submitted an itemized receipt from a local restaurant that listed $7.75 for alcoholic beverages. In August 2010, another employee expense report was submitted by the Director that listed a $6.20 purchase for a Bloody Mary at O'Malley's Pub in Florida.

**HOT funds are used to purchase gifts and personal items.** The CVB also uses HOT funds to buy gifts for employees, board members, and interns. We found at least 12 instances where a gift was purchased as a going away, wedding, Christmas, or appreciation gift. In addition, no evidence could be found that the purposes of these gifts were related to appreciation for work accomplishments. For example, a purchase of $88 was made to a local sports bar as a wedding gift for a CVB employee.

Employees have also made personal purchases using their CVB credit card. In May 2008, an employee purchased a gear fleece jacket from the Houston National Golf Club. The employee paid $54.69 using their CVB credit card and did not reimburse the CVB for the purchase. The

purchase was approved by the current CVB Executive Director. In December 2009, an employee was reimbursed for the expenses incurred for rental clubs and the fees associated with a round of golf. Although the employee failed to provide sufficient documentation that he may have played with a potential client, the CVB reimbursed the employee $99.

**The use of HOT funds for entertainment is endorsed by senior management.** According to the current CVB Director, the previous director condoned using CVB funds to visit tourist attractions while on business trips. This is not a frequent occurrence, but we found at least three instances where employees used HOT funds to purchase admission tickets to a local tourist attraction. All of the entertainment expenditures we identified were approved by the same supervisor.

For example, while on a business trip to Orlando, an employee used his CVB credit card to purchase admission for "one day, one park" to Universal Studios. The ticket was purchased early in the morning and other receipts from the same day provide evidence that the employee spent the majority of the day at the attraction. The cost to the CVB for this employee to attend the tourist attraction is in excess of $400 (hotel, admission ticket, meals, and salary).

On two trips, an employee and their supervisor attended the same tourist attraction and the expenditure forms were approved by the supervisor. In November 2010, the employees went to the Richard Petty Driving Experience in Charlotte, North Carolina. The admission costs incurred by the CVB were $99 per employee. In April 2009, the employees attended a Major League Baseball game between the Colorado Rockies and the San Diego Padres in Denver, Colorado. The two tickets cost $108, and meal charges at the field were $24. This purchase was approved by the current CVB Director, indicating that the policy of using CVB funds to purchase entertainment is still considered a legitimate use of HOT funds.

### Computers Sold to Employee were Not Adequately Documented

During the course of our examination of CVB expense records, we discovered that four computers were sold to the same senior-level employee. On one occasion the employee purchased three computers and on another occasion the employee purchased one computer from the CVB. The average purchasing price was $25 for each of the computers. The CVB was unable to provide reasonable documentation to support the make, model, value, year, serial number, or reason for selling any of the computers.

### Check Processing Controls can be Circumvented

The CVB currently keeps four individuals on the signature block for writing checks: the CVB Director, the CVB Board Treasurer, the CVB Board Chairman, and a mid-management level employee. Current internal controls require two signatures be present on all checks; the CVB Director and the CVB Board Treasurer are required to sign and review all checks. When the Board Treasurer is unavailable, the Board Chairman is authorized to sign checks. If the CVB Director is unavailable, her designee may sign checks in her place. The signature of senior management and a board member is an acceptable control.

However, CVB policy also allows a mid-management level employee to sign checks in place of a board member. According to CVB personnel, after they have determined that no one from the board will be available for an extended period of time, the mid-management level employee is allowed to sign checks. From the 2010 population of checks reviewed, we found that 2 percent of all checks signed did not contain the proper signatures. During our review of the bank statements from Fiscal Year 2010, we found at least 11 instances where the only two signatures on checks were those of the CVB Director and the mid-management level employee.

**Employees have signed their own checks.** During our examination of the bank account used to maintain HOT funds, we found 12 separate instances where an employee signed their own check—8 of the 12 errors, or 66 percent were payroll checks. Typically, the CVB pays employees through direct deposit. For the second pay period in May 2010, however, CVB employees were paid with checks from the CVB operations account. All of the paychecks were signed by two employees. Therefore, the two employees who signed everyone else's paycheck also signed their own paycheck. The paychecks reconciled with the amounts of other paychecks, but this is an example of a control deficiency that creates a high-risk opportunity for employees to commit fraud.

**Non-payroll checks have been issued to employees.** The CVB currently uses direct deposit to pay employees. In fiscal year 2010, we found 55 non-payroll checks that were issued to employees; which constitutes 9.27 percent of all outgoing checks processed. There may be completely legitimate reasons for an employee to receive a non-payroll check such as being reimbursed for a business purchase they made with personal funds. However, these transactions are high-risk because check

authorization controls can be circumvented. For example, an employee received a check for $500 that was signed by a mid-management level employee and did not contain the signature of a board member.

# Recommendations

The Brazos Valley Convention and Visitors Bureau needs a few improvements, encompassed in the following audit recommendations. Implementing these recommendations will increase internal controls to reduce the risk of fraud, waste and abuse. It will also increase the level of accountability by improving the accurateness and reliability of performance measures reported to the City.

1. The CVB should not use city HOT funds to hire consultants to provide information to city officials in order to influence policy decisions. Being able to control (1) the scope of work of a study and (2) the data the study produces can lead to data manipulation. Consequently, information said to be the result of a consultant's study is less reliable when the consultant's client has a strong incentive for the results to be favorable. The City Council may desire to have studies conducted to determine the best uses of HOT funding, return on investment of HOT allocations, or the estimated spending of those visiting the City. If the City Council requests to know this type of information, they should direct city staff to use HOT funds to commission the consultant work. However, the use of HOT funds by the CVB for consultant services could be appropriate under certain circumstances. For example, consultants may be needed to provide essential information required to receive grant funding. The CVB's use of consultants' studies to obtain information to improve CVB operations, productivity, or performance may also be beneficial.

2. The CVB should increase efforts to collect more accurate and reliable pickup and room rate data from area hotels. This could be done by effectively communicating to area hotels that CVB funding is dependent upon gathering this information. If area hotels value the service the CVB provides to them, they should be willing to offer information that cost them very little to provide. One possible use of this information would be to provide a more precise return on investment of HOT funds using the following equation:

$$\text{ROI} = \frac{(\text{Pickup Nights} \times \text{Room Rate} \times 7\%)}{\text{HOT Funding}}$$

3. The CVB should update the type of measures they are reporting to the City. The measures reported should be reliable, clear, and

concise. They should also effectively measure CVB workload and outcome. The CVB may stop reporting several measures that currently don't fit these criteria in order to focus on more meaningful and accurate reporting. Workload and outcome measures the CVB could possibly report to the City are as follows:

Workload Measure Examples:

- The total number of events the CVB serviced
- The total number of hotel rooms that were booked by the CVB
- The total number of pickups from events serviced by the CVB

Outcome Measure Examples:

- The total number of pickups where the CVB had an impact on the event coming to the Brazos Valley
- The percentage of CVB impacted pickups to the total number bookings from events serviced by the CVB
- Return on investment (see recommendation 2)

4. The CVB Executive Director should develop written policies and procedures that adequately govern the daily operations of CVB personnel. The policies should be designed to (1) promote conformance with HOT rules and regulations and (2) provide assurance that HOT funds are being safeguarded and appropriately spent. Personnel should receive training regarding these written policies and procedures when they are initially hired and periodically throughout the term of their employment.

5. If the CVB continues to use an accountable plan to account for employee purchases, employees should be required to provide sufficient documentation to justify the business expense—providing non-itemized receipts is not sufficient documentation. If the employee cannot provide sufficient documentation to prove that the purchase met a legitimate business need, they should be required to pay for the purchase.

6. The CVB Executive Director should no longer endorse travel expenditures on entertainment or inter-organizational parties that use College Station HOT funds as a funding source. If the CVB wishes to continue to make these types of expenditures, they should expend funds from an account where City HOT funds are not maintained. For example, they could use funds from the events account for staff entertainment or party expenditures.

7. Adequate supervision of purchases needs to become a focal point of CVB management. Purchases such as gifts, alcohol, or local meals should have a greater deal of scrutiny because they can easily be interpreted as non-legitimate business expenditures. An approval hierarchy should be implemented, where the individual approving the transaction is sufficiently independent to be able to not approve the requested expense reimbursement if inadequate documentation is provided to determine the business purpose of the purchase.

8. Existing controls over check purchasing processes need to be enforced and updated. Future check processing controls should require the signatures of the CVB Executive Director or her designee and a board member on every check. There should be a system of internal control that prevents two employees or two board members from signing any check.

9. Because the CVB is a small organization, implementing proper separation of duties as a security control may not be feasible. Therefore, increased management oversight over the accounting system should be implemented as a mitigating control. The Executive Director should become familiar with the QuickBooks system and the features that allow her to review voided transactions and other high risk expenditures. For example, the CVB Executive Director could review voided transaction or audit trail reports on a periodic basis to verify that inappropriate adjustments are not being made to cover fraudulent behavior.

## **Appendix A:** Methodology Used to Determine CVB Impact

Communication between CVB staff and event coordinators, planners, attendees and hoteliers are documented in the CVB's information tracking system (Infotrac). We obtained all communication contained in this system for each event serviced by the CVB in fiscal year 2010. We reviewed this documentation for specific communication indicating the CVB impact on bringing the event to the Bryan or College Station area (B/CS). The list below contains examples of some of the types of indicators we found to help us determine the impact the CVB had on bringing an event to B/CS. This list is not all inclusive, but is meant to serve as examples.

**Examples of Strong Negative Indicators**

1. The event coordinator, planner or attendee was contacted by the CVB after she had already been holding her event in B/CS.
2. The event was held in B/CS the previous year, and the event was **not originally** recruited to be held in B/CS by the CVB. Additionally, the event may have used the CVB as a booking agent some years and not others, while still holding their event in B/CS.

**Examples of Medium Negative Indicators**

3. Negative actions by the CVB did not keep the event from coming to B/CS.
4. The event was directly related to Texas A&M University or was bid on by university employees.
5. The event was bid on or recruited and brought into B/CS by another agency, such as the City's Parks and Recreation Department.
6. The event type was a wedding or reunion. These types of events are not normally "recruited" and are normally local events.

**Examples of Weak Negative Indicators**

7. The CVB had no contact with the event coordinator, planner or attendee; the only interaction found in the Infotrac system is with hotels' staff or inter-organizationally among CVB staff.
8. The event headquarters is located in B/CS.
9. The event planner does its own booking.

The list below contains examples of indicators that the CVB **had an impact** in bringing an event to B/CS. This list is not all inclusive, but is meant to serve as examples.

**Examples of Strong Positive Indicators**

1. The event appeared to not by coming B/CS, but through CVB recruitment efforts the event took place in B/CS. For example, the event coordinator stated they or the decision-making entity for the organization were disinterested in the location, but the event ended up coming to B/CS after communication with CVB personnel.
2. The CVB recruited the event over a few years and was specifically mentioned as the reason B/CS was considered as a venue.

**Examples of Medium Positive Indicators**

3. The event is a major national (or perhaps regional) event that is heavily recruited by other venues.
4. The CVB put a bid on the event to bring the event to B/CS.

**Examples of Weak Positive Indicators**

5. The event coordinator refers to meeting CVB staff at a tradeshow or event.
6. The CVB putting a great deal of time into recruiting, that may have led to the event coming to B/CS—evidenced by numerous e-mails and the workload determined within the Infotrac system (i.e. preparing bags, brochures, servicing an event, etc).

## **Appendix A (cont.):** Methodology Used to Determine CVB Impact

The following is a list of examples that would indicate that the CVB may or may not have had an impact on the event coming to B/CS; therefore, they are listed as neutral indicators. This list is not all inclusive, but is meant to serve as examples.

**Examples of Neutral Indicators**

1. Although the event coordinators wanted to bring the event to B/CS, the CVB assisted in making that decision definite.
2. There are some weak negative and some weak positive indicators present in the communication for the event.
3. There is little or no evidence of positive or negative indicators found in the Infotrac system for the event.

We recorded a quantifiable score between 1 and 5 for each event serviced by the CVB in fiscal year 2010. The criteria used to determine this score is described below. If there was inadequate information to make a determination, the event was given a neutral score of "3".

| Score | Scoring Definition |
|---|---|
| 1 = | There are no positive indicators (regardless if they are strong, medium or weak positive indicators) **and** there is evidence of indicators that would fit into the strong negative indicators category **or** there are multiple medium and weak (more than 2) negative indicators. |
| 2 = | There is no evidence of negative indicators that would fit into the strong category, **or** if there is evidence of a strong negative indicator it is offset by examples of medium or weak positive indicators. Examples of weak negative indicators exist without the presence of positive indicators, **or** medium negative indicators may exist that are somewhat offset by weak positive indicators. |
| 3 = | There is evidence of neutral indicators **or** there are an equal number of positive and negative indicators of the same type (typically weak indicators). |
| 4 = | There is no evidence of positive indicators that would fit into the strong category, **or** if there is evidence of a strong positive indicator it is offset by examples of medium or weak negative indicators. Examples of weak positive indicators exist without the presence of negative indicators, **or** medium positive indicators may exist that are somewhat offset by weak negative indicators. |
| 5 = | There are no negative indicators (regardless if they are strong, medium or weak positive indicators) **and** there is evidence of indicators that would fit into the strong positive indicators category **or** there are multiple medium and weak (more than 2) positive indicators. |

## **Appendix B:** Summary of Possible Inappropriate Transactions

| Vendor | Amount | FY | Description |
|---|---|---|---|
| Christopher's World Grille | 3,931.20 | 2008 | Alcohol ($1,404), Party |
| The Tap Piano Bar | 2,586.25 | 2010 | No Itemized Receipt |
| Christopher's World Grille | 2,536.75 | 2008 | No Itemized Receipt, After Hours |
| Carmelo's Restaurant | 2,015.00 | 2008 | No Itemized Receipt |
| Christopher's World Grille | 1,597.20 | 2008 | Alcohol ($329), Party |
| Office Christmas Party | 1,587.00 | 2010 | Party |
| Hurricane Harry's | 1,575.00 | 2008 | No Itemized Receipt |
| J. Cody's BBQ | 1,196.00 | 2008 | No Itemized Receipt |
| Hurricane Harry's | 1,050.00 | 2008 | No Itemized Receipt |
| Christopher's World Grille | 1,000.00 | 2010 | No Itemized Receipt |
| The Eagle | 775.00 | 2008 | Local Advertising |
| Café Excel | 577.25 | 2011 | Alcohol ($107.50), Party |
| Boys and Girl Club | 550.00 | 2011 | Donation to Local Club |
| J.J.'s | 536.59 | 2010 | Alcohol |
| Luke's Bartending | 420.00 | 2010 | Alcohol |
| Atami Japanese Restaurant | 386.13 | 2009 | No Itemized Receipt, Party |
| Christopher's World Grille | 368.64 | 2008 | No Itemized Receipt, After Hours |
| Sam's Club | 308.00 | 2009 | Alcohol ($33.98) |
| The Eagle | 300.00 | 2009 | Local Advertising |
| Truman Chocolates | 276.13 | 2010 | No Itemized Receipt, Gift |
| The Eagle | 255.00 | 2009 | Local Advertising |
| Spec's Wine & Spirits | 244.15 | 2010 | Alcohol |
| Abuelo's | 200.00 | 2010 | No Itemized Receipt |
| Richard Petty Driving Exp. | 198.00 | 2011 | Employee Entertainment |
| Sam's Club | 193.88 | 2010 | Alcohol |
| The Tap Piano Bar | 185.75 | 2009 | No Itemized Receipt |
| Abuelo's | 160.00 | 2010 | No Itemized Receipt, Going Away Meal |
| Riviera Day Spa | 150.50 | 2008 | No Itemized Receipt, Gift |
| Marriott Desert Ridge Resort | 125.00 | 2009 | Employee Entertainment |
| Office Depot | 123.85 | 2008 | Party Supplies |
| Various Restaurants | 120.47 | 2009 | Cost Under Accountable Plan |
| Things Remembered | 114.76 | 2010 | Board Gift |
| Abuelo's | 111.00 | 2009 | No Itemized Receipt, Going Away Meal |
| Colorado Rockies Game | 108.00 | 2009 | Employee Entertainment |
| Cavender's Boot City | 102.84 | 2008 | Employee Gift |
| Gift cards for interns | 102.00 | 2010 | Employee Gift |
| Parkinson's Disease Strikeout | 100.00 | 2009 | Donation to Individual |
| Golf | 99.00 | 2010 | Employee Entertainment |
| Hilton Lobby Bar | 96.00 | 2008 | No Itemized Receipt, After Hours |
| Things Remembered | 95.25 | 2010 | Employee Gift |
| Wings N' More | 91.42 | 2009 | Employee 15-year Meal |
| Grand Station | 88.30 | 2008 | Party |
| Fox and Hound | 88.00 | 2010 | Employee Gift |
| Sam's Club | 87.86 | 2011 | Alcohol |
| Aggieland Outfitters | 81.18 | 2010 | Employee Gift |
| Dixie Chicken | 80.75 | 2011 | Meal During Staff Photo |

**Appendix B (cont.):** Summary of Possible Inappropriate Transactions

| Vendor | Amount | FY | Description |
|---|---|---|---|
| Hobby Lobby | 80.21 | 2008 | Employee Gift |
| Garlands Parks Funeral Home | 79.90 | 2010 | Employee Gift |
| Universal Studios Orlando | 79.88 | 2009 | Employee Entertainment |
| Hospice Brazos Valley | 75.00 | 2009 | Employee Gift |
| Fleming's Steakhouse | 74.50 | 2010 | Alcohol |
| Petal Patch | 67.95 | 2010 | Employee Gift |
| Petal Patch | 60.00 | 2009 | Gift |
| Sports Bar | 60.00 | 2011 | No Itemized Receipt |
| Discount Trophy Bryan | 55.50 | 2009 | Employee Gift |
| Houston National Golf Club | 54.69 | 2008 | Personal Purchase |
| Rosa's Café | 54.51 | 2008 | Birthday |
| Various | 54.07 | 2009 | Gift |
| Petal Patch | 51.00 | 2008 | Employee Gift |
| Ritz-Carlton Hotel | 51.00 | 2009 | No Itemized Receipt |
| REI | 50.00 | 2009 | Employee Gift |
| DTE/Aggieland | 45.00 | 2008 | Employee Gift |
| Everton Hotel | 43.00 | 2010 | Alcohol |
| Wynkoop Brewing Company | 38.00 | 2009 | No Itemized Receipt |
| HEB | 36.75 | 2008 | Birthday |
| Mi Cocina | 35.37 | 2011 | Birthday |
| Great American Cookie | 34.99 | 2009 | Birthday |
| Drover Saloon, KS City, MO | 34.46 | 2009 | No Itemized Receipt |
| Mi Cocina | 34.12 | 2009 | No Itemized Receipt, Birthday |
| Grand Station (Laser Tag) | 34.00 | 2008 | Party |
| Staff Christmas Picture | 33.00 | 2011 | Staff Christmas Picture |
| Mi Cocina | 31.68 | 2010 | No Itemized Receipt, Birthday |
| Coldstone Creamery | 28.12 | 2010 | No Itemized Receipt, Birthday |
| Cash Bar | 26.00 | 2011 | No Itemized Receipt |
| Cheesecake Factory | 25.15 | 2011 | Alcohol |
| Aramark Coors Field | 24.00 | 2009 | No Itemized Receipt |
| Margarita Rocks | 23.29 | 2008 | No Itemized Receipt, After Hours |
| Pechanga Resort and Casino | 23.00 | 2010 | No Itemized Receipt |
| Moonshine Patio Bar | 23.00 | 2009 | No Itemized Receipt |
| Bluegrass Brewing Company | 21.00 | 2011 | No Itemized Receipt |
| Hilton Bar | 20.00 | 2011 | No Itemized Receipt |
| Krogers | 18.39 | 2010 | Gift |
| McDonalds | 17.49 | 2010 | Local Meal |
| Mai Tai Bar, Daytona Beach, FL | 17.00 | 2011 | No Itemized Receipt, After Hours |
| Brewzzi, West Palm Beach, FL | 15.00 | 2009 | No Itemized Receipt, After Hours |
| Dirty Nelly's | 14.25 | 2009 | No Itemized Receipt, After Hours |
| Cash Bar | 12.00 | 2010 | No Itemized Receipt |
| Spec's Wine and Spirits | 11.93 | 2010 | Alcohol, Gift |
| Marriott Bar | 11.10 | 2011 | No Itemized Receipt |
| Cash Bar | 10.00 | 2008 | No Itemized Receipt |
| Marriott Bar | 8.23 | 2011 | No Itemized Receipt |
| Marriott Bar | 8.06 | 2011 | No Itemized Receipt |

**Appendix B (cont.):** Summary of Possible Inappropriate Transactions

| Vendor | Amount | FY | Description |
|---|---|---|---|
| Drinks for photographers | 8.00 | 2010 | No Itemized Receipt |
| Murphy's Law | 7.75 | 2010 | Alcohol |
| O'malley's Pub, FL | 6.20 | 2010 | Alcohol |
| Caesar's Palace (Mini Bar) | 5.41 | 2010 | Alcohol |
| Marriott Bar | 5.36 | 2011 | No Itemized Receipt |
| Moonshine Bar | 4.00 | 2011 | Alcohol |
| Hula Hut | 4.00 | 2011 | Alcohol |

## **Appendix C:** Management's Response to the Audit Recommendations

BRYAN COLLEGE STATION
CONVENTION AND VISITORS BUREAU

MEET · PLAY · VISIT

**Date:** August 22, 2011

**To:** Ty Elliott, City of College Station Auditor

**From:** Shannon Overby, B/CS Convention & Visitors Bureau

**RE:** Responses to Draft Audit Report – Brazos Valley Convention & Visitors Bureau

Following are the Auditor's Recommendations accompanied by the CVB's Response:

1. The CVB should not use city HOT funds to hire consultants to provide information to city officials in order to influence policy decisions. Being able to control (1) the scope of work of a study and (2) the data the study produces can lead to data manipulation. Consequently, information said to be the result of a consultant's study is less reliable when the consultant's client has a strong incentive for the results to be favorable. The City Council may desire to have studies conducted to determine the best uses of HOT funding, return on investment of HOT allocations, or the estimated spending of those visiting the City. If the City Council requests to know this type of information, they should direct city staff to use HOT funds to commission the consultant work. However, the use of HOT funds by the CVB for consultant services can be appropriate under certain circumstances. For example, consultants may be needed to provide essential information required to receive grant funding. The CVB's use of consultants' studies to obtain information to improve CVB operations, productivity, or performance may also be beneficial.

**Management Response:** The CVB took its lead on this plan from former Councilman John Crompton and Councilman Dave Ruesink as the City's appointees to the CVB Board of Directors. It was recommended that the City was looking for some guidance and leadership from the CVB on this issue, thus the discussion and decision to hire a consultant. It was also discussed whether to ask the city for additional funds or to pay out of the current budget - our current budget allowed for this expense.

1

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2. The CVB should increase efforts to collect more accurate and reliable pickup and room rate data from area hotels. This could be done by effectively communicating to area hotels that CVB funding is dependent upon gathering this information. If area hotels value the service the CVB provides to them, they should be willing to offer information that cost them very little to provide. One possible use of investment of HOT funds using the following equation:

$$ROI = \frac{\text{(Pickup nights x Room Rate x 7\%)}}{\text{HOT funding}}$$

**Management Response:** The CVB concurs with the recommendation that a better accounting of room pick up and ROI history of groups / events in our community is vitally important. The CVB staff will work on increasing the understanding by area lodging facilities on how vital this information is.

3. The CVB should update the type of measures they are reporting to the City. The measures reported should be reliable, clear, and concise. They should also effectively measure CVB workload and outcome. The CVB may stop reporting several measures that currently don't fit these criteria in order to focus on more meaningful and accurate reporting. Workload and outcome measures the CVB could possibly report to the City are as follows:

Workload Measure Examples:
- The total number of events the CVB serviced
- The total number of hotel rooms that were booked by the CVB
- The total number off pickups from events serviced by the CVB

Outcome Measure Examples:
- The total number of pickups where the CVB had an impact on the event coming to the Brazos Valley
- The percentage of CVB impacted pickups to the total number of bookings from events serviced by the CVB
- Return on Investment (see recommendation 2)

**Management Response:** The CVB concurs with the recommendation that it is necessary to update the measures that are reported to the City to better reflect the workload and outcome of the CVB's efforts. The CVB will work with the City Manager's office to establish new reporting mechanisms to be instituted October 1, 2011 (the beginning of the 2011/12 fiscal year).

4. The CVB Executive Director should develop written policies and procedures that adequately govern the daily operations of CVB personnel. The policies should be designed to (1) promote conformance with HOT rules and regulations and (2) provide assurance that HOT funds are being safeguarded and appropriately spent. Personnel should receive training regarding these written policies and procedures when they are initially hired and periodically throughout the term of their employment.

**Management Response:** The CVB concurs with this recommendation and is currently working on updating policies and procedures. They will be on the September CVB Board agenda for discussion and possible action.

5. If the CVB continues to use an accountable plan to account for employee purchases, employees should be required to provide sufficient documentation to justify the business expense-providing non-itemized receipts is not sufficient documentation. If the employee cannot provide sufficient documentation to prove that the purchase met a legitimate business need, they should be required to pay for the purchase.

**Management Response:** The CVB concurs with this recommendation and is currently working on updating policies and procedures. They will be on the September CVB Board agenda for discussion and possible action.

6. The CVB Executive Director should no longer endorse travel expenditures on entertainment or inter-organizational parties that use College Station HOT funds as a funding source. If the CVB wishes to continue to make these types of expenditures, they should expend funds from an account where City HOT funds are not maintained. For example, they could use funds from the events account for staff entertainment or party expenditures.

**Management Response:** The CVB concurs with this recommendation and is currently working on updating policies and procedures. They will be on the September CVB Board agenda for discussion and possible action.

7. Adequate supervision of purchases needs to become a focal point of CVB management. Purchases such as gifts, alcohol, or local meals should have a greater deal of scrutiny because they can easily be interpreted as non-legitimate business expenditures. An approval hierarchy should be implemented, where the individual approving the transaction is sufficiently independent to be able to not approve the requested expense reimbursement if inadequate documentation is provided to determine the business purpose of the purchase.

**Management Response:** The CVB concurs with this recommendation and is currently working on updating policies and procedures. They will be on the September CVB Board agenda for discussion and possible action.

8. Existing controls over check purchasing processes need to be enforced and updated. Future check processing controls should require the signatures of the CVB Executive Director or her designee and a board member on every check. There should be a system of internal control that prevents two employees or two board members from signing any check.

**Management Response:** The CVB concurs with this recommendation and is currently working on updating policies and procedures. They will be on the September CVB Board agenda for discussion and possible action.

9. Because the CVB is a small organization, implementing proper separation of duties as a security control may not be feasible. Therefore, increased management oversight over the accounting system should be implemented as a mitigating control. The Executive Director should become familiar with QuickBooks system and the features that allow her to review voided transactions and other high risk expenditures. For example, the CVB Executive Director could review voided transaction or audit trail reports on a periodic basis to verify that in appropriate adjustments are not being made to cover fraudulent behavior.

**Management Response:** The CVB concurs with this recommendation. The CVB Director will enroll in a QuickBooks course as soon as possible in order to better safeguard from risk.

4