

July 19, 2010

Mr. Craig Johnson  
Corporation Counsel  
City of Niagara Falls  
745 Main Street / P.O. Box 69  
Niagara Falls, NY 14302

Dear Mr. Johnson:

Per our agreement, we were engaged by the City of Niagara Falls to assist with its review and analysis of the expenditures of the Niagara Tourism & Convention Corporation (hereinafter referred to as "NTCC") for the years ending December 31, 2008 and 2009. Pursuant to paragraph 12 of the Operating Agreement between the City and NTCC, the City exercised its right to conduct an inspection of NTCC records with respect to all matters covered by the Operating Agreement.

Based on our discussions, we were engaged to assist the City with its prescribed review of the NTCC expenditures. We were to obtain the data supporting the NTCC expenditures and prepare a report of the items which we believe require further investigation or substantiation.

Attached please find our report summarizing our observations in connection with the agreement above. We did not make any judgments as to whether or not the expenditures were excessive and/or abusive. The ultimate responsibility for making such determination lies with the City. Our role was to provide the City with the data and/or evidence necessary to aid in the decision-making process.

We would like to acknowledge the cooperation extended to us by the employees of the NTCC.

If you have any questions concerning this report, please feel free to contact us at any time.

Respectfully Submitted,

BONADIO & CO.,LLP



By:  
Brian Lafountain, CPA, CFE  
Principal

**THE CITY OF NIAGARA FALLS**

**Review and Analysis of Expenditures  
Niagara Tourism & Convention Corporation  
For The Years Ended 2008 and 2009**

## **I. INTRODUCTION**

The observations described in this report are based on the information described herein.

## **II. ASSIGNMENT**

We have been engaged by the City of Niagara Falls (hereinafter the "City") to assist with its review and analysis of the expenditures of the Niagara Tourism & Convention Corporation (hereinafter referred to as "NTCC") for the years ended December 31, 2008 and 2009. Pursuant to paragraph 12 of the Operating Agreement between the City and NTCC, the City exercised its right to conduct an inspection of NTCC records with respect to all matters covered by the Operating Agreement. To assist the City with its prescribed review of expenditures, we took the following approach, which was tailored during the engagement to further address specific areas of concern that arose during our engagement:

- A.** Obtain an understanding of the structure of the general ledger as well as how expenditures are captured and reported on the NTCC financial statements
- B.** Expense reimbursements
  - 1. Obtain the detailed expense reports of officials of the NTCC from January 1, 2008 through December 31, 2009
  - 2. Obtain the detailed list of disbursements made to officials of NTCC from January 1, 2008 through December 31, 2009.
- C.** Vendor payments
  - 1. Obtain a listing of disbursements made to selected vendors of NTCC from January 1, 2008 through December 31, 2009.
- D.** Salary, bonuses, and employee benefits
  - 1. Obtain an understanding of policies and procedures surrounding pay raises, bonuses and employee benefits
  - 2. Obtain a listing of actual pay raises and bonuses paid out during 2008 and 2009
- E.** Policies and procedures review
  - 1. Obtain an understanding of a selection of internal controls surrounding the cash disbursement and financial reporting functions of NTCC

We did not make any judgments as to whether or not the expenditures were excessive and/or abusive. We were asked to obtain the data supporting the NTCC expenditures and prepare a report of the items which we believe require further investigation or substantiation. The ultimate responsibility for making such determinations lies with the City. Our role was to provide the City with the data and/or evidence necessary to aid in the decision-making process.

## **III. INFORMATION UTILIZED**

In undertaking the engagement, NTCC has made available all information and documents that we have requested. We worked closely with the CFO/VP of Operations for the NTCC, and received absolute cooperation in all matters related to our engagement. We are appreciative of the cooperation in that regard.

#### **IV. DISCUSSION OF OBSERVATIONS**

##### **A. Expense Reimbursements - General Observations**

1. During 2008 and 2009, the NTCC President and Chief Executive Officer received expense reimbursement payments totaling \$85,424 and \$59,396 respectively.
2. During 2008 and 2009, the NTCC Director of Sales received expense reimbursement payments totaling \$61,563 and \$34,351 respectively.
3. The NTCC President & Chief Executive Officer was reimbursed for cellular telephone charges totaling \$3,619 (average of \$302 per month) during 2008 and \$2,843 (average of \$237 per month) during 2009.

##### **B. Expense Reimbursements - Observations Related to Specific Expense Reports**

Note that the following are observations derived from our review of the NTCC President and Chief Executive Officer's expense reports submitted during 2008 and 2009. We are not making judgment as to whether these expenditures are excessive or abusive, but rather we provide this information to assist the City with its analysis.

4. American Bus Association Tradeshow - February 2 -7, 2008
  - a. Dinner for 2 - \$154.60
  - b. Dinner for 1 - \$47.97 (7:30pm) and drinks/entertainment - \$63.95 (9:34pm)
  - c. Dinner for 1 - \$67.09
  - d. Costume rental - \$35
  - e. Alcohol for party in suite - \$170.44
5. ITB - Berlin Travel Show - March 5-9, 2008
  - a. Drinks at function held at night club - \$116.84
  - b. Lunch for 1 - \$49.46
  - c. Dinner for 1 - \$109.33
  - d. Dinner for 1 - \$98.33
  - e. Champagne for large group after dinner - \$200.74
6. Bi-centennial Gala / Chamber Dinner - February 29, 2008
  - a. Tuxedo rental for event - \$193.54
7. Familiarization Tour for NYS & United Kingdom Representatives - February 22, 2008
  - a. Dinner for 5 - \$347 (including two \$45 bottles of wine)
8. Sales Calls - New York City Receptive Tour Operators - April 23, 2008
  - a. Lunch for 3 - \$188.77

#### IV. DISCUSSION OF OBSERVATIONS (Continued)

##### B. Expense Reimbursements - Observations Related to Specific Expense Reports (Continued)

9. Trip to India for Opening of New International Representation - June 17 - 25, 2008. The actual sales mission tradeshow/conference was June 18 thru June 20, 2008. Personal time was taken from June 21 through June 23, 2008.
  - a. Total amount spent for trip, \$14,576.37. Round trip air from Buffalo to New Dehli was \$3,847.
  - b. Lodging bill on June 19, 2008 (dated June 20, on expense reimbursement form) included luncheon for 35+, and dinner for 65+ in attendance. Total charges for that date were \$4,648.46 and included alcohol (wine and beer only) with dinner.
  - c. Lodging bill on June 20, 2008 (dated June 21 on expense reimbursement form) included dinner for 70+ in attendance. Charges included corkage fee of 700INR (\$16.63), liquor license fee of 7,100INR (\$168.77), an LCD projector for 5,000INR (\$118.85) and a DVD player for 1,000INR (\$23.77). Total charges for that date were \$4,929.59 and included alcohol (wine and beer only) with dinner.
  
10. Travel Industry Association of America - International Pow Wow in Las Vegas - May 31 through June 4, 2008.
  - a. Drinks purchased prior to dinner for \$53.
  - b. The receipt of \$788.66 from the Wynn in Las Vegas included the following:
    - i. Admission fee to a night club for \$30
    - ii. Beverages at night club for \$42
    - iii. On June 1<sup>st</sup>, Cabana Bar & Casino charges of \$50, mini-bar \$8, restaurant charges of \$57.68
    - iv. On June 3<sup>rd</sup>, mini-bar \$8, café charge of \$43.10, café charge of \$31.86, restaurant charge of \$39.42
    - v. On June 4<sup>th</sup>, café charge of \$61.18, restaurant charge of \$146.76, mini-bar food of \$8, Lobby bar of \$79.66, restaurant charge of 56.33

Please note that there were no detailed receipts for any of the charges listed above.

11. Familiarization Tour for representative from India - June 5 through June 9, 2008.
  - a. Dinner for 6 - \$314.44 on June 6th. Attendees were a consultant of NTCC and her spouse, a guest from a local Chamber of Commerce, the India representative, and the NTCC President & CEO and guest.
  - b. Dinner for 4 - \$469.75 on June 8th. Attendees included NTCC President & CEO and guest, the India Representative, and the Chair of the Board of NTCC.
  - c. Dinner for 3 - \$141 on June 7th. Attendees included NTCC President & CEO and guest and India Representative.

#### IV. DISCUSSION OF OBSERVATIONS (Continued)

##### B. Expense Reimbursements - Observations Related to Specific Expense Reports (Continued)

12. Receptive Tour Operator Familiarization (FAM) tour for Niagara Falls Airport - July 19 through 22, 2008.
  - a. A car service was paid to pick up 16 attendees of the FAM tour at their respective homes in New Jersey and drive them to the Teterboro airport on July 20th. Then on July 22nd, the car service was paid to pick up 19 attendees at the Teterboro airport and transport them to their respective offices/place of employment. The total cost for this car service was \$3,445.
  - b. Tip for the concierge service at airport terminal - \$60 on July 20th
  - c. Dinner for the tour operators at Seneca Niagara Casino - \$1,841 on July 21<sup>st</sup>.
  - d. Champagne during brunch at Airport - \$155 on July 18th
13. Miscellaneous Dinner for 2 - \$110.72 on July 23, 2008. Attendees were NTCC President & CEO and Chair of the Board of NTCC.
14. Destination Marketing Association International (DMAI) Convention in Las Vegas, NV July 28 through July 30, 2008.
  - a. Dinner for 2 - \$149.45 on July 28th
  - b. Dinner for 3 - \$171.69 on July 29th
  - c. Dinner for 1 - \$58.49 on July 30th
  - d. Dinner for 1 - \$69.30 on July 31st
  - e. On July 30<sup>th</sup>, there is meal (breakfast/lunch) at a bistro for \$27.36, another meal (lunch) at unidentified location for \$29.45, a meal (dinner) at a restaurant for \$58.49 (included in item c above), and another meal (dinner) at a different location for \$41.56.
15. The Educational Seminar for Tourism Organizations (ESTO) Conference - August 22, through 25, 2008.
  - a. On the hotel invoice many of the dinner and breakfast meals were reimbursed at only 50% because the NTCC President & CEO was traveling with a guest. However, on August 23<sup>rd</sup>, the entire dinner costing \$274.62 was expensed and reimbursed at 100%.
16. Travel Industry Association (TIA) Marketing Outlook Forum in Portland, Oregon - October 27 through 30, 2008.
  - a. Dinner for 1 - \$73.50 on October 26th
  - b. Dinner for 2 - \$102.60 on October 28th
  - c. Lunch for 1 - \$54 on October 29th
  - d. Dinner for 2 - \$145.25 on October 29th

#### IV. DISCUSSION OF OBSERVATIONS (Continued)

##### B. Expense Reimbursements - Observations Related to Specific Expense Reports (Continued)

17. Visit to Niagara Falls by two writers developing a story on Niagara Falls for an Indian publication. September 19 through September 23, 2008.
  - a. Dinner for 3 - \$246.50 on September 19th. Attendees were NTCC President & CEO and two Indian writers.
  - b. Dinner for 3 - 163.00 on September 23rd. Attendees were NTCC President & CEO and two Indian writers.
  - c. Airline fee of \$200 to change the writer's flights to leave from Buffalo instead of Rochester.
18. World Travel Market Trade Show in London - November 10 through 16, 2007. The expense report for this item was actually completed in 2008.
  - a. Total amount spent on trip totaled \$5,305. This does not include the actual registration fee for the event which was \$10,000 or the airline charges for transportation. The registration and airline charges were paid in advance of the trip during 2007, and therefore, we did not request these items for analysis.
  - b. Lunch for 3 - \$240.55 on November 15th
  - c. Drinks for 3 - \$90.65 on November 15th
  - d. "Honesty Bar" charge (from Knightsbridge Hotel receipt) - 148.25 pounds (approximately \$311.33) on the same day as a dinner at a different restaurant for \$108.86.
19. World Travel Market Trade Show in London - November 10 through 13, 2008.
  - a. Total amount spent on trip was \$15,472.98 and included the following charges.
  - b. Registration fee of \$10,000 for the trade show
  - c. Lunch for 2 - \$99.22
  - d. Dinner for 1 - \$89.64
  - e. Dinner for 2 - \$146.92
  - f. Drinks for 2 after dinner on the same night - \$87
20. Finance charges on the personal credit card of President & CEO of NTCC in the amount of \$184.50 were paid in January 2008. The expense report stated that the expense was incurred because he was unable to complete his expenses due to not having an assistant and/or a Human Resources issue in the office.
21. American Bus Association Marketplace in Charlotte, NC - January 6 through 13, 2009.
  - a. Dinner for 3 - \$272 on January 6th

#### IV. DISCUSSION OF OBSERVATIONS (Continued)

##### B. Expense Reimbursements - Observations Related to Specific Expense Reports (Continued)

22. New York State Convention and Visitors Bureau meeting in Albany, NY - December 2 through 4, 2008.
  - a. Dinner for 3 - 198.25 on December 2nd
23. ITB Berlin Travel Show in Berlin, Germany March 11 through 15, 2009 and the India Sales Mission March 23 through 26, 2009.
  - a. Cell phone charges for March 2009 were \$602.92 and included roaming charges while in Germany and India. We were unable to determine the exact amount of roaming charges and normal phone service as the detailed invoice was not included with the expense reimbursement.
  - b. Cell phone charges for April 2009 were \$580.78 and included roaming charges while in Germany and India. We were unable to determine the exact amount of roaming charges and normal phone service as the detailed invoice was not included with the expense reimbursement.
24. India Sales Mission - March 23 through 26, 2009.
  - a. Total amount spent for trip was \$18,579.69.
  - b. Airfare for trip - \$4,996.40 included in above
  - c. Flight to/from Mumbai and Delhi - \$100.50 on March 25th
  - d. Pepto Bismol - \$38.34 for representative of Whirlpool Jet Boats who apparently was "suffering and traveling with flu enroute to India."
  - e. Lodging charges on March 25th were \$5,952.29, and included a dinner for 80 guests. Beer, wine and soft drinks were included with the meal. Cooperative resources of \$3,294.37 were received from a third party to offset a portion of the dinner costs.
  - f. Lodging charges on March 27th were \$6,281.94, and included a dinner for 75 guests. Beer, wine and soft drinks were included with the meal. Cooperative resources of \$3,294.37 were received from a third party to offset a portion of the dinner costs.
25. Miscellaneous dinners on various dates as follows:
  - a. Dinner for 3 - \$214.42 on April 22, 2009. Attendees were NTCC President & CEO and Director of Milwaukee Convention and Visitors Bureau and guest.
  - b. Dinner for 3 - \$269.40 on March 2, 2009. Attendees were NTCC President & CEO, a consultant and his/her spouse.
  - c. Dinner for 3 - \$176 on April 8, 2009. Attendees were NTCC President & CEO, a consultant, and a representative from NYS Parks.
  - d. Dinner for 3 - \$239.50 on August 3, 2009. Attendees were NTCC President & CEO, a consultant and the NTCC Board Chair.



#### **IV. DISCUSSION OF OBSERVATIONS (Continued)**

##### **B. Expense Reimbursements - Observations Related to Specific Expense Reports (Continued)**

26. Miscellaneous events attended on various dates as follows:

- a. Aquarium Seasonings Event - (2) tickets for \$90. Attended with guest Joe Lathrop, consultant, on March 9, 2009.
- b. Niagara USA Chamber annual dinner - (2) tickets for \$200. Dinner was on February 28, 2009. NTCC President & CEO and guest.
- c. Niagara Falls Boys and Girls Club 27th Annual Auction held at NCCC - (2) tickets for \$150. Event held on June 6, 2009. NTCC President & CEO and guest.

##### **C. Vendor Payments**

In completing our engagement related to the detailed general ledger, we judgmentally selected payments made to certain vendors during 2008 and 2009 and requested supporting documentation for the disbursements.

1. Niagara International Kite Festival

- a. It appears the actual expenses for the event exceeded the previously established budget of \$55,000 by \$12,734 and the consultant who was paid by the NTCC to manage the event appears to have been incorrectly overpaid by \$9,728.

2. BackRubBus

- a. Payment of \$5,240 for massage therapists on-site at the American Bus Association tradeshow in February 2008.

3. WhyKnot Massage

- a. Payment of \$5,936 for massage therapists on-site at the American Bus Association tradeshow in January 2009.

4. Gaylord Spa

- a. Payment of \$7,560 for massage therapists on-site at the American Bus Association tradeshow in January 2010.

## **IV. DISCUSSION OF OBSERVATIONS (Continued)**

### **D. Salary and Bonuses**

1. In connection with obtaining our understanding of the salary and bonus structures of NTCC, we noted that a bonus of \$25,000 was paid to the President & CEO of the NTCC on May 24, 2008. This bonus was paid in recognition of his performance during the previous year ending December 31, 2007, and was calculated based on a previously established formula included in his employment agreement.

However, with regard to the bonus, we cannot find any evidence in the Board of Directors Minutes that the bonus was ever approved by the Board as a whole, nor is there any evidence that the bonus calculation was reviewed and/or approved by any of the Board members. A calculation of the bonus was provided by the Chair of the Board, but other than that specific calculation, there is no evidence to indicate that the Board as a whole had approved the bonus.

Furthermore, our recalculation of the bonus using the formula and data provided resulted in a bonus amount payable of \$11,812. The bonus calculation provided to us by the then Chair of the Board resulted in a bonus amount of \$69,420, which was subsequently reduced to \$25,000 as described above. Based on our calculations, it appears that the bonus was calculated incorrectly, and therefore, the bonus paid was incorrect.

### **E. Policies and Procedures Review**

In connection with the services we performed, we provide the following opportunities for strengthening internal control.

1. The NTCC has not developed a comprehensive policies and procedures manual to document any of their key controls or key internal processes. Such a manual assists organizations in ensuring the appropriate level of internal controls is built into the organization's key processes to minimize the risk of misappropriation of company assets as well as the risk of financial misstatement. In addition, a policies and procedures manual documents intended policies and procedures in the event of employee turnover or absence.
2. There does not appear to have been any review and/or approval process in place with regard to the expense reports of the President & CEO of the NTCC during 2008 and a portion of 2009 prior to the arrival of the CFO/Vice President of Operations. Given the high volume of transactions and dollar amounts processed through these expense reports, it is essential that a formal, documented approval process be designed and implemented. This approval process should include some type of reporting and/or approval by the NTCC Board of Directors.
3. The review and/or approval of employee expense reports was not consistently adhered to as many of the reports were submitted and subsequently paid without any supervisory review and/or approval.
4. The review and/or approval of employee expense reports did not require that detailed invoices be provided in support of expenses. In most instances, the invoices provided were "summary invoices" which only displayed a total of the charges, with no listing of detailed expenses. This does not allow for adequate review of charges to determine the appropriateness of the expense.

#### **IV. DISCUSSION OF OBSERVATIONS (Continued)**

##### **E. Policies and Procedures Review (Continued)**

5. With regard to meal charges being expensed as business related, a percentage of meals being expensed did not list the individuals that attended the meals, nor a specific business purpose. Without this necessary information NTCC officials are unable to determine if the expense is a legitimate, business related meal and should therefore be reimbursed.
6. The internal accounting procedures to track and monitor expenses for special events was inadequate to ensure the accuracy and appropriateness of payments made to vendors as well as to monitor the actual versus budgeted expenditures. This greatly increases the risk of overpayment to vendors and does not allow management to monitor and accurately report on the financial performance of specific events or expenditures.

#### **V. CONCLUSION**

Our observations described above set forth the items which we believe require further investigation or substantiation to assist the City in identifying potential misappropriation or abuse of NTCC assets. Based on our agreement with the City, we were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accounting records. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.