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March 31, 2011

BUFFALO NIAGARA  
CONVENTION &  
VISITORS BUREAU™

ED

The Honorable Mark C. Poloncarz  
Erie County Comptroller  
95 Franklin Street, 11<sup>th</sup> Floor  
Buffalo, New York 14202

Dear Mr. Poloncarz:

We are pleased that over this five month process, **your staff noted no internal control deficiencies related to our accounting systems.** This was not surprising to us, as we have strong internal controls and procedures in place which are tested and reviewed annually as part of the CVB's annual independent audit conducted by the certified public accounting firm of Lumsden & McCormick.

Please find below our response to your findings which you asked us to provide in writing to you by March 31, 2011:

**Items A-C**

As we discussed and documented in our exit interview, items A-C, more so reflect the audit period more than they do the way in which the CVB, and its board operated prior to the audit period and since 2010. We have provided you with documentation of transmittal of all materials to the county and the certifications you requested. Your exit interview notes reflect corrections to the report.

One point of note, the CVB has no control of the timing of board appointments from government entities.

We believe board members are engaged and involved and board meeting documentation is complete. We will forward a copy of your recommendations to our governance committee of the board of directors.

**Item D**

We fail to understand, after demonstrating to you at the exit interview that there is no surplus at the CVB, how this assertion remained in the final report. Donna Gonser, CPA (engagement audit partner of Lumsden & McCormick) explained at the exit interview why your staff's methodology was incorrect AND further, that our contract specifies the correct definition of how a surplus is to be calculated. Attached please find as Appendix 1 the written documentation provided to your staff at the exit interview.

Therefore, recommendations regarding certification are not apropos, as there is not a surplus.

As indicated on the attached Appendix 1, we disagree that IRS Form 990 should be the basis for calculating the surplus. Additionally, the County Budget Director and Commissioner of Environment and Planning have validated there is no surplus and believe that the contract is clear in that regard. The recommendations on changing the contract for all county-funded entities should be taken up directly with the administration. We are satisfied with the Budget Director and Commissioner's agreement with our methodology in calculating the annual surplus and acknowledgement that surplus funds are not owed back to the County for 2008 and 2009.

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**Item E**

As the audit exit interview corrections reflect, the CVB did have an annual meeting in 2010 and will continue to do so in future years.

**Item F**

As we stated in the exit interview, we do have a bidding process for large purchases. We will refer your recommendation to adopt government-like bidding processes to our Finance Committee of the CVB Board of Directors for review.

**Item IV A**

We find it disheartening that your staff failed to engage the CVB in any discussion regarding the approach to be used for benchmarking, despite repeated offers on our part to guide this process. Our concern was that flawed methodology would lead to invalid conclusions, and unfortunately, this is exactly what happened.

**We appreciate your acknowledgement that the report admits flaws in approach, but those flaws render every ensuing conclusion incorrect and misleading.** Furthermore, we were very disappointed that after disclosing those weaknesses in a formal presentation at the exit interview (see appendix 2 *"Comparing like CVB's Flawed methodology leads to invalid conclusions"*) the final report featured these inaccurate conclusions.

There are reputable sources for such comparisons which would have given your staff ample evidence that the Buffalo Niagara Convention & Visitors Bureau operates efficiently (if perhaps too lean) an organization. Two sources that could have been vetted for use in this report are:

- The survey of New York State CVB associations conducted by member bureaus which measures budgets, staffing and marketing allocations among other facts and
- The 2010 Destination Marketing Association International (DMAI) Compensation survey, the gold standard for our industry. 250 CVB's from throughout the country provide detailed salary and benefit information for this survey once every two years - and our analysis was based upon the 2010 report.

**To be clear: We strenuously object to both the competitive set of cities chosen and methodology used and believe every conclusion is inaccurate.**

**Flawed methodology....**

- **Comparison cities selected by your staff are completely different than Buffalo Niagara and do not represent a competitive set in any way.**

The six cities chosen are not comparable. 5 of 6 did not even have a convention center in their town (which means they are not in the "convention" business but are focused on recreational tourism) and at least three of the six are "membership bureaus" and have a different way of funding and promotion. Also, the cities chosen are not generally cities we compete with for conventions, meetings and sporting events.

- **Using the 990 as the basis for comparison is not a good way to measure.**

The 990 does not provide accurate benchmarking as it is not a complete or accurate picture of a CVB. For example, it does not include the BNCVB foundation where we raise money to spend on additional promotion and marketing not reflected in your report. The 990 counts anyone who received a W2 from the bureau, including part time, seasonal and “turned over” workers. This inflated the employee counts in Bureaus like Albany, a subcontractor for the NYS Thruway information desk workers (not true CVB employees). Even the overall budget numbers using the 990’s cannot be trusted, for example, Lehigh Valley’s CVB budget is actually 36% less than the 990 shows, as the CVB is the pass through for the economic development corporation there.

This led to inaccurate results but here are the facts....

- **The BNCVB’s pay scale is below the average of CVB’s of our size, type and budget.**

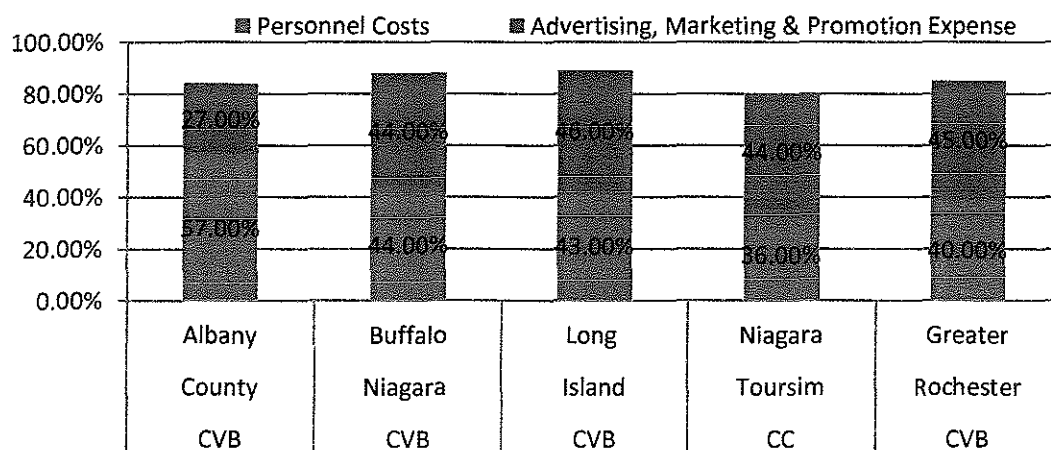
Using the DMAI study of 250 CVB’s with a position- specific analysis shows that the BNCVB pays in aggregate **2% below** the national average than CVB’s of our budget size, type (public funding) and number of employees. In fact, in the 2009-2013 BNCVB Strategic Plan, a commitment was made to address our below market pay. (Action Plan E-3) We are within reasonable tolerances here.

In addition, the numbers in your staff’s report do not even pass a reasonableness test. Here’s one example: To believe the conclusions in this report, one would have to believe that the “average pay rate” at the Albany CVB would be \$6.17 an hour, less than minimum wage. (Audit shows Avg. salary in Albany of \$12,851/2080 working hours per year = \$6.17 per hour.)

- **The BNCVB’s spending on all marketing is comparable to other NYS CVB’s**

The BNCVB spends 44% of its budget on marketing, which is similar to all sister cities in New York State, according to the New York State CVB Association. To cite “print advertising” for comparison is misleading. We have made a focused effort to move from traditional advertising to new media, the internet and video. We are, in fact, a market leader nationally in this regard.

This is how we compare to some of the other cities in the audit report:




Source: NYSCVB association 2010 survey

I can assure you that the board, our staff and the volunteers that work to advance tourism in our region work diligently to insure that our funds are well-managed, which your report showed, and well spent, which industry surveys support.

Thank you for the opportunity to respond.

Sincerely,



Dottie Gallagher-Cohen  
President and CEO

cc: The Honorable Chris Collins, Erie County Executive  
The Honorable Barbara Miller-Williams, Chair, Erie County Legislature  
The Honorable Thomas Loughran, Chair, Community Enrichment Committee, Erie County Legislature  
Commissioner Kathy Konst  
Mr. Greg Gach, Erie County Budget Director  
Mr. Robert M. Graber, Clerk of the Erie County Legislature  
Daniel C. Oliverio, Esq., Chair, Erie County Fiscal Stability Authority  
Buffalo Niagara CVB Board of Directors

## Appendix 1

### Excerpt from written corrections provided to Comptroller's office at BNCVB Exit Interview (February 24, 2011)

"In determining the reported surplus, it is inappropriate to use IRS forms 990 which separate the CVB and the Buffalo Niagara Convention & Visitors Bureau Foundation (the Foundation). As a controlled affiliated entity of the CVB, the Foundation's financial records are required to be consolidated in accordance with accounting principles generally accepted in the United States. Unlike the Form 990 presentation, consolidation presents all activities of organizations under common control and prevents improper allocations of resources to a separate entity without detection. Therefore, the reported financial statement surplus (deficit) reported for 2008 and 2009 is \$106,875 and (\$7,703).

Note, however, that the contract provision requiring the CVB to refund to the County any unused monies does not refer to the financial statement surplus as cited in the draft audit report finding. Rather, the contract identifies a surplus as the excess of operating revenues over operating expenses, and specifically defines operating expenses as "all encumbered expenses of the Organization". By definition, encumbrances are commitments related to unfilled contracts for goods and services, including purchase orders. The purpose of an encumbrance is to monitor and prevent further expenditure of previously committed funds.

We advise you that the recording of encumbrances is not permitted by nonprofit organizations (only permitted for governments) under current accounting standards and are, therefore, properly excluded from the audited financial statements. However, as noted above, the encumbrances are specifically allowable as an operating expense per the contract. As disclosed in Note 6 to the audited financial statements, encumbrances (commitments) total approximately \$250,000 at December 31, 2009. Therefore, pursuant to the terms of the contract, the CVB did not maintain a surplus of unencumbered funds for either 2008 or 2009."

## **Appendix 2**

**"Comparing Like CVB's – Flawed methodology leads to invalid conclusions"  
(See Attached)**

# COMPARING “LIKE” CVB’S ?

Flawed  
methodology  
leads to  
invalid  
conclusions

# METHODOLOGY FLAWED

- 990's include all part time, seasonal and "turned over" workers.
- 990's include pass through funds that are not part of CVB's budget
- These two factors lead to seriously inaccurate conclusions.
- Direct consultation with the CVB in preparing this report would have fixed these issues.



# COMP CITIES LIST IS ILLOGICAL

- Not a single (NY state) city with our composition type (see chart)
- Not cities we “compete” with for meeting or convention business.
- Most cities chosen do not have convention centers or pursue convention business.
- Cities chosen have large proportion of PT/Seasonal Workers.

# NO LIKE ORGANIZATIONAL STRUCTURE

	Buffalo	Albany	Long Island	NTCC	Rochester	Lehigh <sup>1</sup>
Convention Center Size	110,000	No Conv. Cntr	No Conv. Cntr	No Conv.Cntr	100,000	No Conv. Cntr.
Org Type		Membership	Membership		Membership	

## **SALARY COMPARATIVE'S ARE MISLEADING AND INACCURATE.**

- **“Average salary” not an indicator, particularly compared to groups with large PT and seasonal workforces, and those that have turnover. BNCVB’s employee’s average years of service is 8.75 years.**
- **In some cities ( Albany and NF) they are subcontractors for Thruway visitor centers. In Buffalo, for example we have over 100 volunteers at the Airport. In Albany, these are paid part time workers. This inflates the relative number of employees with minimum wage workers, skews the “averages.”**
- **Further, cities without convention centers do not have robust convention sales forces which are among the highest compensated employees, again skewing the data.**



# PART TIME WORKERS NEGATE VALIDITY OF “AVERAGE SALARIES”

	Buffalo	Albany	Long Island	NTCC	Rochester	Lehigh <sup>1</sup>
<b>Staffing</b>						
Fulltime	24	12	16	11	23	16
Part time	2	26	3	10	23	5
Seasonal	0	0	0	18	0	0
Percentage of PT	8%	68%	16%	72%	50%	24%
<b>Average Salary FT only</b>	\$ 66,000	\$ 71,109	\$ 69,875	\$ 71,116	\$ 55,797	\$ 75,810

When you take out the PT effect, average salaries are within range,  
Although we disagree with this as a valid measure.

Cities without convention centers do not have a full time professional  
Convention sales force or convention services employees,  
that's about 50% of our workforce.

# HOW DO BNCCVB SALARIES COMPARE TO SIMILAR BUREAU'S NATIONALLY?

- The Destination Marketing Association 2010 Compensation study which is a job-specific salary survey from 249 DMO's around the country, it is the gold standard for the CVB industry.
- In bureau's of our budget size, type (gov't funding) and number of employees in aggregate our staff salaries are 2% below the average of CVB's our size and type.
- The CEO position compensation is 19% below the average for total budget and employee responsibility for BNCC and BNCCVB.

# USING 990'S ALSO SKEWS BUDGET PROPORTIONS

	Buffalo	Albany	Long Island	NTCC	Rochester	Lehigh <sup>1</sup>
<b>Budget</b>	\$ 3,600,000	\$ 1,497,037	\$ 2,600,000	\$ 2,173,000	\$ 3,208,314	\$ 1,987,306.24
Salary/ Benefit	44%	57%	43%	36%	40%	39%
Marketing	44%	27%	46%	44%	45%	39%
Subtotal	88%	84%	89%	80%	85%	78%

These are the proportions reported by the NYS DMO 2010 Survey

Lehigh's 990 revenue number includes all funding for Economic Development Corp which is a pass through of 36%. The numbers and proportions were adjusted accordingly on the chart above.



# WORTH NOTING

- The current analysis does not measure any outcomes or performance.

# BNCVB'S PERFORMANCE

How do we  
compare  
to our  
peers?



# ONE OUTCOME MEASURE - DEFINITE ROOM NIGHTS

	Buffalo	Albany	Long Island	NTCC	Rochester	Lehigh <sup>1</sup>
Hotel Rooms	9,320	7,000	17,000	5,000	7,140	6,406
CVB Booked Definite Room Nights <sup>1</sup>	150,000	20,247		2,799	will not disclose	19,084

# **“TRUE” COMPETITIVE CITY COMPARISONS**

- **We compete with Syracuse, Providence, Grand Rapids and Cleveland for convention business.**
- **Within this group on Average:**
  - **The BNCVB budget is 18% less.**
  - **We have 10% fewer employees.**
  - **Have 43% less space in our convention center and 34% fewer hotel rooms HOWEVER....**
- **We produce 5% MORE definite room nights.**
- **Our sales force has higher productivity (21- 45% higher) than all but one location. (Cleveland which has more than double the hotel rooms in the city.)**

# **BUY MORE TRADITIONAL ADVERTISING? WE DON'T THINK THIS WISE.**

- **Deliberate shift out of traditional advertising to digital media where travelers are getting their information.**
- **BNCVB is a leader in this move to digital, with 12,000 Facebook fans, and just this year, one of our videos This Place Matters went “viral” with over 160,000 views.**
- **BNCVB also shifted from advertising to aggressive media relations which has paid tremendous dividends.**
- **These choices make our marketing investments more cost effective, and we believe more effective entirely.**



# **INCLUDE MEDIA RELATIONS PUBLICITY VALUES FOR A MORE ACCURATE PICTURE.**

	2008	2009	2010
Consumer Advertising	\$ 249,698.00	\$ 182,560.00	\$ 247,903.00
Publicity Value	not tracked	\$ 3,827,679.00	\$ 442,674.00
Total	\$ 249,698.00	\$ 4,010,239.00	\$ 690,577.00
Budget	\$ 2,985,000.00	\$ 3,024,421.00	\$ 3,525,670.00
Percentage of Budget	8%	133%	20%

**Publicity value is taking the space used for an editorial story  
And valuing this based on the publications ad rates x 3. This  
is an industry standard calculation and measure of “ad value.**

# NEW YORK CITIES BUDGET/STAFFING/PRODUCTION DATA

NYS Sister City Comparison plus Lehigh Valley	(All NY Information unless noted from the 2010 NYSDMO Member Survey)					
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<b>Notes</b>						
Convention Center Size	110,000	No Conv. Cntr	No Conv. Cntr	No Conv. Cntr	100,000	No Conv. Cntr.
Org Type	No	Membership	Membership	No	Membership	

1 As reported by President and CEO to DGC  
 Lehigh's actual CVB budget is 36% less than reported on 990 which includes funding for Economic Dev. Corp.  
 When adjusting the 25% or 3.1 million to their actual budget their salary percentage is 39%