

Audit of the Bryan-College Station
Convention & Visitors Bureau

April 2016

City Internal **Auditor's Office**
City of College Station

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Convention & Visitors Bureau Audit

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Introduction

The Office of the City Internal Auditor conducted this performance audit of the Bryan-College Station 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 independently assess 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.

The fiscal year 2016, budgeted Hotel Occupancy Tax (HOT) revenue is \$5,502,000 which reflects an increase of 4 percent over the fiscal year 2015 year-end estimate of \$5,290,000. In addition, in fiscal year 2015 proceeds from the sale of the Chimney Hill property were transferred to the **City's** Hotel Tax Fund. Approximately \$9.3 million was transferred into the fund and is available for eligible expenditures in the Hotel Tax Fund. Most of those funds are projected for capital projects at Veterans Park and Athletic Complex, and the still to be developed Southeast Park.

How to best utilize these HOT funds within the limits of State law has been keenly deliberated among city officials, community leaders, and interested stakeholders over the past few years. Included in these discussions have been city collected HOT funds distributed to agencies outside city government. A total of \$2,811,000 of Hotel Tax funding in fiscal year 2016 was budgeted for outside agencies. This includes approximately \$1,728,000 for the Bryan-College Station Convention & Visitors Bureau (CVB).

The Office of the City Internal Auditor conducted its first audit of the CVB in 2011 as directed by the Audit Committee and City Council. A follow-up audit was conducted a year later in 2012. The current audit was included in the fiscal year 2016 audit plan based on direction given by the Audit Committee and City Council.

Audit Objectives

This audit addresses the Bryan-College Station **Convention and Visitors Bureau's use of Hotel Occupancy Tax (HOT) funds, as well as a review of the program's reporting mechanisms and practices.** This report answers the following questions:

- Does the CVB efficiently and effectively utilize HOT funds to achieve its mission, goals, and objectives as set forth by the Convention and Visitors Bureau Executive Board?
- 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 (except for the completion of an external peer review),¹ which are promulgated by the Comptroller General of the United States. Audit fieldwork was conducted from January 2016 through March 2016. For the purpose of evaluating the adequacy of CVB reporting, the scope of review was fiscal years 2013 through 2015. For the purpose of evaluating internal controls over HOT funds, the scope included a review of revenue and expenditure transactional data from October 2012 through September 2015.

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.
- Conducting several interviews of City of College Station staff, industry professionals and CVB personnel; including the President/CEO, Director of Finance, and Vice President of Sales.

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 sampled events serviced by the CVB in fiscal year 2015 through the **CVB's information tracking system. Information obtained** included: correspondence related to events, number of bookings, event attendees, estimated spending, actual hotel stays, and various descriptive data related to the event.
- Reviewing the reports of and interviewing auditors hired by the CVB.

¹ Government auditing standards require audit organizations to undergo an external peer review every three years. A peer review is planned for 2016.

- Utilizing a systematic rating methodology of CVB impact for recruiting an event to come to the Brazos Valley based on information obtained from the **CVB's** 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 HOT regulations by examining state HOT legislation and reading professional publications regarding the appropriate use of HOT funds.
- Conducting data analysis using specialized auditing software to test for fraud indicators and system control failings.
- Conducting a comparative analysis of budget to actual expenditures and performing a trend analysis for each account to identify fraudulent or wasteful spending patterns.
- **Obtaining the log of the audit trail from the CVB's financial system and analyzing every entry in this log within the scope of the audit objective.**
- Selecting a sample of 346 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 346 transactions in the sample, expense reports were examined, vendors were verified, transaction support documentation was scrutinized, and CVB staff was interviewed regarding certain transactions.
- Reviewing bank statements and support documentation. A sample of 75 CVB checks were also examined for compliance with understood CVB check writing policies and procedures.
- Conducting a review of CVB board minutes to gain an understanding of the governance and oversight functionality of the board.

Convention & Visitors Bureau Background

The Bryan-College Station 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 forms of print and digital media. In addition, the CVB offers assistance to convention, sporting, or tourism related event coordinators through providing:

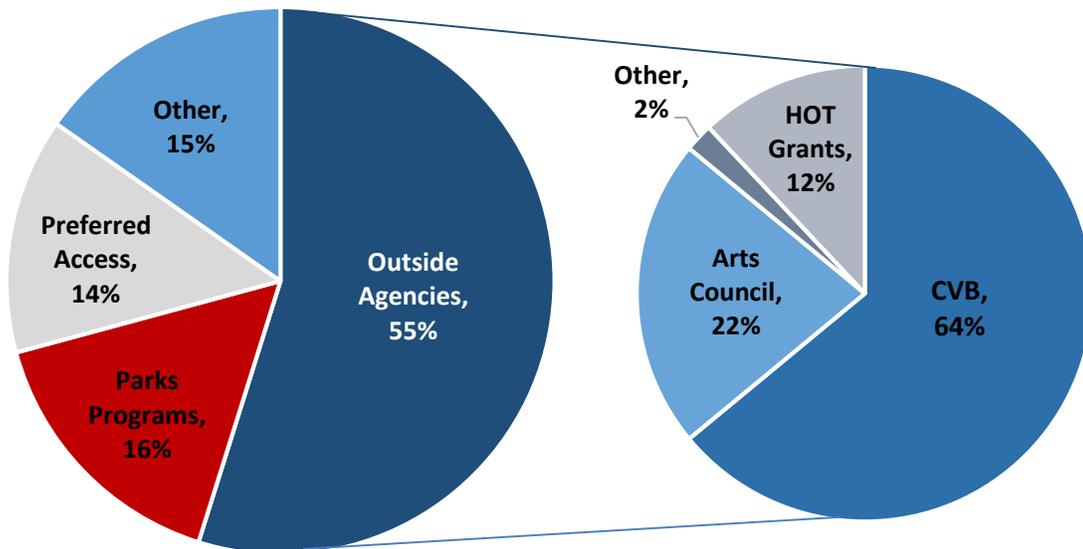
- Hotel room blocks – contacting area hotels to request rates for a portion of their inventory of rooms to be set aside for a particular period of time for the client. Blocking hotel rooms through the CVB may result in lower rates because hoteliers are asked to bid on hotel blocks based on customer provided 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 guests, 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.

CVB HOT Fund Appropriations Are Substantial

The Hotel Occupancy Tax (HOT) 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. From fiscal year 2014 to fiscal year 2015, there was a 29 percent increase in HOT fund appropriation, and the fiscal year 2015 approved budget saw a total HOT Fund budget of \$3,820,000. A total of \$2,063,000 of Hotel Tax funding was approved in the fiscal year 2015 budget for outside agencies. The breakdown of this funding can be seen in Figure 1 below.

Figure 1: Breakdown of Fiscal Year 2015 Hotel Occupancy Tax Funding²

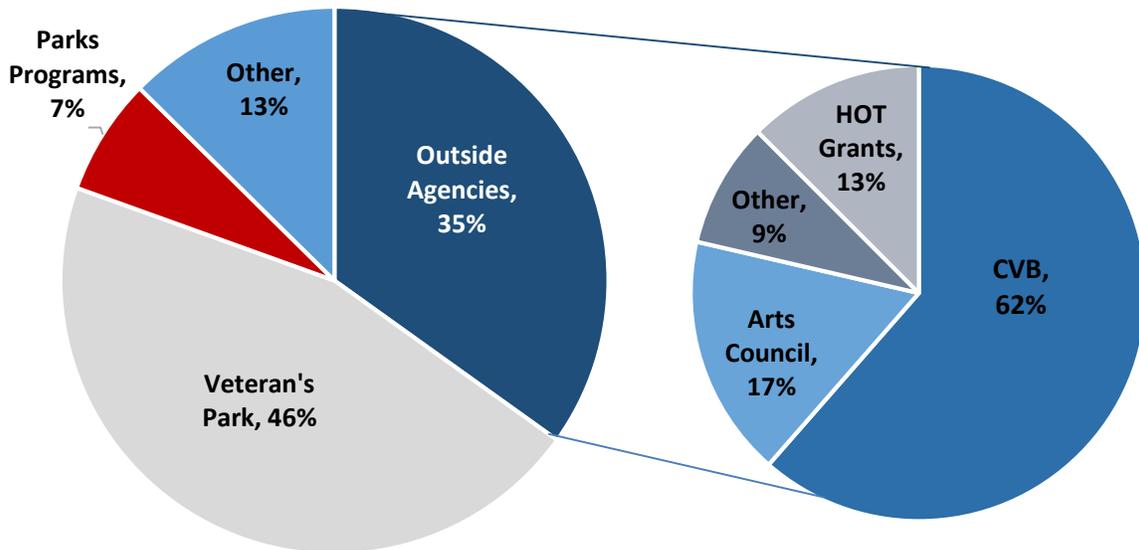


² Does not include the \$50,000 contingency budgeted. The other category in Figure 1 totaling just over 15% included the following areas of city HOT funding: sports tournaments and promotional funds, public communications, capital purchases, and miscellaneous programs and events.

Outside agencies constituted 55 percent of city HOT funding and 64 percent of that funding went **toward the CVB’s operational and** marketing costs. Another 12 percent was allocated for the CVB Grant Program, resulting in 76 percent of outside agencies HOT funds going to or through the CVB. This was an overall percentage of 41 percent of HOT funds budgeted by the City being distributed to the CVB.

From fiscal year 2015 to fiscal year 2016, there has been an almost 80 percent increase in HOT fund appropriation, and the fiscal year 2016 approved budget saw a total HOT fund budget of \$8,111,000. A total of \$ 2,811,000 of Hotel Tax funding was approved in the fiscal year 2016 budget for outside agencies. The breakdown of this funding can be seen in Figure 2 below.

Figure 2: Breakdown of Fiscal Year 2016 Hotel Occupancy Tax Funding³



The **Veteran’s Park** synthetic fields project is receiving the majority of city budgeted HOT funds this fiscal year—constituting approximately \$3.7 million. HOT funds previously held in reserve were appropriated in fiscal year 2016 for this project.

Outside agencies constituted 35 percent of city HOT funding and 62 percent of that **funding goes toward the CVB’s** operational and marketing costs. Another 13 percent was allocated for the CVB Grant Program, resulting in almost 75 percent of outside agencies HOT funds going to or through the CVB. This is an overall percentage of 26 percent of HOT funds budgeted by the City being distributed to the CVB in fiscal year 2016.

³ Does not include the \$50,000 contingency budgeted. The other category in Figure 2 totaling nearly 13% included the following areas of city HOT funding: TAMU preferred access payments, sports tournament promotional funds, public communications, and miscellaneous programs and events.

The Use of HOT Funds is Limited by State Law

The use of funds derived from hotel occupancy taxes 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.⁴
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.

The CVB Has Been Audited Previously by the City

The Office of the City Internal Auditor conducted its first audit of the CVB in 2011 at the request of the City Council and Audit Committee. During the previous 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 **CVB's reporting to the City**. Controls were determined to be lacking in several financial processes that were examined. In addition, data contained in CVB performance reports were found to be unreliable.

A follow-up audit was conducted a year later in 2012 to determine whether the weaknesses previously noted in the 2011 audit had been sufficiently addressed. The report found significant improvements by the CVB in almost all areas and concluded that the organization had implemented most of the audit recommendations from the previous audit.

⁴ State of Texas House Bill 3629 was passed in the 2015 Legislative Session that provides authority for the City of College Station to use hotel tax revenue for constructing, operating, or expanding a sporting facility or sports field owned by the municipality if it meets specific requirements.

Findings and Analysis

Accounting Procedures & Financial Management

The 2011 audit found that there were significant weaknesses in CVB accounting procedures. These included: 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. We found that these weaknesses have been sufficiently addressed by the CVB in the intervening years. However, there may be opportunities for the CVB to implement certain financial management practices that could lead to an increase in operational effectiveness.

Accounting Procedures Have Greatly Improved

Oversight and documentation of transactions has improved. We sampled 346 CVB transactions to check for: 1) oversight, 2) documentation, 3) business purpose and 4) appropriate use of HOT Funds. The results were as follows:

Table 1: Transaction Sample Results

| Result | Number | Percentage | Amount | Percentage (monetary) |
|--|--------|------------|-----------|-----------------------|
| Sufficient | 297 | 85.8 | \$733,800 | 88.9 |
| Lack of Oversight | 10 | 2.9 | \$28,700 | 3.5 |
| Lack of Documentation/Evidence | 25 | 7.2 | \$52,500 | 6.4 |
| Unverified business purpose ⁵ | 14 | 4.0 | \$10,400 | 1.3 |

The 2011 audit found that only about 30 percent of transactions had adequate documentation. A marked improvement can be seen from the sample results above, and suggests that the CVB has made great strides to address the weaknesses found in the 2011 audit. The total amount that did not meet our criteria constituted \$91,600.

Check authorization procedures have improved. We also sampled 75 checks written by the CVB with the following criteria: 1) there were two signatures on each check, 2) the signatures were written by authorized check signers, and 3) the person receiving the check did not sign it. We found only one check that did not meet these three criteria. This is in contrast to the 2011 audit report, which found 24 percent of checks sampled had an employee sign their own check. These results suggest that check authorization

⁵ Based on the documentation, we were unable to ascertain the business purpose of the transaction. This does not mean that the transaction did not have a legitimate business purpose, only that it was not evident in the documentation.

practices have substantially improved since the 2011 audit. The one check that did not meet our criteria was a check in the amount of \$19,950. It only had one signature.

Some CVB Financial Strategies Are Questionable

One CVB account is at risk. The Federal Deposit Insurance Corporation (FDIC) only insures bank accounts in amounts under \$250,000. One CVB account is over \$250,000 **and is therefore not insured under the FDIC, increasing the account's risk.** It is important to note that this account has grown over 300 percent in the last five years. This account operates largely as a reserve fund and is used mostly for in-house events or other purposes.

CVB reserve amounts seem unnecessary. Maintaining an adequate level of fund balance, or reserves, may be necessary to mitigating current and future risks. This is especially true for organizations that have a high level of current liabilities (e.g. debts, accounts payable, accrued expenses, etc.). **However, we found the CVB's strategy of continuing to grow its reserve fund balance to be at odds with financial management best practice.**

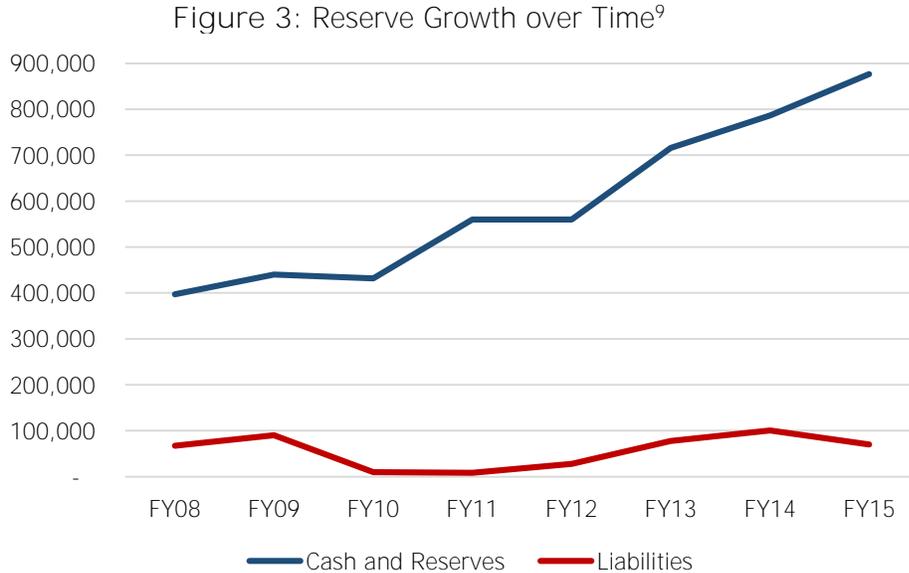
From fiscal year 2010 to fiscal year 2015, the CVB has more than doubled the funds that it **held in reserve. As a result, the CVB's current ratio at fiscal year-end 2015 was 13.84.**⁶ A ratio under 1 indicates that an organization's **liabilities are greater than its assets** and suggests that the organization in question would be unable to pay off its obligations if they came due at that point. On the other hand, a high ratio (over 3) may suggest that the organization is not using its current assets efficiently. **The CVB's current ratio of 13.84** indicates that the CVB has liquid assets enough to pay their current liabilities over thirteen times. This is further illustrated in Figure 3 on the next page, as the gap between liabilities and liquid assets has grown almost two and a half times since fiscal year 2008.

These amounts should especially be regarded with strong consideration given the CVB's requests for increased funding from the City over the past three years. From fiscal year 2013 to fiscal year 2016, there has been a 45 percent increase in the amount requested for city funding⁷. This followed a slight decrease after the 2011 audit. With few exceptions, the City has granted the CVB the funds it requested in full. Therefore, this increase in requests has been met by a comparable increase in city funding. While some of this increase can be explained by specific projects, the increasing amount requested in conjunction with growing reserves and a lack of strategic use for funds puts into question whether HOT funds are being utilized to their full potential.

⁶ The current ratio is mainly used to **give an idea of an organization's ability to pay back its liabilities (debts and accounts payable) with its assets (cash, marketable securities, inventory, and accounts receivable)**. The higher the current ratio, the more capable an organization is of paying its obligations.

⁷ This amount does not include funding for the HOT Grant Program.

As can be seen in Figure 3 below, the CVB’s cash and reserves⁸ were \$397,500 at fiscal year-end 2008 and have grown to \$876,600 by fiscal year-end 2015, which is a 121 percent increase.



Aspects of Project Management Should be Considered

Project management is a common practice in many industries and is a growing tool used in both business and government offices. It allows organizations to allocate salary and other direct or indirect costs appropriately to better understand costs and benefits. It also assists in monitoring how far along an employee is within the project, encouraging efficiency. This helps organizations to more accurately estimate event costs, which in turn leads to a more accurate estimate of return on investment. For the CVB, this system could assist in determining which events are worth pursuing and which consume more resources with less returns. One particular aspect of project management that may be useful to the CVB is job costing.

Cost analysis is lacking. The CVB has not conducted analysis on the costs induced from servicing or hosting an event. This means that, even though the CVB usually knows six months in advance when they will be servicing or hosting an event, they are not **necessarily budgeting for these expenses accurately. This also limits the CVB’s** understanding of their costs in relation to returns. It is difficult to know the true costs of events due to inadequate cost management practices. For example, there is currently no

⁸ Cash and reserves do not include the following current assets: accounts receivable, HOT grant receivable, and prepaid expenses.

⁹ Taken from the CVB’s annual external audit reports. In FY15, the external audit was performed by Ingram, Wallis, & Co.

process to account for staff time spent on pursuing or assisting certain events. This obscures the cost of events in terms of both funds and time.

Job costing is a common practice when relatively unique and high-dollar jobs are completed for a few customers. A job costing approach allows an organization to trace **specific costs to individual jobs, or in the CVB's case**, events. Because of the nature of **the CVB's** product, accounting procedures may be slightly altered. But in general, the following three areas should be accounted and allocated to individual events:

Materials. Adequate job costing practices should allocate material costs associated with each individual job. For the CVB these material costs would include monies spent on gift baskets, hotel rooms, giveaways, bids, sponsorships, etc. for each individual event. In fiscal year 2015, the CVB began attributing costs to different expense accounts, which will make it easier to attribute material costs to individual events. However, efforts may still be needed to associate expenses with events effectively.

Labor. Job costing practices should also account for hours of labor directly associated with each individual job. **In the CVB's case, this would include time spent pursuing, servicing, and hosting each event.** Currently, the CVB does not utilize a system to track these event hours. However, once hours spent on events are recorded, the cost of each **employee's** salary can be distributed accordingly.

Overhead. In job costing, overhead is any cost that cannot be directly attributed to a single job, so the cost is spread out over all jobs completed. For the CVB this includes any administrative costs from rent to professional development. Recently, the CVB began attributing these costs to different expense accounts, which, similarly to materials, will make allocating costs easier. Overhead costs may need to be estimated historically, because they cannot be associated with a specific event. There are different methods of allocating overhead that the CVB should consider when creating their budget at the beginning of each fiscal year.

Convention & Visitors Bureau Impact

During the 2011 CVB audit, the Office of the City Internal Auditor found that the CVB had overstated key performance measures by not accurately excluding individuals who had already decided to come to the College Station and Bryan area before they contacted the CVB. 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.”**

There is no Significant Difference in Impact

Overall, there is not a significant difference between the impact the CVB had in 2011 and 2015. Some of the same events that occurred in 2011 also happened in 2015. For those events we retained the same scoring. For those events that differed from 2011 events, we conducted a thorough evaluation utilizing the same methodology as the 2011 audit. This methodology can be found in Appendix A. Table 2 shows the relative lack of change regarding CVB impact in bringing events to the College Station and Bryan area, **“1” meaning no impact and “5” meaning strong impact.**

Table 2: Event Impact Rating

| Rating | # of Events (2010) | % of Total (2010) | # of Events (2015) | % of Total (2015) |
|--------|--------------------|-------------------|--------------------|-------------------|
| 1 | 151 | 62.9 | 190 | 59.4 |
| 2 | 36 | 15.0 | 74 | 23.1 |
| 3 | 31 | 12.9 | 41 | 12.8 |
| 4 | 12 | 5.0 | 14 | 4.4 |
| 5 | 10 | 4.2 | 1 | 0.3 |

Reporting measures have changed. The 2011 audit also noted that the CVB had a large amount of performance measures that were not necessary for accurate reporting of CVB events. The CVB has addressed this by reducing measurements and duplicates to only those that are necessary for accurate reporting by event and service type.

Event Types

- Sports
- Conventions/Meetings

Service Types

- Assist Only
- Room Blocks Only
- Assist and Room Blocks
- Full Service

The majority of events fall into the categories of Assist Only or Assist and Room Blocks. These are generally events that are already coming to the College Station and Bryan area and only require some service assistance in putting on the events, such as weddings or smaller meetings. However, it is also important to note that there are events that would not have come to the area if the CVB had not bid on or pursued the event.

The CVB generally brings more sporting events. Particularly, youth amateur sporting events with large attendance numbers were rated "4" or "5" for 2015. We acknowledge that building the relationships and networks that will increase the number of events coming to the College Station and Bryan area takes time and effort, but this effort should be put towards events that offer greater returns. It is also important to note that the CVB is a particular type of sales organization, tied to a geographical location. As a CVB employee noted, "It's hard to quantify what we sell because we don't own it. It's not a cup or a sign or a hotel room. The CVB sells a destination and acts as a conduit, pulling everyone together to provide the client with a great service."

Sports Events Offer Greater Returns than Conventions

Sports events appear to offer a greater return than conventions and meetings. We analyzed data regarding the three measures from fiscal year 2013 to fiscal year 2015 to determine any patterns between conventions and sports events.

Table 3: Conventions vs. Sports

| | FY13 Actual | FY14 Actual | FY15 Actual | Average Per Lead |
|----------------------------------|----------------|----------------|----------------|---------------------|
| Conventions | | | | |
| # of Leads | 205 | 161 | 193 | - |
| # of Definite Room Nights Booked | 30,289 | 24,343 | 32,500 | 156 |
| # of Attendees Booked | 53,609 | 38,666 | 41,400 | 239 |
| Sports | | | | |
| # of Leads | 143 | 140 | 134 | - |
| # of Definite Room Nights Booked | 31,927 | 40,718 | 31,500 | 250 |
| # of Attendees Booked | 74,014 | 114,913 | 56,700 | 439 |

As Table 3 shows, sports demonstrates a greater return in terms of attendance and room nights than conventions. Each sports lead results in an average of 439 attendees booked and 250 room nights booked, almost twice as many as conventions. Therefore, sports events seem to generate more commerce possibility than conventions. However, this does not necessarily mean greater economic impact per attendee. This is mainly due to behavioral differences between convention attendees and sporting attendees. For example, attendees at conventions tend to stay in hotels by themselves and may spend more money on exploring the College Station and Bryan area, meanwhile, sporting

event attendees may not stay the night, or may stay in rooms with more than one person. Also, sporting events tend to happen on weekends, whereas conventions usually occur on weekdays. Because of this, it is difficult to say which event type would have the highest economic impact if all things were equal—i.e. equal attendance.

Without job costing and accounting for salary costs, the CVB cannot estimate the actual CVB expense per attendee or room night. As a result, there is currently no way to know for certain how much it costs to pursue conventions versus sports and thus know which type of visitor generates a greater return on investment. However, while it is inconclusive whether sports or conventions would generate a higher economic impact if all things were equal, the College Station and Bryan area appears to offer a stronger market for sports as more attendees do come to the area for sporting events.

Convention & Visitors Bureau Expenditures

There has been an increase of 19 percent in the CVB's expenditures from fiscal year 2010 to 2015. It is interesting to note that the audit conducted in 2011 and the subsequent follow-up audit in 2012 examined operations and expenditures in fiscal years 2010 and 2011 respectively. The time period between these two reviews saw CVB expenditures decrease whereas CVB expenditures had been steadily increasing during the years previous to the first audit. Table 4 below provides a breakdown of CVB expenditures from fiscal year 2010 through 2015, including percent increases.

Table 4: CVB Expenditures from Fiscal Years 2010 to 2015¹⁰

| | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 |
|-------------------------------------|-----------------|------------------|------------------|-------------------|------------------|-----------------|
| Salaries & Benefits | 501,000 -7% | 530,000 6% | 539,000 2% | 567,000 5% | 703,000 24% | 750,000 7% |
| Marketing | 431,000 25% | 399,000 -8% | 863,000 116% | 510,000 -41% | 528,000 4% | 467,000 -11% |
| Operations | 347,000 2% | 339,000 -2% | 420,000 24% | 301,000 -28% | 313,000 4% | 316,000 1% |
| Travel/ Prof. Dev. ¹¹ | 103,000 1% | 76,000 -26% | 98,000 29% | 97,000 -1% | 105,000 7% | 115,000 10% |
| Total: | 1,382,000 4% | 1,344,000 -3% | 1,921,000 43% | 1,475,000 -23% | 1,649,000 12% | 1,648,000 0% |

Increases in salaries and benefits from fiscal years 2010 to 2015 are attributed to the addition of staff. Operations expenditures have fluctuated primarily due to facility changes. After a decrease of 26 percent in traveling and professional development following the 2011 audit, there has been a marked increase in travel expenditures. A similar phenomenon was observed in marketing. Table 5 below provides a breakdown of marketing expenditures from fiscal year 2010 to 2015.

Table 5: CVB Marketing Expenditures from Fiscal Years 2010 to 2015

| | FY10 | FY11 | FY12 | FY13 | FY14 | FY15 |
|--------------|---------|---------|---------|---------|---------|---------|
| Advertising | 193,000 | 203,000 | 420,000 | 169,000 | 196,000 | 201,000 |
| Website | 145,000 | 112,000 | 54,000 | 160,000 | 97,000 | 152,000 |
| Sponsorships | 71,000 | 47,000 | 43,000 | 52,000 | 191,000 | 73,000 |
| Tradeshows | 22,000 | 34,000 | 30,000 | 29,000 | 27,000 | 20,000 |
| Wayfinding | 0 | 0 | 300,000 | 100,000 | 15,000 | 20,000 |
| All Others | 1,000 | 2,000 | 17,000 | 0 | 2,000 | 2,000 |
| Total: | 431,000 | 399,000 | 863,000 | 510,000 | 528,000 | 467,000 |

¹⁰ Taken from **the CVB's** annual external audit reports. In FY15, the external audit was performed by Ingram, Wallis, & Co.

¹¹ Includes travel, professional development, and dues and subscriptions.

*From fiscal year 2011 to 2014 marketing expenditures have increased after the initial decrease in spending following the 2011 audit. This is primarily due to a number of **consultant driven studies, print and media advertising, and investment in the CVB's website.** These marketing efforts have been met with mixed reviews by community leaders and city officials in College Station and Bryan. For example, the wayfinding study commissioned by the CVB to make notable destinations throughout College Station and Bryan more easily navigable, including but not limited to effective signage, was well received. This accounts for the large increase in expenditures during fiscal year 2012. However, the branding study commissioned by the CVB resulting in the development of a new branding message, **"Super, Natural, Goodness,"** was criticized by community leaders and city officials. This study alone cost over \$40,000.*

Some Expenditures seem Disproportionate

Travel should always be carefully considered as to whether it furthers an organization's goals. There is an opportunity cost associated with staff travel. When staff is traveling, they are not able to do other work that furthers the objectives of the organization. Given that personnel salaries and time are the biggest expense when traveling, this may not be an effective or efficient use of resources. In addition, there appears to be a greater focus on the conventions and meetings industry despite it being the area the yields fewer results.

Figure 4: Fiscal Year 2015 Map of Out-of-State Travel¹²



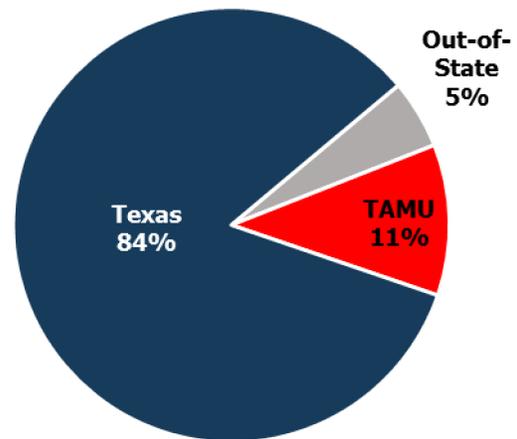
¹² Additional out-of-state travel not reflected in Figure 4 included over \$3,600 spent for the President/CEO to travel to Europe to see the "Aggies Go To War" exhibit.

CVB staff travel frequently both within and out of state for business and professional development purposes. Employees traveled in-state most often for Destination Marketing Association International (DMAI), Texas Association of Convention and Visitors Bureaus (TACVB), and Texas Travel Industry Association (TTIA). Total in-state travel constituted 10 localities outside of the College Station and Bryan area.¹³ Regarding out-of-state travel, Figure 4 shows the states to which employees have traveled for professional development or business purposes. As noted in the impact section, the majority of events that the CVB had a high impact on bringing from out-of-state were sporting events. While half of CVB employee travel was sports staff to sporting industry related events, the sporting industry events themselves only comprised 35 percent of total out-of-state CVB travel. The rest of the travel was for other employees attending conferences or convention related events.

Most employees follow travel expenditure policies. Two staff members comprise a significant amount of employee travel because of their position in the sports division; however, both consistently follow CVB policies regarding spending the least amount of money possible on hotels and other expenses during travel. Their expenditures are therefore much less impactful on the overall budget. Most employees seem to follow this **policy and utilize travel for the benefit of the CVB’s mission, goals, and objectives.** There were, however, two employees whose travel we questioned as to whether it was the best utilization of resources.

Figure 5: 2015 Events by Origin

| Event Origin | Number of Events | Total Attendees |
|---------------|------------------|-----------------|
| Out-of-State | 13 | 9,985 |
| TAMU | 114 | 21,841 |
| Texas | 184 | 162,819 |
| Total: | 311 | 194,645 |



Most event attendees are from in-state. Using the CVB’s 2015 event calendar, we identified which events were from in-state and out-of-state, as well as which events came for Texas A&M University (TAMU). Figure 5 presents the results from calendar year 2015. Information regarding the origin of event attendees should be noted when determining which travel is the most efficient and effective use of resources.

¹³ These areas were Dallas/Fort Worth, Houston, Austin, McAllen, Lubbock, San Antonio, Horseshoe, Montgomery, San Angelo, and Wichita Falls.

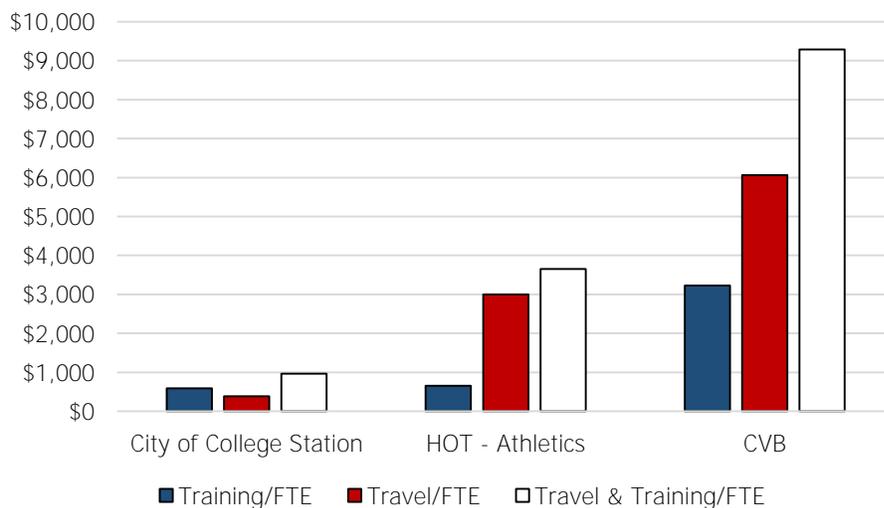
We received contradictory documentation from the CVB regarding travel and therefore relied on transactional data to document employee expenditures on consumables to determine actual travel. By tracking these types of expenditures, such as airfare, hotels, and others, we were able to determine where an employee was and for how long.

Travel and Training Expenditures should be Scrutinized

Professional development expenditures have been increasing over the past six years. In 2009 professional development expenditures made up 9 percent of total travel and training expenses by the CVB. However, in fiscal year 2015 professional development expenditures made up almost 35 percent of total travel and training expenditures. This constitutes a significant amount of this expenditure category, which is contrary to our expectations. For example, to fulfill the professional development requirement for a Convention Meeting Professional certification, a person only needs to have 36 months of experience in the meeting management field and 25 hours of continuing education over five years, or 5 hours per year. To fulfill the professional development requirement for a Certified Sports Event Executive certification, a person needs to earn 32 credits (two courses per year over four years) and have at least five years of experience in the sport tourism industry. Once obtained, the person is required to attend only one live or online course a year to maintain the certification.

The CVB spends more on travel than city comparable positions. The City has a program that also promotes destination marketing activities like the CVB, which is located in the Parks & Recreation Department. This program in the Athletics Division of Parks and Recreation is also funded through HOT money. As shown in Figure 6, during fiscal year 2015 the CVB spent 2 times the money traveling per full-time equivalent (FTE) position than the comparable travel paid from the HOT program in the Athletics Division.

Figure 6: Fiscal Year 2015 Travel Comparison by FTE



While it is indeed necessary for CVB staff to travel for business and networking purposes, the amount of travel should be carefully scrutinized to determine whether it **will result in positive outcomes for the CVB's mission goals** and objectives. We expected to find members of the sales team, as they are the employees that are focused on making connections to market the College Station and Bryan area as a location for events, to comprise of the majority of travel. Contrary to our expectations, we found higher level management has higher travel expenditures.

More leniency should be given in this area if and only if it is yielding clear results and the **City is satisfied with the outcomes of the CVB's efforts in terms of events brought** to the City of College Station. For example, if the travel to Europe **to see the "Aggies Go To War" exhibit** results in a strong marketing campaign when the exhibit comes to the City at the end of 2016, then the travel could be justified. However, if there are not clear results or efforts following the travel, then there should be a reevaluation as to the benefits of conducting travel of that magnitude.

Reimbursement Checks to Employees Are Infrequent

Generally, making purchases on a business purchasing card presents less of a fraud risk than simply reimbursing employees for expenses that are claimed for business purposes. In a typical organization, some of the transactions most at risk of being fraudulent are non-payroll checks issued to employees. Purchasing cards allow an organization to review bank statements rather than relying solely on receipts or other support documentation. Also, purchasing cards have additional control features such as setting purchase amount limits, blocking certain merchant categories, etc.

Support documentation for check reimbursements, usually receipts, can be manipulated and altered. Some examples of CVB employees making purchases on their personal credit cards that were submitted for check reimbursements were plane tickets, items for gifts baskets, and more. However this monetary amount is below 5 percent for all employees¹⁴, with the exception of the President/CEO. This is concerning due to lower **accountability mechanisms with checks, as well as the President/CEO's status** in the organization. To mitigate this risk, all business purchases, except those that *cannot* be put on the business card, should be paid for through the business card.

¹⁴ Some employees exceeded 5 percent but because of materiality were not exceptions. **Only two employee's total check** reimbursement expenditures were greater than \$1,000. The President/CEO and the Vice President.

Convention & Visitors Bureau Management & Governance

Each of the following sections discuss areas that should be addressed by management in order to improve CVB operations and strategic direction going forward. The new reporting device the CVB acquired is useful, but should be utilized for specific purposes. In addition, there are risks associated with the CVB Board that the organization should be aware of in order to prevent these risks from becoming detrimental in the future.

The CVB Has Experienced a High Rate of Turnover

CVB turnover rates are higher than comparable city positions. Equivalent city positions were taken from the Parks and Recreation department as well as the Communications department. From Table 6, it can be seen that, while the CVB is a smaller organization, it experiences almost two and half times more turnover than areas of the City with comparable positions. To illustrate this point further, there were only four employees who had been with the CVB for the entire scope of our audit (about 43 percent). However, eight of the City comparable employees have been in their position for our entire scope (about 72 percent). Also, out of the four employees that have been with the CVB for our scope, three currently make up the entire sports sales department, and the other is the President/CEO.

Table 6: Turnover Rates¹⁵

| Organization | Average FTE | Average Separations | Average Turnover |
|-----------------|-------------|---------------------|------------------|
| CVB | 9.33 | 2.66 | 28.57% |
| City Equivalent | 11.16 | 1.33 | 11.92% |

Pay Does Not Appear to Be Inducing Turnover

The causes of turnover can be varied, but widely accepted reasons are as follows: inadequate compensation, lack of opportunities for advancement, perception of unfair treatment, feeling undervalued, and job stress. We analyzed whether compensation could be a reason for high turnover.

CVB employees have higher salaries than comparable employees at the City. The top five paid CVB employees¹⁶ base salaries together equal \$406,300, which is about 61 percent of all the money spent on employee payroll expenses. The top five paid city employees with comparable positions make up \$354,300 or about 51 percent of all money spent on employee paychecks.

¹⁵ All averages were taken over fiscal years 2013, 2014, and 2015, and do not include part-time employees or interns.

¹⁶ This includes the entire sports sales division, the President/CEO, and the Director of Finance

Inadequate pay does not seem to be the cause of higher turnover. In the divisions that have experienced turnover in the CVB, namely the Sales division and Communications and Marketing, employees have slightly higher salaries than the national average.¹⁷ Although the CVB averages for General & Operations Managers are lower than the national average, this likely is affected by the inclusion of larger markets in the sampling. In comparison to city employees working in the same market, the General & Operations Managers have a higher or equal salary. Therefore, as compensation does not appear inadequate, it is likely that some of the other noted factors are inducing turnover.

Strategic Planning Should be Improved

The CVB's Business Development and Marketing Plans shows a lack of strategic considerations. The CVB's mission is **"to enhance economic and social growth in Bryan, College Station, and the Brazos Valley by marketing, promoting, developing, and coordinating tourism, conventions, sports, and hospitality opportunities."** The fiscal year 2016 Business Development and Marketing Plan has five strategic imperatives that will **drive the CVB's actions for the next three years. However,** the wide range of objectives and initiatives that flow from these strategic imperatives focus largely on involving the CVB in many community partnerships rather than the work of bringing events to the area or assisting them when they come. Rather than honing in on the most beneficial actions for the CVB to accomplish its mission, there are initiatives that demonstrate this lack of strategic consideration.

For example, budgeting strategies lack forethought and transparency. A key actionable initiative for the **CVB's strategic imperative 'Enhance Organizational Competitiveness' is to "inform and encourage a multi-year, percentage based budget with both cities."** This would entail always receiving a set percentage of the HOT funds collected by each city. However, this is widely considered poor practice for budgeting or funding.¹⁸ External factors that are likely to be important in achieving goals should be identified and monitored regularly. The results of this analysis should be factored into the assessment of program and financial performance and considered in making adjustments to these programs. We were informed that this particular item was dismissed based on political concerns; however, it does raise questions about the formulation of budgeting and strategic policies. We also were told that percentage-based budgeting is standard practice with many CVBs, however that does not make it a good practice. Many wasteful

¹⁷ National average salaries for CVBs came from the Bureau of Labor Statistics and a 2016 Report on Convention & Visitors Bureaus conducted by Anything Research.

¹⁸ Best budgeting practices as developed by the Government Finance Officers Association state that organization functions, programs, and activities should be periodically reviewed to determine whether they are accomplishing intended program goals and making efficient use of resources.

government programs or agencies can be traced back to this type of approach to budgeting. Each year, an organization should justify its budget needs through an evaluation of what the organization has accomplished. Percentage based budgeting completely ignores this imperative.

*In addition, some measurable objectives stated in the Marketing Plan are not objectives over which the CVB appears to have any control or significant impact. For example, one measurable objective is to "support the expansion and development of tournament-grade sports facilities." This objective is not measurable in any significant way, nor does **the key actionable initiative that comes from it, "support cities in expanding upon sports facilities,"** indicate the CVB has any way of controlling or impacting whatever outcomes occur. When creating measurable objectives, the following questions should be asked to ensure that they are appropriate:*

- Is the objective measurable?
- Do you have the proper metrics to measure the objective?
- Do you have any control over the fulfillment of the objective?
- How will you measure the objective during the stated time period?

If these questions cannot be answered during the formation of the objectives for an organization, then the organization likely should reassess whether the objective is one which should be included in the strategic plan going forward.

*We were informed that **the CVB's Marketing Plan is largely a function of the Executive Board's overall action for the CVB, not the CVB's internal goals and objectives regarding sales and hosting.** If this is the case, it creates confusion for non-CVB affiliated audiences that read the report. If the Marketing Plan document is to be the sole document for guiding CVB strategy, there should be a strong consideration of the above elements in its formulation. Indeed, any strategic documents should address these elements as they are being developed.*

CVB staff told us that this fiscal year the CVB has begun creating and developing separate strategic plans and documents for both Sports and Conventions so as to guide the CVB in conducting its operations in these different divisions. If this is the case, it is a step in the right direction. Strategic plans should focus on addressing the above questions with regards to creating measurable objectives and developing goals that are subject to CVB control, rather than the organization attempting to spread itself beyond its capacity.

Reporting Devices Should be Used Internally

In October 2015, the CVB began utilizing the DMAI Event Impact Calculator to measure the economic impact of events in the College Station and Bryan area.¹⁹ As stated in the 2011 CVB audit, the previous methodologies were not truly representative of economic impact. Estimated spending was calculated for conventions and sporting events through the use of the following two equations:

$$\text{Conventions} = \# \text{ of attendees} \times \$205 \times 2.5 \text{ days}$$

$$\text{Sporting Events} = \# \text{ of attendees} \times \$130 \times 2.5 \text{ days}$$

The CVB has addressed this issue by purchasing the DMAI calculator and exploring it as an option for measuring the economic impact of CVB events.

Policymakers should be skeptical when presented with data on economic impact from the DMAI Calculator. The DMAI Calculator requires that users input the data to generate economic impact and estimated spending in different areas. This type of data input allows the user to adjust calculator generated numbers if the user has information regarding the generated data field that is more accurate. For example, if the user knows that an event did not pay for audiovisual aids, they can set that data field to \$0. If an event received a scholarship or HOT grant, the user can input the amount the organization received under the hosting costs fields. A project management strategy that records costs could also be used with this calculator to obtain a more accurate estimate of impact.

However, this method of data input also allows for the possibility of data manipulation or input mistakes. Because it is costly in both time and funds to survey each event that comes to the College Station and Bryan area, the CVB must sometimes make educated guesses or use broad estimates regarding different data inputs. A sporting event with a large number of teams may have multiple people staying in one room, which affects the calculator-generated information regarding direct impact and local bed taxes. Adjustments are sometimes made to CVB data inputs when it is clear that the information generated by the calculator is not an accurate representation of the economic impact of the event. Also, if the user or audience is not an industry professional, then it is difficult to understand the implications of the information provided by the calculator. The DMAI Calculator therefore has significant weaknesses when showing the true economic impact of events based on the lack of accurate data that can be input into the model.

¹⁹ The Event Impact Calculator measures the economic value of an event and calculates its return on investment to local taxes. The models are based on destination-level data which measure the differences in per diem costs by city. Information taken from the DMAI website.

In addition, the DMAI is an organization that works specifically with and for DMOs. **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. In this instance,** the consultant also has an industry bias. Our office reached out to an economist for further comparison of the DMAI Calculator outputs **to the economist’s economic model IMPLAN,** mostly used in academia. The findings are shown below:

Table 7: Comparison Summary of Impact Estimators

| Event | People ²⁰ | DMAI | | IMPLAN | |
|---|----------------------|-----------------------|--------------------|-----------------------|--------------------|
| | | Est. Spending/ Person | Est. Direct Impact | Est. Spending/ Person | Est. Direct Impact |
| Texas Bluebird Symposium | 60 | \$313.07 | \$18,784 | \$115.35 | \$6,921 |
| PrimeTime Sports Inc. | 21,511 | \$124.82 | \$2,685,035 | \$18.69 | \$401,989 |
| IFA/VTD Youth Fast Pitch | 13,243 | \$125.35 | \$1,659,954 | \$18.69 | \$247,483 |
| Gulf Coast Appaloosa Horse Club | 1,500 | \$124.38 | \$186,575 | \$75.96 | \$113,942 |
| Greater Houston Quarter Horse Association | 1,200 | \$126.26 | \$151,507 | \$56.76 | \$68,106 |

In particular, the Gulf Coast Appaloosa Horse Club event should be noted given the **economist’s personal involvement in gathering survey data for it. These numbers show that the DMAI Calculator’s outputs are inflated in comparison to the IMPLAN model.** This demonstrates the inherent difficulty in measuring economic impact with any model and emphasizes our conclusion that though the DMAI model has some internal benefits, it should not be used to demonstrate definitive monetary outputs for events. Policymakers should remain skeptical when judging the overall economic impact of events as given through the DMAI Calculator. However, it does demonstrate the following:

The DMAI Calculator is most effective for:

- Quickly determining whether an event is worth pursuing
- Offering consistency across event measures
- Easier comparison across cities
- Determining better allocation of resources

The DMAI Calculator is ineffective for:

- Demonstrating to policymakers the overall economic impact of CVB events
- Justifying budget requests

²⁰ Metric accounts for multiple nights.

The calculator, in conjunction with stronger project management practices, can assist the CVB in better managing resources and allocation of staff time and effort. However, it has flaws that should make policymakers skeptical if used to prove overall economic impact for events in order to justify funding requests.

Risk of Potential Conflicts of Interests Exist in CVB Board Structure

The CVB Board consists of sixteen members, one of whom is the Executive Board Chair, and four of whom are on the Executive Board. Currently, of the four others on the Executive Board, two are City Council members from Bryan and College Station and two are City of College Station appointees. As of March 2016, two more positions have been added to the Executive Board, bringing the total to seven people.

Generally, a strong Board has engaged discussions regarding the decisions of its organization and is open to dissent and alternative considerations. A 2015 Harvard Business Review article stated **that “most boards aren’t delivering on their core mission: providing strong oversight and strategic support for management’s efforts to create long-term value.”** Another article added that board meetings have often been **“choreographed ceremonies substituting for meetings where real work gets done.”** After interviews and a review of multiple board meeting minute reports, we found that there are almost no instances of dissent and little discussion during board meetings. While it may be the case that everyone on the Board simply agrees with what is presented, it is generally not considered a healthy practice. Another possible reason why this lack of discussion may occur could be due to the separation of the Executive Board from the rest of the members, resulting in a lack of transparency within the Board between members.

While we found no evidence to suggest that the CVB Executive Board suffers from conflicts of interest, it has been identified as an area of high risk. Given that the CVB is mostly funded through City HOT funds, and therefore public funding, this risk should be noted by officials who are making decisions regarding appointments to the Executive Board and funding to the CVB. Common practice for non-profit organizations is to create a conflict of interest policy which, **“(a) requires those with a conflict (or who think they may have a conflict) to disclose the conflict/potential conflict, and (b) prohibits interested board members from voting on any matter in which there is a conflict.”** The Board has addressed this practice in its Board of Governance Compendium. However, those appointing Board members should also work to mitigate this risk.

One possible suggestion would be for individuals with an inherent conflict of interest risk, including but not limited to hoteliers or people with strong connections to industries that could benefit from executive power, to sit on an advisory committee. Individuals of the committee would still be able to provide valuable insight and input by having an

avenue for bringing up concerns regarding the CVB and its decisions, but they would not have the executive power to directly influence CVB operations, decisions, and strategic direction to the possible detriment of the CVB, the City of College Station or its citizens.

Audit Recommendations

- (1) Take steps to reach a reasonable liquidity ratio. Such a high liquidity ratio suggests that the CVB is not currently investing its funding wisely or efficiently to **further the organization's goals and objectives. Having large reserves that sit idle** cannot generate return on investment. The CVB should reassess its reasoning for continuously growing its reserve and take action to approach a more reasonable liquidity ratio.
- (2) Consider implementing job costing procedures to better understand allocation of resources and cost structure of the CVB. The use of job costing will aid the CVB in understanding their cost structure, which could in turn result in more effective or efficient allocations of resources. This system of cost accounting can be used in conjunction with the DMAI calculator to obtain a more effective measure of return on investment for individual projects, especially considering the **calculator's input fields for hosting costs.**
- (3) Reevaluate the costs and benefits of expenditures. Expenditures have increased since the follow-up audit after a decrease between it and the 2011 audit. This is primarily due to a number of consultant driven studies, print and media **advertising, and investment in the CVB's website**, as well as the addition of CVB staff. Additionally, while travel and professional development are necessities for most CVB employees in order to effectively accomplish their goals, it should be weighed strategically within the mission, goals, and objectives of the CVB. The CVB should reevaluate what networking and professional development travel is necessary for each employee and whether those benefits outweigh the costs of leaving the College Station and Bryan area, the State of Texas, or the country.
- (4) **Strategic direction should be determined by the CVB's** goals and objectives, and measureable objectives should be created to guide strategic development. The current CVB strategy, while improving through **in-house sales objectives, has moved away from the CVB's mission and is lessening its** possible impact by stretching its influence across many different areas. Measurable objectives should be developed that correlate to the mission of the CVB. Doing so will guide development of CVB strategy that will help the organization establish what expenditures are necessary and which are less essential.
- (5) Utilize the DMAI Calculator as an internal device to assist in decision making regarding event selection and staff effort in pursuing event opportunities. The calculator is useful and can offer good returns as an in-house tool. However, it also has weaknesses that must be taken into account when

determining its appropriate usage. City policy makers should be skeptical if the Calculator is used to provide justification for funding requests. If the City wants to research a better method to determine economic impact, the way to receive the least-biased information would be to hire a consultant directly rather than through an affiliated organization.

- (6) Consider emphasizing Board engagement with CVB strategy development and the formation of an advisory committee. The Board should encourage debate and discussion to better CVB strategies. Also, individuals with a conflict of interest should not have voting power. Instead these entities could form an advisory committee consisting of community stakeholders, including but not limited to hoteliers and people with strong connections to industries that could benefit from certain CVB actions. This way they would still have an avenue for engaging with the Board. Since the CVB is a publicly funded organization, the City should ensure proper representation on the Board to guarantee that decisions are made in the best interest of all citizens of the College Station and Bryan area, not individual stakeholders or interest groups.

Appendix A: CVB Impact Methodology

Communication between CVB staff and event coordinators, planners, attendees and hoteliers are **documented in the CVB's information tracking system (SimpleView)**. We obtained communications information contained in this system for a sample of events serviced by the CVB in the year 2015. We reviewed this documentation for indicators regarding the CVB's impact on bringing the event to the College Station and Bryan 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.**²¹
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 SimpleView 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 be coming to B/CS, but through CVB recruitment efforts the event took place in B/CS.
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.

²¹ It should be noted that the City's Park and Recreation Department and CVB's relationship has changed since the 2011 audit and they work much closer to pursue events. However, this methodological example focuses on other agencies generally.

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 SimpleView system (i.e. preparing bags, brochures, servicing an event, etc).

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 SimpleView system for the event.

We recorded a quantifiable score between 1 and 5 for each event serviced by the CVB in the year 2015. 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"**. Additionally, if an event found in 2015 was rated during the 2011 audit, it retained the score given previously.

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: CVB Management Response



Date: May 3, 2016

To: Ty Elliott, City of College Station Auditor
Audit Committee

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. **Take Steps to reach a reasonable liquidity ratio.** Such a high liquidity ratio suggests that the CVB is not currently investing its funding wisely or efficiently to further the organization's goals and objectives. Having large reserves that sit idle cannot generate return on investment. The CVB should reassess its reasoning for continuously growing its reserve and take action to approach a more reasonable liquidity ratio.

Management Response: The BCSCVB is an accredited bureau through DMAI's DMAP program. We continue to strive to follow best practices by DMAI. According to DMAI's DMO Organizational & Financial Profile Study, DMOs in the \$1-\$2 million budget category have an average of 30% in reserve. However, 75% of those DMOs represent bureaus that have on average a 5.2 year contract. The BCSCVB has a one-year (cancelable without cause in 60 days) contract with both funding partners, which makes it imperative that a higher percentage (50% or greater) be accrued to be able to function and plan for marketing and sales efforts further than one year out.

2. **Consider implementing job costing procedures to better understand allocation of resources and cost structure of the CVB.** The use of job costing will aid the CVB in understanding their cost structure, which could in turn result in more effective or efficient allocations of resources. This system of cost accounting can be used in conjunction with DMAI calculator to obtain a more effective measure of return on investment for individual projects, especially considering the calculator's input fields for hosting costs.

Management Response: The BCSCVB concurs with a portion of this recommendation and currently implements applying costs of servicing groups via registration assistance, onsite management of events, sponsorships and promotional items for groups. However the auditor's suggestion of applying job costing similar to a lawyer assigning billable hours to clients is an unreasonable and costly process for CVB staff – especially those who work with 20 or more clients at any given time throughout a workday. Doing this would significantly impact productivity and would require additional employees to help manage the accounting side.

3. **Reevaluate the costs and benefits of expenditures.** Expenditures have increased since the follow-up audit after a decrease between it and the 2011 audit. This is primarily due to a number of consultant driven studies, print and media advertising, and investment in the CVB's website as well as the addition of CVB staff. Additionally, while travel and professional development are necessities for most CVB employees in order to effectively accomplish their goals, it should be weighed strategically within the mission, goals, and objectives of the CVB. The CVB should reevaluate what networking and professional development travel is necessary for each employee and whether those benefits outweigh the costs of leaving the College station and Bryan area, the State of Texas, or the country.

Management Response: The CVB concurs with the recommendation that it is necessary and prudent to continually evaluate each and every expenditure to ensure that they align with the CVB's mission and provide an ROI. The CVB consistently evaluates the goals and outcomes of each and every travel – whether for professional development, sales, or marketing and makes a determination each time

4. **Strategic direction should be determined by the CVB's goals and objectives, and measurable objectives should be created to guide strategic development.** The current CVB strategy, while improving through in-house sales objectives, has moved away from the CVB's mission and is lessening its possible impact by stretching its influence across many different areas. Measurable objectives should be developed that correlate to the mission of the CVB. Doing so will guide development of the CVB strategy that will help the organization establish what expenditures are necessary and which are less essential.

Management Response: The CVB concurs with this recommendation. The last Board Strategic Plan was conducted in 2012 and concluded this year. The BCSCVB currently has an RFP out looking for a consultant to work with the CVB board to update the Strategic Plan as well as create a group business strategic plan. Timeline for the project is to begin work August 1 and completed by September 30, 2016.

5. **Consider emphasizing Board engagement with CVB strategy development and the formation of an advisory committee.** The board should encourage debate and discussion to better CVB strategies. Also, individuals with a conflict of interest should not have voting power. Instead these entities could form an advisory committee consisting of community stakeholders, including but not limited to hoteliers and people with strong connections to industries that could benefit from certain CVB actions. This way they would still have an avenue for engaging with the Board. Since the CVB is a publicly formed organization, the City should ensure proper representation on the Board to guarantee that decisions are made in the best interest of all citizens of the College Station and Bryan area, not individual stakeholders or interest groups.

Management Response: The BCSCVB disagrees with this recommendation. There is not a city in the state of Texas that excludes hoteliers from having a voting position on the CVB's board of directors. In fact, many CVB's bylaws (including BCSCVB) designate a minimum of one hotel position. Furthermore, hoteliers are not the only business in the community that benefit from the CVB's efforts. Tourism and the economic impact that they make on our community also greatly benefits local restaurants, retail establishments, attractions such as Messina Hof, George Bush Library, Downtown Bryan, bars, recreational facilities, meeting venues, sports facilities, etc. And lastly, the CVB Board has always been required to sign a conflict of interest form which would, consistent with state law, preclude them from discussion and vote if it would benefit them financially in a special way that is different for the item's impact on similarly situated entities.

6. **Utilize the DMAI Calculator as an internal device to assist in decision-making regarding event selection and staff effort in pursuing event opportunities.** The calculator is useful and can offer good returns as an in-house tool. However, it also has weaknesses that must be taken into account when determining its appropriate usage. City policy makers should be skeptical if the Calculator is used to provide justification for funding requests. If the City wants to research a better method to determine economic impact, the way to receive the least-biased information would be to hire a consultant directly rather than through an affiliated organization.

Management Response: The BCSCVB agrees with the auditor's comments that the calculator is a useful tool for internal evaluation, setting of priorities, screening potential clients, etc. Furthermore, the management team of the BCSCVB and the board agree that the information is not necessarily intended to aggregate into some type of overall ROI number in order to justify the overall investment requested from the City. However, throughout the years, the BCSCVB has worked to find a conservative and research based response when asked by council what is the economic impact of the events that the CVB helps to bring to Bryan College Station. In years past, we hired consultants who surveyed a year's worth of event and provided us with a formula for the events held in our area. In FY15, we began using a spreadsheet that was created by the City's Parks and Recreation Department upon Council's suggestion. However, beginning FY16, the BCSCVB began utilizing DMAI's Event Impact Calculator which, while very similar to the City's spreadsheet, included research on not only youth and amateur sports events – but also collegiate and professional sports, tradeshow, conventions, meetings (and will soon include festivals and concerts and agricultural related events). DMAI's Calculator is the most widely used and accepted method to determine visitor spending and economic impact from events on a community by DMOs. And we believe our funding partners would find it useful as an example of what BCSCVB management is doing to better focus on events and conference which could have the greatest impacts.

Appendix C: Auditor Rebuttals

- (1) Take steps to reach a reasonable liquidity ratio. Such a high liquidity ratio suggests that the CVB is not currently investing its funding wisely or efficiently to further the **organization's goals and objectives. Having large reserves that sit idle cannot generate** return on investment. The CVB should reassess its reasoning for continuously growing its reserve and take action to approach a more reasonable liquidity ratio.

Management Response: **The BCSCVB is an accredited bureau through DMAI's DMAP program. We continue to strive to follow best practices by DMAI.** According to DMAI's DMO Organizational & Financial Profile Stud, DMOs in the \$1-\$2 million budget category have an average of 30% in reserve. However, 75% of those DMOs represent bureaus that have on average a 5.2 year contract. The BCSCVB has a one-year (cancelable without cause in 60 days) contract with both funding partners, which makes it imperative that a higher percentage (50% of greater) be accrued to be able to function and plan for marketing and sales efforts further than one year out.

Audit Rebuttal: The primary purpose of maintaining reserves is to meet debt obligations. We maintain that a reserve nearly 14 times current liabilities indicates resources are not being utilized efficiently. Holding (and increasing) this level of monies in a reserve account specifically to ensure organizational sustainability in case funding partnerships end is not the best use of hotel occupancy tax funds.

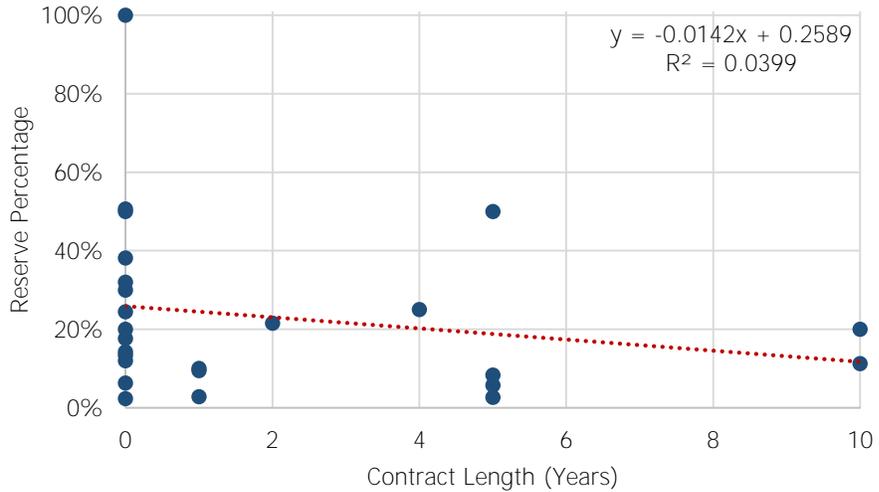
In response to the audit recommendation, the CVB points to DMAI best practices and a DMAI study that found DMOs in the \$1-2 million budget category had an average of 30% in reserve, and 75% of those DMOs representing bureaus having an average of a 5-year contract. The CVB argues that, because they only have a one-year contract, they are justified in maintaining a reserve of more than 50 percent.

We reviewed the cited DMAI study and analyzed its underlying survey data. We found the **CVB's response to this audit** recommendation to be misleading.

Statistics cited by the CVB are based on 46 respondents that are in the \$1-2 million revenue category. Of those, only 25 DMOs responded to both questions. Excluded from the statistics cited by the CVB were DMOs that do not have a contract at all. If those respondents are included, the average reserve decreases to 24%, and an average of a 1.9-year contract.

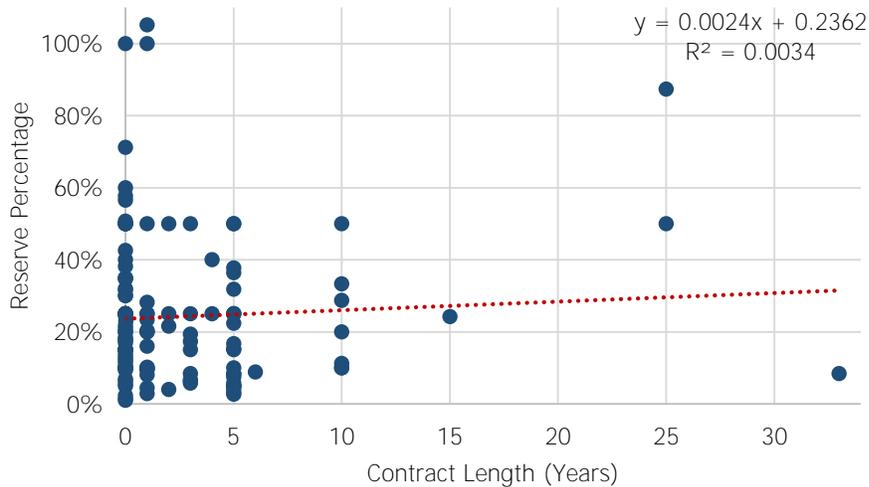
In addition, we performed a linear regression to see if there is any relation between the **percentage of funds held in reserve and the length of a DMO's contract** and found **no** statistical correlation as can be seen by the variability in the data points in Figure 7 on the next page.

Figure 7: \$1-\$2 Million Revenue Category Scatter Plot



We also examined all 129 respondents to the DMAI survey results that answered both questions and found them to have an average reserve of 24% and an average of a 2.7 year contract. Here again, we ran a linear regression and found no statistical correlation between reserve percentage and contract length. See Figure 8 below.

Figure 8: All Revenue Categories Scatter Plot



Finally, we performed a multiple regression analysis to try and control for variables such as revenue category (as defined in DMAI's report), if a DMO had a peripheral (such as a convention/conference center, or visitor's center), the number of full-time equivalent employees, and the state in which a DMO is located. In conclusion, there is no statistically

significant correlation between contract length and reserves even with controlling for multiply variables.

Contrary to what is purported in the CVB's response to the audit recommendations, there is wide variability among DMOs — which means there is no set standard or practice.

Although benchmarking may reveal standards attained by competitors, it does not consider the circumstances under which the competitors attained such standards. For example, if the **competitor's goals and visions were flawed or severely restricted** due to some specific factor, another organization risks adopting flawed standards or perhaps settling for extremely low ones. In other words, just because other destination marketing organizations **have instituted a particular practice doesn't necessarily** make it a good practice to emulate.

- (2) Consider implementing job costing procedures to better understand allocation of resources and cost structure of the CVB. The use of job costing will aid the CVB in understanding their cost structure, which could in turn result in more effective or efficient allocations of resources. This system of cost accounting can be used in conjunction with the DMAI calculator to obtain a more effective measure of return on investment for individual projects, especially considering **the calculator's input fields for hosting costs.**

Management Response: The BCSCVB concurs with a portion of this recommendation and currently implements applying costs of servicing groups via registration assistance, onsite management of events, sponsorships and promotional items for groups. However the **auditor's suggestion of applying job costing similar to a lawyer assigning billable hours to clients** is an unreasonable and costly process for CVB staff – especially those who work with 20 or more clients at any given time throughout a workday. Doing this would significantly impact productivity and would require additional employees to help manage the accounting side.

Audit Rebuttal: Over the course of our review, we found that the CVB has not conducted cost analysis. Though the CVB records some of this information and is able to assign it to a particular job, they have no way of knowing on average how much a particular event costs to the CVB. This is problematic when budgeting and determining ROI. We acknowledge that implementing job costing procedures (especially labor accounting) for every event the CVB assists or provides a room block for may not be feasible. However, implementing job costing procedures for large events that the CVB has significant impact on, or fully services, is essential to understanding ROI and accurately budgeting for return events.

For example, the CVB brought the State 7 on 7 tournament to the College Station-Bryan area in FY15. For this event, the CVB provided golf carts, ice, event personnel, and many other amenities that factored into the organizations decision to hold their event in the College Station-Bryan area. **These costs factor into the CVB's ROI on this event. However,** we saw no evidence that the CVB was including these costs in their ROI calculations.

Furthermore, if the State 7 on 7 event is held in College Station again in FY16, these costs could be more accurately budgeted for through the use of historical data. However as before, we saw little evidence that the CVB had analyzed historical costs to form their next **year's budget**. In their response, the CVB alludes that they have already implemented job costing for materials. This is a good first step, however, job costing is an ineffective tool if the information it provides is not used.

Additionally, labor and overhead are important cost factors that the CVB does not currently have an adequate way to account for. For example, about 37% of CVB expenditures are directly related to employee salaries and benefits. Given this, not accounting for labor can significantly inflate ROI by understating the costs associated with servicing an event. Moreover, overhead costs, such as travel, professional development, rent, etc. influence the **CVB's ability to attract and service** an event, and therefore should be included in cost to accurately calculate ROI. Through our review, we found that the CVB does account for these overhead costs. However, we found little evidence that historical data was used in budgeting for future years and no evidence that this data was used in ROI calculations.

- (3) Reevaluate the costs and benefits of expenditures. Expenditures have increased since the follow-up audit after a decrease between it and the 2011 audit. This is primarily due to a number of consultant driven studies, print and media advertising, and investment **in the CVB's website**, as well as the addition of CVB staff. Additionally, while travel and professional development are necessities for most CVB employees in order to effectively accomplish their goals, it should be weighed strategically within the mission, goals, and objectives of the CVB. The CVB should reevaluate what networking and professional development travel is necessary for each employee and whether those benefits outweigh the costs of leaving the College Station and Bryan area, the State of Texas, or the country.

Management Response: The CVB concurs with the recommendation that it is necessary and prudent to continually evaluate each and every expenditure to ensure that they align with the CVBs mission and provide an ROI. The CVB consistently evaluates the goals and outcomes of each and every travel – whether for professional development, sales, or marketing and makes a determination each time.

Audit Rebuttal: Although it appears that the CVB concurs with this recommendation, this may not be the case. It seems that the CVB is claiming that they are currently adequately evaluating each expenditure and that they are prudent and provide return on investment. We did find that most CVB employees follow the practice of spending the least amount **possible when procuring goods or services to achieve the CVB's mission, goals, and objectives**. However, we did find several questionable transactions and practices. Therefore, our conclusion remains.

- (4) **Strategic direction should be determined by the CVB's goals and objectives**, and measureable objectives should be created to guide strategic development. The

current CVB strategy, while improving through in-house sales objectives, has moved away from the CVB's mission and is lessening its possible impact by stretching its influence across many different areas. Measurable objectives should be developed that correlate to the mission of the CVB. Doing so will guide development of CVB strategy that will help the organization establish what expenditures are necessary and which are less essential.

Management Response: The CVB concurs with this recommendation. The last Board Strategic Plan was conducted in 2012 and concluded this year. The BCSCVB currently has an RFP out looking for a consultant to work with the CVB board to update the Strategic Plan as well as create a group business strategic plan. Timeline for the project is to begin work August 1 and completed by September 30, 2016.

Audit Rebuttal: No rebuttal. Management fully concurs with this recommendation.

(5) Utilize the DMAI Calculator as an internal device to assist in decision making regarding event selection and staff effort in pursuing event opportunities. The calculator is useful and can offer good returns as an in-house tool. However, it also has weaknesses that must be taken into account when determining its appropriate usage. City policy makers should be skeptical if the Calculator is used to provide justification for funding requests. If the City wants to research a better method to determine economic impact, the way to receive the least-biased information would be to hire a consultant directly rather than through an affiliated organization.

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Audit Rebuttal: As stated in the report, the DMAI calculator has effective internal uses that make it an adequate tool for the CVB, which the CVB concurs with in its Management Response. However, the CVB appears to disagree that the DMAI calculator is ill-suited for justifying budget requests and demonstrating overall economic impact to policy makers. This stance ignores the inherent difficulty in measuring the economic impact of a DMO.

Furthermore, using a CVB selected set of events to demonstrate **“what BCSCVB management is doing to better focus on events and conference which could have the greatest impacts” is inherently flawed. As stated by the CVB, they only collect certain calculator inputs for HOT Grant recipients, high impact events, or other specifically funded events.** These events, which are likely to have a higher impact, are also more likely to be given as examples to the Council. In other words, the CVB has a strong incentive to show themselves in the best light. Though this is understandable, policy makers should be cautious **when presented with DMAI outputs that “prove” the CVB is optimizing resources.**

Finally, the CVB argues that the DMAI Calculator could accurately assess ROI. This may be possible, but in order to accurately assess ROI all costs associated with an event must be accounted for. This would involve fully implementing job costing and utilizing the information this process provides. If the CVB is uncertain that job costing can be fully implemented (as mentioned in their response), then they should not suggest that the DMAI Calculator is accurately representing the ROI of a particular event at this time.

- (6) Consider emphasizing Board engagement with CVB strategy development and the formation of an advisory committee. The Board should encourage debate and discussion to better CVB strategies. Also, individuals with a conflict of interest should not have voting power. Instead these entities could form an advisory committee consisting of community stakeholders, including but not limited to hoteliers and people with strong connections to industries that could benefit from certain CVB actions. This way they would still have an avenue for engaging with the Board. Since the CVB is a publicly funded organization, the City should ensure proper representation on the Board to guarantee that decisions are made in the best interest of all citizens of the College Station and Bryan area, not individual stakeholders or interest groups.

Management Response: The BCSCVB disagrees with this recommendation. There is not a city in the state of Texas that excludes hoteliers from having a voting position on the **CVB’s board of directors. In fact, many CVB’s bylaws (including BCSCVB) designate a minimum of one hotel position.** Furthermore, hoteliers are not the only business in the community that **benefit from the CVB’s efforts. Tourism and the economic impact that they make on our community** also greatly benefits local restaurants, retail establishments, attractions such as Messina Hof, George Bush Library, Downtown Bryan, bars, recreational facilities, meeting venues, sports facilities, etc. And lastly, the CVB Board has always been required to sign a conflict of interest form which would, consistent with state law, preclude them from

discussion and vote if it would benefit them financially in a special way that is different for **the item's impact on similarly situated** entities.

Audit Rebuttal: No rebuttal. The Audit Committee met on May 3rd, 2016 and did not feel that having hoteliers on the executive committee or the board at large was an issue.