



# County of Allegheny

## Office of the Controller

PERFORMANCE AUDIT REPORT ON THE  
PROGRAM OPERATIONS AND EFFECTIVENESS OF  
THE GREATER PITTSBURGH CONVENTION AND  
VISITORS BUREAU D/B/A VISITPITTSBURGH  
FOR THE PERIOD JANUARY 1, 2017  
THROUGH SEPTEMBER 30, 2022

APRIL 11, 2023

**Corey O'Connor**  
**Controller**

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## Contents

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Letter	1
I. Introduction	3
II. Objectives, Scope, and Methodology	5
III. Findings and Recommendations	
Finding #1: VisitPITTSBURGH Lacks Transparency Regarding Staff Compensation	7
Finding #2: Operators of Large Event Venues Need Representation on VisitPITTSBURGH’s Board of Directors	10
Finding #3: Hotel Tax Dollars Need to be Restricted and Accounted for Separately	12
Finding #4: The Allocation of Personnel Resources Appears to Have Adversely Impacted the Number of Locally Hosted Events	15
Finding #5: The Reserve Amounts Being Maintained by VisitPITTSBURGH are Not Reasonable	18
Finding #6: The Improper Recording of Event Subsidy Liabilities Has Led to a Misleading Financial Presentation	22
Finding #7: A Greater Focus on Cost Control is Warranted	25
Finding #8: The Investment Strategy Being Utilized Needs to Account For Market Volatility	29
IV. Conclusion	30
V. Exhibits	
Exhibit I: VisitPITTSBURGH Event Statistics	31
Exhibit II: David L. Lawrence Convention Center Building Utilization Report	32
VI. Response from the President and CEO of the Greater Pittsburgh Convention and Visitors Bureau d/b/a VisitPITTSBURGH	33
VII. Controller’s Office Comments in Connection with VisitPITTSBURGH’s Response	56



## County of Allegheny Office of the Controller

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April 3, 2023

Mr. Jerad Bachar, President & CEO  
Greater Pittsburgh Convention and  
Visitors Bureau d/b/a VisitPITTSBURGH  
120 Fifth Avenue  
Fifth Avenue Place, Suite 2800  
Pittsburgh, PA 15222

**PERFORMANCE AUDIT REPORT ON THE  
PROGRAM OPERATIONS AND EFFECTIVENESS OF  
THE GREATER PITTSBURGH CONVENTION AND  
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FOR THE PERIOD JANUARY 1, 2017  
THROUGH SEPTEMBER 30, 2022**

Dear Mr. Bachar:

We have conducted a performance audit to assess the program operations and effectiveness of the Greater Pittsburgh Convention and Visitors Bureau d/b/a VisitPITTSBURGH (hereafter "VisitPITTSBURGH"). Our procedures were applied to the period from January 1, 2017 through September 30, 2022. Our engagement was performed in accordance with *Government Auditing Standards*.

VisitPITTSBURGH failed to provide data applicable to its compensation costs that we requested. We view this lack of transparency as a major cause for concern. In addition, as we conducted our audit we determined that key local stakeholders are not being adequately represented on VisitPITTSBURGH's Board of Directors as voting members, that hotel tax dollars have not been accounted for as restricted revenues as required and that VisitPITTSBURGH's accounting records do not clearly identify how hotel tax dollars have been spent, that a misallocation of personnel resources appears to have adversely impacted the number of locally hosted events, that the reserves being maintained by VisitPITTSBURGH are not reasonable, that the improper recording of event subsidy liabilities has led to a misleading financial presentation, that a greater focus on cost control is warranted, and that the investment strategy being utilized is exceedingly aggressive. The results of our procedures are included in the attached report. We believe that the implementation of our recommendations will help to improve the operations of VisitPITTSBURGH.


Mr. Jerad Bachar  
April 3, 2023

We would like to thank the management and staff of VisitPITTSBURGH for their courtesy during our engagement.

Kind regards,



Corey O'Connor  
Controller



Lori A. Churilla  
Assistant Deputy Controller, Auditing

cc: Honorable Wayne D. Fontana, 42<sup>nd</sup> Senatorial District  
Honorable Patrick Catena, President, County Council  
Honorable John F. Palmiere, Vice-President, County Council  
Honorable Rich Fitzgerald, Allegheny County Executive  
Ms. Jennifer Liptak, Acting County Manager  
Ms. Mary C. Soroka, Director, Budget and Finance  
Mr. Kenneth J. Varhola, Chief of Staff, County Council  
Ms. Sarah Roka, Budget Manager, County Council  
Ms. Michele Meloy Burchfield, VisitPITTSBURGH Board Chairperson  
Mr. Perry Ivery, VisitPITTSBURGH Vice Chairperson  
Mr. Aaron Waller, Executive Director, Sports & Exhibition Authority



## **I. Introduction**

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The Greater Pittsburgh Convention and Visitors Bureau, Inc. (GPCVB), (dba VisitPITTSBURGH) which was established in 1935, is the official tourism promotion agency for Allegheny County. The Bureau's objective as stated in the Amended and Restated Bylaws of GPCVB is "To promote and increase the business of the members of this organization, to provide for and secure the holding of conventions, conferences and congresses in the City of Pittsburgh by organizations of every kind and nature; and to induce residents of other cities, states, and countries to VisitPITTSBURGH; and to promote the general business welfare of the members of this organization." VisitPITTSBURGH's goal is to enhance the County's economy by increasing tourism and conventions/meetings/events as a source of revenue and jobs. VisitPITTSBURGH is a not-for-profit, exempt organization under Section 501(c)(6) of the Internal Revenue Code.

VisitPITTSBURGH has three separate business units that address three different segments of the tourism economy. MeetPITTSBURGH attempts to attract business travelers by bringing business events to Pittsburgh, primarily to the David L. Lawrence Convention Center. SportsPITTSBURGH attempts to attract sports travelers by bringing primarily amateur and collegiate events to local venues. Local Tourism attempts to bring in leisure travelers by marketing primarily in regions where data has shown that many tourists may be interested in visiting Pittsburgh. VisitPITTSBURGH also has an administrative function that addresses accounting and human relations matters. VisitPITTSBURGH's membership consists of representatives of the Greater Pittsburgh community who elect a Board of Directors, which sets policies and gives direction to the staff.

The GPCVB Education Foundation, Inc. ("Foundation") is a not-for-profit organization that operates exclusively for charitable, scientific, and educational purposes and to assist VisitPITTSBURGH in achieving its goals. The Foundation uses the same Board of Directors and management of VisitPITTSBURGH. The Foundation owns various welcome centers in the Greater Pittsburgh area. VisitPITTSBURGH solicits contributions from its membership for Foundation activities. In turn, the Foundation uses these funds to reimburse VisitPITTSBURGH for expenses incurred in connection with these activities.

Pittsburgh Trade Shows, Inc. ("PTT") is a wholly owned for-profit corporation formed on May 28, 1999 for the purpose of promoting business development and visitor attraction in the region by owning and operating trade shows and conferences to be held in Pittsburgh, Pennsylvania.

The Second-Class County Code, 16 P.S. Section 4970.2 authorizes Allegheny County officials to impose an excise tax on hotel/motel room rentals in the County. The Hotel Room Rental Tax rate was originally set at 3% in 1953 but Act 182 of 1990 increased the rate to 5%. The Act further states that 40% of the tax collected shall be distributed to a tourism promotion agency. VisitPITTSBURGH is the official tourism promotion agency for Allegheny County, which entitles them to receive these amounts. The hotel tax legislation was further amended in 1998 by the state legislature to increase the tax from 5% to 7%. The additional 2% was dedicated to pay bond debt service costs for the Sports and Exhibition Authority related to the convention center expansion project. The tables on the following page provide a summary of VisitPITTSBURGH's revenues and expenses for the last five years.

## VisitPITTSBURGH

### Summary of Revenues

	2022	2021	2020	2019	2018
<b>Allegheny County Directed Revenues</b>					
Hotel Room Excise Tax	\$ 10,994,944	\$ 5,965,277	\$ 2,015,685	\$ 10,793,127	\$ 10,687,457
Covid Cares Act	----	----	1,250,000	----	----
American Rescue Plan Act	5,000,000	----	----	----	----
<b>Total Allegheny County Directed Funds</b>	<b>15,994,944</b>	<b>5,965,277</b>	<b>3,265,685</b>	<b>10,793,127</b>	<b>10,687,457</b>
<b>Other Sources of Support</b>					
Membership Subscription and Fees	552,628	627,573	405,505	702,180	718,663
Advertising and Sponsorship	517,715	351,229	502,380	702,030	748,821
Net Realized and Unrealized Gain on Investment	(1,101,972)	748,063	664,392	954,616	(430,192)
Gain on Forgiveness of PPP Loan	782,132	628,959	----	----	----
Special Projects	155,753	90,410	278,098	766,901	585,439
Donated Goods and Services	51,856	82,200	9,245	976,191	48,693
Interest and Dividends	111,157	165,720	127,549	166,635	187,766
Other Revenue	223,911	107,866	39,628	544,238	363,074
<b>Total Other Support</b>	<b>1,293,180</b>	<b>2,802,020</b>	<b>2,026,797</b>	<b>4,812,791</b>	<b>2,222,264</b>
<b>Total Revenue from All Sources</b>	<b>\$ 17,288,124</b>	<b>\$ 8,767,297</b>	<b>\$ 5,292,482</b>	<b>\$ 15,605,918</b>	<b>\$ 12,909,721</b>
<b>County Directed Revenues as % of Total Revenues</b>	<b>93%</b>	<b>68%</b>	<b>62%</b>	<b>69%</b>	<b>83%</b>

### Summary of Expenses

	2022	2021	2020	2019	2018
Wages and Benefits	\$ 4,461,483	\$ 3,827,178	\$ 4,360,058	\$ 6,772,666	\$ 6,577,900
Advertising and Promotions	1,805,491	787,037	1,157,792	2,037,818	1,502,842
Research and Special Projects	1,677,010	632,431	1,122,901	3,655,531	1,932,188
Rent and Utilities	551,486	518,714	504,354	515,576	474,998
Maintenance	525,982	215,355	231,881	211,030	180,037
Brochures	109,991	111,854	225,677	301,831	272,380
Dues and Subscriptions	73,969	61,332	188,638	142,666	165,593
Website	131,600	106,675	177,175	134,133	114,079
Professional Services	524,781	214,193	175,127	338,224	219,109
Depreciation	118,460	130,749	161,401	218,741	244,286
Travel, Meals and Entertainment	451,007	166,540	117,256	966,406	835,526
Exhibits	158,410	42,687	96,305	189,325	234,206
Furnishings and Equipment	26,016	51,153	72,662	102,454	122,230
Loss on Disposal of Equipment and Property	----	----	44,887	----	----
Printing	79,261	117,326	44,603	50,898	17,339
Postage and Delivery Fees	44,027	28,989	33,467	83,287	78,958
Insurance	33,566	30,485	33,154	36,182	37,242
Registration Fees	103,992	19,995	28,879	259,100	162,212
Site Inspections and FAM Tours	----	450	19,166	93,547	125,287
Bad Debt	6,200	1,627	17,046	3,772	2,425
Office Supplies	555	7,502	15,765	85,583	70,366
Interest and Fees	13,800	11,084	10,971	19,984	19,194
In-Kind Donations	51,856	82,200	9,245	976,191	48,693
Business Taxes	----	----	----	5,839	5,967
Other Expenses	15,463	2,678	1,194	14,443	9,681
<b>Total Expenses</b>	<b>\$ 10,964,406</b>	<b>\$ 7,168,234</b>	<b>\$ 8,849,604</b>	<b>\$ 17,215,227</b>	<b>\$ 13,452,738</b>
<b>County Directed Revenues as % of Total Expenses</b>	<b>146%</b>	<b>83%</b>	<b>37%</b>	<b>63%</b>	<b>79%</b>
<b>Other Revenues as % of Total Expenses</b>	<b>12%</b>	<b>39%</b>	<b>23%</b>	<b>28%</b>	<b>17%</b>
<b>Number of Full-Time Employees at Year End</b>	<b>32</b>	<b>26</b>	<b>25</b>	<b>62</b>	<b>57</b>

## **II. Objectives, Scope, and Methodology**

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### **Objectives**

Our performance audit objectives were:

- To evaluate the composition of VisitPITTSBURGH's Board of Directors and assess whether there is appropriate representation of key local stakeholders,
- To determine whether VisitPITTSBURGH has appropriately tracked the expenditure of Allegheny County hotel tax dollars that are restricted to the promotion of local tourism,
- To test a sample of expenditures of Allegheny County hotel tax dollars to determine whether those tax dollars were in fact used to promote local tourism in a manner that complied with the applicable restrictions,
- To evaluate whether VisitPITTSBURGH has demonstrated an adequate focus on cost control,
- To evaluate VisitPITTSBURGH's overall operations and effectiveness in the promotion of local tourism to the extent possible/practical, and
- To evaluate the extent to which the additional revenues that could be derived from the creation and operation of an Allegheny County Tourism Improvement District (TID) are essential to the promotion of local tourism and the success of VisitPITTSBURGH's operations.

### **Scope**

Our performance audit covered the period from January 1, 2017 through September 30, 2022. However, our review of certain data was extended through December 31, 2022. We conducted the audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **Methodology**

The methodology used to accomplish our audit objectives included, but was not limited to, the following procedures:

- Reviewed the Pennsylvania General Assembly Tourism Promotion Act (Act 50 of 2008), Pennsylvania General Assembly Act 76 of 2008 (which addresses the distribution of hotel room rental tax), and Pennsylvania General Assembly Act 18 of 2016 (which addresses the creation and operation of Tourism Improvement Districts),

## **II. Objectives, Scope, and Methodology**

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- Examined VisitPITTSBURGH’s audit reports, 990 Forms, organization charts, and staff listings for each year in our audit period and interviewed VisitPITTSBURGH’s management to gain a better understanding of the Organization and its operations,
- Reviewed VisitPITTSBURGH’s bylaws (which govern how Board members are selected and appointed and removed) and Board of Directors Listings for each year in our audit period,
- Reviewed VisitPITTSBURGH’s accounting records to determine whether Allegheny County hotel tax dollars were properly recorded as restricted revenues and their expenditure appropriately tracked,
- Requested detailed salary and benefits information and actuarial salary studies conducted in order to evaluate whether VisitPITTSBURGH’s compensation costs have been reasonable,
- Examined VisitPITTSBURGH’s office space lease and related documents to assess the reasonableness of its occupancy expense,
- Reviewed recent audited financial statements, Forms 990, and annual reports of competing destination marketing organizations in an attempt to benchmark VisitPITTSBURGH against its peers,
- Analyzed the detail of events that VisitPITTSBURGH has claimed it helped to bring to Pittsburgh during our audit period along with a David L. Lawrence Convention Center occupancy report to facilitate an assessment of the adequacy of VisitPITTSBURGH’s efforts to secure locally hosted events,
- Tested a sample of VisitPITTSBURGH’s travel, meals, and entertainment expenses to determine whether they were reasonable, incurred in connection with the promotion of local tourism, and were in compliance with VisitPITTSBURGH’s expense policies,
- Reviewed the draft Pittsburgh and Allegheny County TID Funds Investment Plan and other relevant documents to gain a better understanding of the planned use of the funds to be provided by the creation of a Tourism Improvement District.

We conducted our procedures from November of 2022 through February of 2023. We provided a draft copy of this report to the President and CEO of VisitPITTSBURGH for comment. His response begins on page 33.



### III. Findings and Recommendations

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*Finding #1*  
**VisitPITTSBURGH Lacks Transparency  
Regarding Staff Compensation**

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**Criteria:** VisitPITTSBURGH is the designated official tourism promotion agency for Allegheny County. This agency’s main revenue is derived from hotel room taxes that Allegheny County distributes per legislation to VisitPITTSBURGH. In addition to the hotel room tax revenues (see page 4 of the Introduction for amounts), Allegheny County also provided an additional \$1,250,000 in CARES Act funding for 2021 and \$5,000,000 in American Rescue Plan (ARP) funding for 2022 to VisitPITTSBURGH. Therefore, VisitPITTSBURGH should be transparent, meaning open and honest to promote accountability and provide information to the public regarding how this money is being spent.

**Condition:** During our audit, we requested detailed salary information of all staff of VisitPITTSBURGH, and we were denied. The only salary information provided was the information included in the 990 forms (information returns required to be filed by not-for-profit organizations in lieu of tax returns), which is public information, and the total wage and benefits amounts documented in the financial statements.

<b>Year</b>	<b>Wages &amp; Benefits</b>	<b>% Of Total Expenses</b>
2022	\$4,461,483	41%
2021	\$3,827,178	53%
2020	\$4,360,058	49%
2019	\$6,772,666	39%
2018	\$6,577,900	49%

In addition, VisitPITTSBURGH engages an actuarial firm every three years to conduct a salary study of the overall competitiveness of total compensation for certain employee positions. The purpose of the salary study is to ascertain the reasonableness of total compensation when compared to current market data for organizations similar in size and scope. According to VisitPITTSBURGH, the objective of this study is to have a credible compensation strategy that remains competitive within the defined markets for talent. We requested complete copies of these reports and were denied by VisitPITTSBURGH. We were only provided portions of the studies with much of the data redacted. Per our review of the limited 2022 study data provided to us, it appears that 12 of VisitPITTSBURGH’s employees have been paid in excess of market rates. It appears that three of those 12 employees have been paid more than 25% in excess of the market rate, with one of those three having been paid more than 55% in excess of the market rate. However, had VisitPITTSBURGH provided us with the complete actuarial salary studies as we had requested, we may have

### **III. Findings and Recommendations**

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identified additional factors indicating that VisitPITTSBURGH's compensation costs are excessive. The salaries and benefits of VisitPITTSBURGH as well as the studies conducted by the actuarial firm have likely been financed by County hotel room tax revenues and the CARES Act and American Rescue Plan funding secured for VisitPITTSBURGH by Allegheny County. (VisitPITTSBURGH has not appropriately tracked the expenditure of restricted County hotel tax dollars, see finding #3).

**Cause:** VisitPITTSBURGH leadership does not believe that it is required to be transparent and accountable when using hotel tax revenues, CARES Act and ARP funding to pay expenses.

According to the President and CEO of VisitPITTSBURGH, the actuarial study is carried out as part of good business practice so that VisitPITTSBURGH is confident that its employees are being paid fairly and that its pay structure is in line with market averages. He further stated in an email that this analysis is carried out every three years and protects the individual as well as the Organization. He said he provided documentation except for the individual salary information of staff members who do not apply to 990 reporting. He stated he was concerned about protecting the privacy of its employees. In addition, the actuarial report contains three attachments that we were denied when we asked to review.

**Effect:** Lack of transparency is a major issue and can inhibit the free flow of information and lead to fraud and mismanagement of resources. It can also lead to a lack of trust between citizens, government and VisitPITTSBURGH, as well as lack of accountability and poor governance. VisitPITTSBURGH's wages and benefits are quite high and are almost half of its total expenses and its refusal to provide salary information as well as the complete actuarial report conducted in 2022 and 2019 can lead one to believe that VisitPITTSBURGH's decisions and actions are questionable. In addition, the County cannot make informed decisions and hold VisitPITTSBURGH accountable without transparency.

**Recommendations:** We recommend that to achieve transparency, VisitPITTSBURGH's management:

- Immediately provide the detailed salary information for the entire staff and the complete actuarial studies for 2019 and 2022 which have already been requested.
- Should implement policy to provide information about its activities and governance to stakeholders such as Allegheny County that is accurate,

### **III. Findings and Recommendations**

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complete, and made available in a timely manner. Transparency enables accountability.

**Management's  
Response:**

Management's response begins on page 33.

### **III. Findings and Recommendations**

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#### ***Finding #2***

#### **Operators of Large Event Venues Need Representation on VisitPITTSBURGH's Board of Directors**

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**Criteria:** VisitPITTSBURGH's primary focus is improving the local tourism economy, and as such, it would be appropriate for the owners and/or operators of the largest event venues in greater Pittsburgh to have representation on VisitPITTSBURGH's Board of Directors.

**Condition:** As we reviewed VisitPITTSBURGH's Board of Directors listings for each year in our audit period, we observed that:

- the Sports and Exhibition Authority of Pittsburgh and Allegheny County (owner of the David L. Lawrence Convention Center, Acrisure Stadium, PNC Park, and PPG Paints Arena, hereafter "SEA") had no representation on VisitPITTSBURGH's Board of Directors at any time during our audit period (from January 1, 2017 through September 30, 2022),
- a representative of the manager of the David L. Lawrence Convention Center has served as an "ex officio" VisitPITTSBURGH Board member (a representative of the manager of the Convention Center was permitted to serve on the Board just due to his position) throughout our audit period. However, the representative of the manager of the Convention Center has been a non-voting Board member throughout that time,
- the Pittsburgh Steelers, involved in the operation of Acrisure Stadium, have not been represented on VisitPITTSBURGH's Board of Directors since 2018,
- the Pittsburgh Penguins, involved in the operation of PPG Paints Arena, have not been represented on VisitPITTSBURGH's Board of Directors since 2021,
- the Pittsburgh Pirates, involved in the operation of PNC Park, had no representation on VisitPITTSBURGH's Board of Directors at any time during our audit period,
- during 2022 there were four vacant VisitPITTSBURGH Board member positions, and
- during 2022 there was a disproportionate number of businesses with representation on VisitPITTSBURGH's Board, as 11 of the 17 occupied Board positions were held by representatives of businesses, the majority of which were small businesses.

**Cause:** VisitPITTSBURGH's management stated that Board recommendations are made through an established nomination process. VisitPITTSBURGH's by-laws indicate that "the Governance Committee shall report to the Board of Directors those candidates it recommends for Directors and officers and



### **III. Findings and Recommendations**

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any other candidates for Directors proposed by the membership...” However, we were advised by VisitPITTSBURGH’s management that in practice, the Governance Committee has routinely sought input regarding potential candidates from the Chairman of the Board and VisitPITTSBURGH’s President and Chief Executive Officer. In addition, although it does not appear to be expressly provided for in the by-laws, we were advised that in practice in instances where Board members may be perceived to have conflicts or there are questions about a Board member’s ability to perform his or her fiduciary duties due to a change in their employer, position, or duties, the Board Chairman and the President & CEO have the final say as to whether the Board member retains their Board membership.

While VisitPITTSBURGH has devoted some resources to attracting business and sports events, it appears that VisitPITTSBURGH’s primary focus has been on the third component of its strategy, generating leisure tourism (see finding #4). It is possible that a desire to focus on leisure tourism has led the Board Chairman and/or the President and CEO to use their influence to assemble a Board that would be interested in focusing on the same objective (possibly by recommending the addition of small business owners that might not benefit significantly from tourism traffic being brought to the David L. Lawrence Convention Center or the other large event venues).

**Effect:** VisitPITTSBURGH’s Board of Directors appears to be satisfied with an approach that focuses heavily on the generation of leisure tourism, which means less resources are being applied to attracting business and sports events. Because VisitPITTSBURGH has very small business event and sports event sales divisions, opportunities to secure more business and sports events are apparently being missed.

**Recommendations:** VisitPITTSBURGH’s Board should take steps to remove the influence that the Board Chairman and President and CEO can have over Board member selection and retention. VisitPITTSBURGH’s Board should also take steps to ensure that the owners and/or operators of each of the largest event venues in greater Pittsburgh are represented on the Board as voting members.

**Management’s Response:**

Management’s response begins on page 33.

### III. Findings and Recommendations

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#### *Finding #3*

#### **Hotel Tax Dollars Need to be Restricted and Accounted for Separately**

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**Criteria:** Generally accepted accounting principles (GAAP) are a set of rules and standards for recording transactions that impact the financial position of an organization. Organizations should adhere to GAAP to ensure that their financial information is consistently and accurately reported, and that the information is comparable to other organizations in the same industry. U.S. GAAP applicable to not-for-profit organizations requires revenues subject to donor-imposed time or purpose restrictions to be recorded as restricted revenues. In addition, to the extent that any restricted revenues remained unused at the end of each reporting period, they should be reported as restricted net assets (as opposed to unrestricted net assets).

Pennsylvania General Assembly Act 76 of 2008 which governs the distribution of hotel taxes collected in Pennsylvania indicates that expenditures of the hotel tax dollars routed to regional tourism promotion agencies such as VisitPITTSBURGH must be “reasonably necessary to the support, operation, and maintenance of a convention center or exhibition hall.” Act 76 further indicates that allowable expenditures include the following:

- (i) Advertising and publicizing tourist attractions in the area served by the recognized tourist promotion agency.
- (ii) Promoting and otherwise encouraging the use of the facilities in the area served by the recognized tourist promotion agency by the public as a whole.
- (iii) Promoting and attracting conventions, exhibitions and other functions to utilize facilities in the area served by the recognized tourist promotion agency.
- (iv) Pre-completion advertising and publicizing of any convention center or exhibition hall.
- (v) Promoting and attracting conventions, exhibitions and other functions to utilize the convention center or exhibition hall.
- (vi) Promoting and otherwise encouraging the use of the premises by the public as a whole or any segment of the public.
- (vii) Operating, furnishing and otherwise maintaining and equipping the premises and realty appurtenant to the premises.
- (viii) Furnishing and equipping the building and grounds.

**Condition:** VisitPITTSBURGH has taken the position that the operations that it ordinarily engages in to achieve its exempt purpose comply with the restrictions identified in Act 76 which it perceives to be general in nature, and therefore recording the hotel tax dollars as restricted revenues is unnecessary. However, an organization’s exempt purpose has no bearing on whether the funds provided to it are subject to restrictions. Aside from

### **III. Findings and Recommendations**

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this, the restrictions (detailed in the “Criteria” above) are actually fairly specific, and some of the expenditures that VisitPITTSBURGH has incurred in recent years, such as lobbying expenditures, cannot be financed with County hotel tax dollars. Consequently, VisitPITTSBURGH should have recorded and reported the County hotel tax dollars that it has received as restricted revenues. To the extent that any County hotel tax dollars remained unused at the end of each year, they should have been reported as restricted net assets as opposed to unrestricted net assets.

VisitPITTSBURGH has also failed to adequately track the expenditure of restricted County hotel tax dollars. When we reviewed VisitPITTSBURGH’s accounting records, we observed that both general ledger accounting systems, the system used up until October 31, 2020 and the new system used beginning November 1, 2020, provide departmentalized accounting capabilities. This means that VisitPITTSBURGH should have been able to easily track the expenditure of the restricted County hotel tax dollars as well as the expenditure of the revenues it received from other sources. However, the departmentalized accounting capabilities of those systems were actually utilized for other (less significant) purposes.

We were advised by VisitPITTSBURGH’s management that two separate bank accounts are being maintained, a general account that is intended to track public funds (County hotel tax dollars, other government grants, etc.) and another account that is intended to track private funds. However, we later learned that the bank account intended to track private funds typically has a zero balance, as both public and private funds are commingled in the general account. We were also advised that checks issued in connection with expenditures intended to be financed with public funds are sometimes drawn on the private bank account.

We observed that project codes have been established and are being used each time an expenditure is recorded. We were advised by VisitPITTSBURGH’s management that we could determine whether an expenditure was being financed by public funds or private funds based on the project codes. However, this is not possible without a list of the project codes that indicates the intended funding source, which is not part of VisitPITTSBURGH’s accounting system. When we requested such a list, we learned that three different funding source classifications are being used, general (public), private, and hybrid. The use of a hybrid job code means that the expenditure could be financed by public and/or private funds. As a result, VisitPITTSBURGH is unable to identify and we are unable to determine the exact amount of expenditures made with public and private funds. It should further be noted that the “public funds” category does not exclusively represent County hotel tax dollars, it also includes CARES Act funding, American Recovery Plan funding, and any other governmental

### **III. Findings and Recommendations**

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funding VisitPITTSBURGH may receive. Each of these funding sources may have different restrictions. It is not sufficient to simply track the expenditure of public funds. It appears that VisitPITTSBURGH's initial failure to recognize the County hotel tax dollars as restricted revenues contributed to a certain extent to the failure in adequately tracking the expenditure of those funds.

**Cause:** It appears that VisitPITTSBURGH has misinterpreted applicable accounting guidance.

**Effect:** VisitPITTSBURGH's audited financial statements do not identify County hotel tax dollars received as restricted revenues, and any unspent County hotel tax dollars at year-end as restricted net assets. VisitPITTSBURGH's failure to adequately track the expenditure of restricted County hotel tax dollars impairs its ability to demonstrate that the funds have been expended in a manner that complies with the applicable restrictions.

**Recommendations:** VisitPITTSBURGH's management should:

- Properly record and report County hotel tax dollars as restricted revenues, and the unspent portion at year-end as restricted net assets in accordance with GAAP, and
- Properly track County hotel tax dollar expenditures to facilitate demonstrating VisitPITTSBURGH's compliance with the applicable restrictions, ideally using the departmentalized accounting capability afforded by the general ledger accounting system.

**Management's Response:** Management's response begins on page 33.



### III. Findings and Recommendations

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#### *Finding #4*

#### **The Allocation of Personnel Resources Appears to Have Adversely Impacted the Number of Locally Hosted Events**

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**Criteria:** Pennsylvania General Assembly Act 76 of 2008 which governs the distribution of hotel taxes collected in Pennsylvania indicates that expenditures of the hotel tax dollars routed to regional tourism promotion agencies such as VisitPITTSBURGH must be “reasonably necessary to the support, operation, and maintenance of a convention center or exhibition hall.” The Act does not identify costs incurred in connection with the general promotion of leisure tourism as allowable expenditures. Securing more business and sports events to be hosted locally also does more to demonstrate VisitPITTSBURGH’s effectiveness in improving the local tourism economy than the promotion of leisure tourism, as it is difficult to determine how many leisure travelers actually visited Pittsburgh as a result of VisitPITTSBURGH’s efforts, while hotel night stays associated with hosted events can be easily tracked. In consideration of these facts, one would expect VisitPITTSBURGH to devote a significant portion, if not a majority, of its personnel resources to securing business and sports events to be hosted locally.

**Condition:** As we were performing our audit, we noted that VisitPITTSBURGH only had three salespeople tasked with securing business events. We were advised that there were four sales positions intended to focus on business events, but one position was vacant. One sales position addresses the Washington D.C. market where many national and international organizations are headquartered, one sales position addresses the Chicago market where many trade organizations are headquartered (vacant at the time), and the two other sales positions address the rest of the world. VisitPITTSBURGH also has only two salespeople tasked with securing sports events. However, we also noted that VisitPITTSBURGH’s leisure tourism and marketing unit had 14 filled positions:

- Chief Marketing Officer
- Director Market Research and Analytics
- Director Web Development
- Director Marketing Communications
- Director Partnership Development
- Manager Visitor Engagement
- Market Research Manager
- Marketing Manager
- Multimedia Design & Production Manager
- Partnership Development Manager
- Senior Content Development Manager
- Senior Director of Marketing

### III. Findings and Recommendations

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- Senior Director Strategic Initiatives & Destination Development
- Social Media Marketing Manager

While we were advised that the marketing function also serves the business and sports events sales units, it is likely that leisure tourism and marketing were grouped together as a single business unit because a significant portion of the marketing staff's total efforts are devoted to leisure tourism.

We requested VisitPITTSBURGH to provide us with a listing of the booked business and sports events that it has helped to bring to Pittsburgh during the years in our audit period. We used that data to compile a table of event statistics (see Exhibit I on page 31). We noted that even during 2019, in which VisitPITTSBURGH claims to have helped bring the largest number of events to Pittsburgh, only 46 of those events were hosted in the David L. Lawrence Convention Center, an average of less than four events in an entire month. A David L. Lawrence Convention Center Building Utilization Report provided to us by the SEA indicates that the Convention Center had large amounts of unused space during every year in our audit period (see Exhibit II on page 32). This supports that VisitPITTSBURGH likely could have secured more events to be hosted at the Convention Center if it had allocated more personnel resources to securing business events.

**Cause:**

The direction that VisitPITTSBURGH has taken, which appears to involve attempting to secure business and sports events but with a greater focus on promoting leisure tourism, appears to have been approved by its Board of Directors (see finding #2).

We learned as we performed our procedures that while VisitPITTSBURGH can obtain knowledge about the hosting of public events and may learn of some private events hosted by other cities as it performs its sales prospecting activities, it does not know and is unable to determine the exact number of events hosted each year in any competing destination marketing organization's (DMO's) market, or the aggregate number of events hosted each year across all of the competing DMO markets. This uncertainty about the number of events hosted in other cities makes it challenging to benchmark VisitPITTSBURGH's performance against its peers. We were advised by VisitPITTSBURGH's management that it gauges its own success by comparing its current performance (i.e., the number of events secured) against its prior performance. However, the problem with this approach is that an organization could significantly improve its performance in comparison to its prior performance and yet still fall far short of the performance of its peer group. It would be more appropriate to gauge the organization's success by focusing on the extent to which the amount of unbooked space in the David L. Lawrence Convention Center

### **III. Findings and Recommendations**

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and the other large event venues in Pittsburgh has been minimized (via event bookings that meet established booking guidelines).

While VisitPITTSBURGH has secured some large events, we noted that the events that VisitPITTSBURGH has secured are generally smaller events. We learned that VisitPITTSBURGH's sales staff are each assigned a total room nights goal for each year, and their results are compared to that goal for purposes of determining the extent to which they will receive incentive compensation. Since securing smaller events can involve less work, and the loss of a smaller event would have less of an impact on a salesperson's ability to reach their total room night goal, it follows that the incentive compensation system being utilized is not structured to provide the sales staff with an incentive to focus on securing larger events.

**Effect:** It appears that opportunities are being missed to fully utilize the David L. Lawrence Convention Center and the other large local event venues and to secure additional hotel night stays that would likely result in additional County hotel tax revenues to VisitPITTSBURGH.

**Recommendations:** VisitPITTSBURGH's Board of Directors should:

- Implement the recommendations offered in connection with finding #2 to help increase what appears to be an inadequate focus on securing business and sports events to be hosted locally, and
- Reevaluate the organization's staffing, with a focus on allocating more personnel resources to securing business events for the David L. Lawrence Convention Center and sports events for the sports event venues.

**Management's Response:**

Management's response begins on page 33.

### III. Findings and Recommendations

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#### *Finding #5*

#### **The Reserve Amounts Being Maintained by VisitPITTSBURGH Are Not Reasonable**

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**Criteria:** Not-for-profit organizations are permitted to maintain reserves. Each not-for-profit is free to use its own judgment when it comes to the establishment and maintenance of reserves. The Internal Revenue Service (IRS) places no restrictions on not-for-profit organizations when it comes to reserves. Its main focus is on whether the manner in which the organization’s resources are ultimately expended serves to accomplish its exempt purpose. However, the maintenance of excessive reserves can impair a not-for-profit organization’s ability to achieve its exempt purpose in the near term. Consequently, not-for-profit organizations should limit the maintenance of reserves to amounts that are reasonable in the circumstances.

**Condition:** The reserves being maintained by VisitPITTSBURGH are not reasonable given the circumstances. VisitPITTSBURGH has established and maintained four different types of reserves. There is an operational reserve, an opportunity reserve, a capital reserve, and an event subsidy reserve. These reserves have been created through board designations of net assets. The operational reserve is intended to fund “a sudden increase in expense, one-time unbudgeted expenses, unanticipated loss in funding or uninsured losses.” The opportunity reserve is intended to enable VisitPITTSBURGH to take advantage of opportunities or meet needs that further VisitPITTSBURGH’s mission. The capital reserve is intended to provide funds “for repair or acquisition of leasehold improvements, furniture, fixtures, and equipment necessary for the effective operation” of VisitPITTSBURGH. The event subsidy reserve is intended to fund “expenses incurred as a result of bringing future convention business to Pittsburgh without creating excess strain on the operating budget.” The following table lists the amounts of the reserves maintained by VisitPITTSBURGH as of December 31, 2021 and 2022.

	<u>As of</u> <u>December 31, 2021</u>	<u>As of</u> <u>December 31, 2022</u>
Operational	4,234,425	\$ 3,258,268
Opportunity	750,000	750,000
Capital	5,350	5,350
Event Subsidy	<u>1,259,018</u>	<u>1,259,018</u>
Total Reserves	<u>\$ 6,248,793</u>	<u>\$ 5,272,636</u>



### **III. Findings and Recommendations**

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#### ***Operating Reserve***

VisitPITTSBURGH's operating reserve is generally much higher than those of competing DMOs. For example, while Visit Baltimore has not identified the nature of its reserves in its audited financial statements, its total board designated net assets as of December 31, 2021 were \$836,347. Visit Baltimore had more than three times the revenues and three times the expenses of VisitPITTSBURGH during 2021 and had more net assets than VisitPITTSBURGH at December 31, 2021. Some of the DMOs that VisitPITTSBURGH competes with, such as Visit Cleveland, Experience Columbus, and Visit Cincy have not even historically maintained operating reserves.

While VisitPITTSBURGH is an independent organization, it has been designated by Allegheny County as its regional tourism promotion agency. Consequently, Allegheny County has an interest in ensuring that VisitPITTSBURGH is able to (and will) accomplish its exempt purpose, improving the local tourism economy. It is true that at the beginning of the COVID-19 pandemic the County's hotel tax receipts were insufficient to provide VisitPITTSBURGH with a large base funding allocation, as only \$2,015,685 in County hotel tax dollars were provided for 2020. However, while the challenges in maintaining governmental operations that were faced by Allegheny County during the pandemic were many, the County did manage to divert a portion of the federal funds it received to assist in responding to the pandemic, \$1.25 million in CARES Act funding and \$5 million in American Recovery Plan funding, to assist VisitPITTSBURGH. Although Allegheny County was not obligated to provide VisitPITTSBURGH with any particular amount of funding, the fact that the County does have a stake in the outcome of VisitPITTSBURGH's operations and did assist VisitPITTSBURGH in responding to the pandemic suggests that VisitPITTSBURGH's maintenance of such a large operating reserve is unnecessary.

VisitPITTSBURGH has also maintained a \$1,000,000 revolving line of credit with a bank for many years. At December 31, 2021, the interest rate on the line of credit was LIBOR plus 2.75% (an effective rate of 2.85%). The line of credit was never utilized during our audit period, including during the COVID-19 pandemic. The availability of the line of credit reduces the need for VisitPITTSBURGH to maintain such a large operating reserve.

#### ***Event Subsidy Liability***

Although some competing DMOs have properly disclosed the event subsidy commitments they have made in the footnotes to their audited financial statements, it appears that most have not established a reserve for event

### **III. Findings and Recommendations**

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subsidies as VisitPITTSBURGH has. While VisitPITTSBURGH has recorded the event subsidy commitments it has made on its balance sheet as event subsidy liabilities, it appears to be the only DMO among the competing DMOs that has adopted that accounting treatment (see finding #6). The aggregate amount of commitments that VisitPITTSBURGH has made to subsidize future events is significant, but proper budgeting precludes the need to maintain an event subsidy reserve. VisitPITTSBURGH is aware of the amount of event subsidy commitments it has made for each future year. Building the amount of those commitments into its annual budgets for each of those upcoming years would help to ensure that VisitPITTSBURGH will have adequate funds to provide the event subsidies as promised if the events intended to be subsidized are ultimately held in Pittsburgh.

#### ***Capital Reserve***

VisitPITTSBURGH's capital reserve does not appear to be excessive. However, it is unnecessary to maintain a reserve to fund such small expenditures that could be easily financed using the Organization's available resources during the normal course of business.

#### **Cause:**

The footnotes to VisitPITTSBURGH's audited financial statements in recent years have indicated that "periodically, the Board of Directors designates a portion of the operating surplus to ensure the stability of the mission, programs, employment and ongoing operations of the Bureau." VisitPITTSBURGH laid off 29 employees in 2020 as part of its response to the COVID-19 pandemic. It appears that VisitPITTSBURGH may be maintaining such a large operating reserve because it wants to ensure that it is not forced to incur additional layoffs that might otherwise be necessitated by adverse circumstances, such as a resurgence of the COVID-19 pandemic.

VisitPITTSBURGH's management has expressed concern that the amount of hotel tax allocations that it will receive each month are based on the hotel tax collections and impacted by other factors, and therefore cannot be predicted with certainty. As a result, there is a reluctance to assume that the revenues collected in any given year will be sufficient to cover all of the event subsidy commitments that VisitPITTSBURGH has made. However, prior to the pandemic, the revenues received by VisitPITTSBURGH each year would have easily covered its event subsidy commitments. During the pandemic, many events were canceled, such that the total amount of event subsidy payments that VisitPITTSBURGH was actually required to make were much lower than anticipated and easily manageable, even during the crisis.

#### **Effect:**

Funds that have been designated by an organization's Board of Directors for particular purposes cannot be used for any other purpose. The amounts

### **III. Findings and Recommendations**

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reserved could remain unspent for many years before they are finally used for their designated purpose (if they are ultimately used for their designated purpose). Therefore, the amounts reserved by VisitPITTSBURGH's Board are not being used and cannot be used in the near term to improve the local tourism economy. If VisitPITTSBURGH was not maintaining such large reserves, it would be able to use more of its resources to improve the local tourism economy in the near term and generate additional revenues. For example, VisitPITTSBURGH could employ more sales staff to secure more business and sports events or offer additional event subsidies to secure larger events which would result in more hotel night stays. In each case, the direct and indirect spend associated with the additional events would represent an improvement in the local tourism economy while the additional hotel night stays would ultimately result in additional revenues to VisitPITTSBURGH.

VisitPITTSBURGH sought the creation of a Tourism Improvement District (TID) to provide additional funding to accomplish its exempt purpose. However, VisitPITTSBURGH would likely be able to accomplish a significant portion of what it intended to accomplish using the TID funds simply by reducing its reserves to an amount that is reasonable in the circumstances and using those funds.

**Recommendations:** VisitPITTSBURGH's Board of Directors should reduce the organization's reserves to an amount that is reasonable in the circumstances and direct more resources to be used in the near term for its exempt purpose, to improve the local tourism economy.

**Management's Response:**

Management's response begins on page 33.

### III. Findings and Recommendations

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#### *Finding #6*

#### **The Improper Recording of Event Subsidy Liabilities Has Led to a Misleading Financial Presentation**

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**Criteria:** Generally accepted accounting principles (GAAP) are a set of rules and standards for recording transactions that impact the financial position of an organization. Organizations should adhere to GAAP to ensure that their financial information is consistently and accurately reported, and that the information is comparable to other organizations in the same industry.

**Condition:** Commitments made by VisitPITTSBURGH to subsidize future events have been improperly recorded in the accounting records as event subsidy liabilities. We noted that \$1,639,887 in event subsidy liabilities were included in the accrued liabilities reported in VisitPITTSBURGH's 2021 audited financial statements. (VisitPITTSBURGH's 2022 financial statement audit was not released until the end of our audit period. As a result, we have not determined the exact amount of event subsidy liabilities that have been reported in the accrued liabilities financial statement caption.)

VisitPITTSBURGH sometimes makes commitments to event sponsors to provide event subsidies in order to secure the events to be hosted in the greater Pittsburgh market. These commitments typically involve subsidizing the cost of certain services to be provided in connection with the events. A significant number of the event sponsors are not-for-profit organizations, but some are actually for-profit organizations. We reviewed an example of a communication to a sponsor of a sports event (which we were advised generally represents how subsidies are typically offered) noting that the language in the communication indicated that VisitPITTSBURGH's offer was non-binding. It is likely that other competing DMOs often utilize the same tactics to secure events. VisitPITTSBURGH's offering of event subsidies to not-for-profit organizations to secure their events is not primarily attributable to a desire to advance the organizations' exempt purposes. There is competition among the DMOs for events, and VisitPITTSBURGH is really offering the subsidies to induce the event sponsors to hold their events in Pittsburgh instead of some other location. (The events are hosted locally because VisitPITTSBURGH is willing to provide a subsidy – there is an exchange.) Based on this, without any additional guidance regarding the accounting treatment for such transactions, it would be reasonable to assume that VisitPITTSBURGH is simply making commitments, which should not be recorded in the accounting records but should be disclosed in the footnotes to the financial statements, and that the payments ultimately made to subsidize the events should be accounted for in the accounting records as exchange transactions.

### III. Findings and Recommendations

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Most of the time there is clarity regarding whether a transaction with a not-for-profit organization should be treated as an exchange transaction versus a contribution. However a lack of clarity regarding the treatment of some types of transactions, which had led to a lack of uniformity in the accounting for such transactions, prompted the Financial Accounting Standards Board (FASB) to issue Accounting Standards Update (ASU) 2018-08 which was intended to eliminate any uncertainties about the accounting and bring about consistency in the accounting treatment for such transactions. ASU 2018-08 indicates that “execution of a resource provider’s mission or the positive sentiment from acting as a donor would not constitute commensurate value received by a resource provider for purposes of determining whether a transfer of assets is a contribution or exchange.” This statement is basically indicating that even though a payment made by an organization may be helping it to accomplish its exempt purpose, that alone is not a basis for concluding that a contribution has been made. However, it appears that instead of considering all of the relevant circumstances associated with the transactions, VisitPITTSBURGH misinterpreted the accounting guidance and used this statement as a basis for categorizing the event subsidy payments being made as contributions. VisitPITTSBURGH’s use of the accounting for contributions guidance for these transactions is also problematic because as mentioned earlier, some of the event sponsors are for-profit organizations and cannot receive contributions from not-for-profit organizations. We also noted that despite the fact that VisitPITTSBURGH has followed the accounting for contributions guidance, the subsidy payments made in connection with the events have not been recorded in the accounting records as contributions.

When following the accounting for contributions guidance, its necessary to determine whether a contribution is conditional or unconditional to determine whether it should be recorded in the accounting records or not be recorded. While unconditional contributions should be immediately recorded, conditional contributions should not be recorded until the conditions associated with the contributions have been met. We noted that event subsidy liabilities for future events have been recorded on VisitPITTSBURGH’s balance sheet each year, which means that VisitPITTSBURGH has determined that the event subsidy payments being made by VisitPITTSBURGH are unconditional contributions. As was indicated earlier, we noted that the language in VisitPITTSBURGH’s communications to event sponsors typically indicates that its subsidy offers are non-binding, which suggests that (even if accounting for the event subsidies as contributions was appropriate) accounting for the event subsidies as unconditional contributions is not appropriate.

We noted that the audited financial statements of most of the DMOs that VisitPITTSBURGH is competing with contained a footnote that explained the nature of any event subsidy commitments that had been made, and event

### **III. Findings and Recommendations**

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subsidy liabilities were not included in any of their balance sheets. The lack of conformity with other DMOs in regard to the accounting treatment for these types of transactions further suggests that VisitPITTSBURGH has not adhered to generally accepted accounting principles.

**Cause:** It appears that VisitPITTSBURGH has misinterpreted applicable accounting guidance.

**Effect:** The recording of event subsidy liabilities that do not exist, along with the maintenance of excessive reserves (see finding #5), create the perception that VisitPITTSBURGH has far less liquidity (the ability to employ funds in the near term to improve the local tourism economy) than it actually has.

**Recommendations:** VisitPITTSBURGH's management should properly reflect event subsidy commitments as commitments and not event subsidy liabilities, disclosing such commitments in the footnotes to the financial statements as required by GAAP.

**Management's Response:** Management's response begins on page 33.

### III. Findings and Recommendations

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#### *Finding #7*

#### **A Greater Focus on Cost Control is Warranted**

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**Criteria:** Taking appropriate measures to ensure that costs being incurred are reasonable and appropriate typically enables organizations to accomplish more with their resources.

**Condition:** We identified a number of conditions that suggest that a greater focus on cost control is warranted:

#### *Salary and Benefit Costs*

While the amount that VisitPITTSBURGH incurred in salary and benefit costs during 2017 was not disclosed in its audited financial statements for the year ended December 31, 2017, salary and benefit costs have generally been by far the largest costs incurred by VisitPITTSBURGH during our audit period. During 2022 and 2021, VisitPITTSBURGH's salary and benefit costs were \$4,461,483 and \$3,827,178, respectively, and represented more than 41% and 53%, respectively, of VisitPITTSBURGH's total expenses. The table below provides the base (salary) and total compensation costs of VisitPITTSBURGH's key employees in 2021 as was disclosed in the Organization's 2021 Form 990.

<u>Key Employee</u>	<u>Base Compensation</u>	<u>Total Compensation</u>
President & CEO	\$284,182	\$333,760
Chief Financial Officer	182,673	222,363
Chief Marketing Officer	99,770	182,464
Executive Director Sports Development	133,305	159,771

VisitPITTSBURGH has refused to provide us with detailed salary information for its entire staff and has refused to provide us with complete copies of the actuarial salary studies conducted in 2019 and 2022 (see finding #1). As a result, VisitPITTSBURGH has not effectively demonstrated to us that its compensation costs are reasonable.

VisitPITTSBURGH's lack of transparency with respect to salary and benefit costs is concerning, especially since concerns about excessive compensation have been expressed in prior periods. We noted during our audit that VisitPITTSBURGH is still obligated to pay and is still paying postemployment benefit costs of a former executive that retired many years ago, and his spouse. The requirement to pay the postemployment benefits, which was quite uncommon at the time, was stipulated in a non-standard employment contract. The following table provides the postemployment benefits paid by VisitPITTSBURGH to date as required by the contract.

### III. Findings and Recommendations

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<u>Year</u>	<u>Postemployment Benefit Payments</u>
2013	\$2,592
2014	5,125
2015	5,233
2016	5,400
2017	5,599
2018	5,579
2019	5,832
2020	6,124
2021	6,315
2022	6,477
2023 as of 2/28	<u>2,697</u>
Total	<u>\$56,973</u>

#### *Rent Expense*

Rent expense has also historically been one of the highest costs incurred by VisitPITTSBURGH throughout our audit period. VisitPITTSBURGH is currently leasing the entire 28<sup>th</sup> floor of 5<sup>th</sup> Avenue Place in downtown Pittsburgh. Rent expense associated with the noncancelable lease during 2021 was \$473,089, which represented approximately 7% of VisitPITTSBURGH's total expenses. VisitPITTSBURGH extended the lease in 2016. The lease renewal period began September 1, 2021 and terminates August 31, 2026. We noted that VisitPITTSBURGH is actually using less of its office space and is using it less frequently after the COVID-19 pandemic, as VisitPITTSBURGH permanently laid off 29 employees as a response to the pandemic and altered its work schedule such that employees generally only report to the office on Mondays and Wednesdays and work from home on Tuesdays, Thursdays, and Fridays. While VisitPITTSBURGH is attempting to identify another tenant to take over the lease for its space, there is no guarantee that it will be able to do so, which means that VisitPITTSBURGH may be obligated to satisfy its lease obligations through the expiration of the lease in August of 2026. VisitPITTSBURGH did not begin its lease of the 5<sup>th</sup> Avenue Place space during our audit period. However, had VisitPITTSBURGH opted to lease more economical space from the outset, it would have had more resources available each year to promote local tourism. It likely would have also been easier for VisitPITTSBURGH to identify a tenant to take over less costly space.

#### *Travel, Meals, and Entertainment Expenses*

An organization's policy and procedure manuals should be carefully written because they convey to employees "the tone at the top", or management's true expectations of employee behavior. When we reviewed



### III. Findings and Recommendations

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VisitPITTSBURGH's *Expense Account Procedures and Guidelines* which were last updated in January of 2020, we noted that the entertainment policy contained therein begins with "'business entertainment' spending draws the greatest attention from external auditors." Instead of indicating to employees that cost control is important to help ensure that the organization can do more with the financial resources that have been provided to it, employees are left with the impression that they just need to be careful not to get caught making excessive expenditures. The expenditure policy goes on to say that "all entertainment should be reasonable and necessary and must be evaluated based upon potential return on investment." However, the terms "reasonable" and "necessary" are not defined or explained, and there is no further discussion about how to determine whether entertainment would be appropriate based on the potential return on investment, or who is responsible for making that determination. Similarly, the meals policy indicates that "reasonable meal costs are reimbursable when related to an overnight travel itinerary", but the term "reasonable" is not defined or further explained. The hotel/lodging policy simply indicates that "lodging expenses are reimbursable", and then explains how to enter them on an expense report. While the policy does indicate that certain types of expenses such as hair salon, health club, in-room movies, cocktails and mini-bar are personal expenses and not reimbursable, there is no indication that employees should comparison shop when possible to obtain the best room rate, or that employees should avoid luxury or upscale hotels when possible, or any other measures identified that should be taken to help ensure that the costs being incurred are reasonable and appropriate.

We selected and reviewed a sample of 100 of VisitPITTSBURGH's travel, meals, and entertainment expenses during our audit period. We noted that for 17 of the 100 expenditures we selected for testing, VisitPITTSBURGH was able to provide a credit card receipt, but not an invoice that would have provided the details of the costs incurred. Consequently, we were unable to verify that the costs were allowable, or to determine whether alcoholic beverages had been purchased. We had been advised by VisitPITTSBURGH's management that purchases of alcoholic beverages were made using private funds, however we observed that VisitPITTSBURGH's accounting records do not clearly indicate how County hotel tax dollars have been spent (see finding #3). Of these 17 expenditures totaling \$36,818, 15 were for restaurant meals/catering ranging from \$607 to \$6,000, and two were for international travel.

**Cause:**

By leasing high-cost office space and compensating a number of employees at above market rates, VisitPITTSBURGH's management has not demonstrated an appropriate emphasis on cost control. VisitPITTSBURGH's *Expense Account Procedures and Guidelines* also do not reflect an appropriate emphasis on cost control.

### **III. Findings and Recommendations**

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**Effect:** VisitPITTSBURGH would have been able to do more in the near term to improve the local tourism economy if it had exercised greater focus on cost control.

**Recommendations:** VisitPITTSBURGH's management should:

- Take any measures needed to bring VisitPITTSBURGH's salary and benefit costs in line with market rates,
- Continue its efforts to find a replacement tenant to take over VisitPITTSBURGH's 5<sup>th</sup> Avenue Place lease,
- Focus on obtaining lower cost office space in the future,
- Improve VisitPITTSBURGH's *Expense Account Procedures and Guidelines* by incorporating a greater focus on cost control and requiring submission of documentation necessary to support expenditures.

**Management's Response:** Management's response begins on page 33.

### III. Findings and Recommendations

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#### *Finding #8*

#### **The Investment Strategy Being Utilized Needs to Account for Market Volatility**

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**Criteria:** Not-for-profit organizations are permitted to invest in most types of investments. However, a not-for-profit should exercise care to ensure that funds that are critical to accomplishing its mission are not invested in high-risk investments.

**Condition:** At December 31, 2021, VisitPITTSBURGH's \$6,123,939 in investments constituted the vast majority of its reserves and consisted of \$4,170,682 in stock and stock funds (68%) and \$1,953,257 in bonds and bond funds (32%). While stocks and stock funds are generally riskier investments than bonds and bond funds, both types of investments expose VisitPITTSBURGH to the risk of loss.

**Cause:** VisitPITTSBURGH's management has followed the advice of its investment manager, which cited the anticipated long-term holding period of its reserves as justification for taking on additional risk. We noted that the investment manager's compensation is based on the assets managed and not on its performance.

**Effect:** The majority of VisitPITTSBURGH's reserves, which it has indicated are necessary "to ensure the stability of the mission, programs, employment and ongoing operations of the Bureau" have been invested in one of the riskiest investment categories, and as a result they could be lost. In fact, we noted that VisitPITTSBURGH's audited financial statements reflect net realized and unrealized losses on investments of \$1,101,972 during 2022.

**Recommendations:** VisitPITTSBURGH's management should reconsider the organization's investment strategy, with the objective of reducing the overall amount of risk being taken with resources that are critical to accomplishing the organization's mission.

**Management's Response:** Management's response begins on page 33.

## **IV. Conclusion**

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The issues that we have identified during our audit are significant, and they should be addressed by VisitPITTSBURGH prior to the creation of an Allegheny County Tourism Improvement District. VisitPITTSBURGH's lack of transparency with respect to compensation costs, its largest expense, is troubling, especially since the Organization has not adequately tracked the expenditure of the restricted County hotel tax dollars that have been provided to it.

In addition to adequately tracking the expenditure of restricted County hotel tax dollars, VisitPITTSBURGH needs to focus on doing more with the financial resources that are already being provided to it. This should involve reducing its excessive reserves to free up more financial resources that can be used in the near term to improve the local tourism economy, focusing more on cost control, and exerting greater efforts to secure events to be hosted in the David L. Lawrence Convention Center and Pittsburgh's other large event venues.

## VisitPITTSBURGH Event Statistics

Source: VisitPITTSBURGH

	Year Booked Events Were to Occur					
	2022	2021	2020	2019	2018	2017
Sports Events	17	27	39	38	38	22
Business Events	132	137	282	533	430	241
<b>Total Events</b>	<b>149</b>	<b>164</b>	<b>321</b>	<b>571</b>	<b>468</b>	<b>263</b>
New Events	101	96	122	269	180	138
Recurring Events	48	66	199	298	269	96
* <i>Unidentified</i>	-	2	-	4	19	29
<b>Total Events</b>	<b>149</b>	<b>164</b>	<b>321</b>	<b>571</b>	<b>468</b>	<b>263</b>
New Event %	68%	59%	38%	47%	38%	52%
Recurring Event %	32%	40%	62%	52%	57%	37%
* <i>Unidentified %</i>	0%	1%	0%	1%	4%	11%
Room Nights - New Events	102,139	105,274	86,708	138,286	83,669	34,002
Room Nights - Recurring Events	92,016	92,814	113,924	146,574	102,312	19,450
* <i>Room Nights - Unidentified</i>	-	861	-	7,862	25,721	27,661
<b>Total Room Nights</b>	<b>194,155</b>	<b>198,949</b>	<b>200,632</b>	<b>292,722</b>	<b>211,702</b>	<b>81,113</b>
New Events Room Nights	53%	53%	43%	47%	40%	42%
Recurring Events Room Nights	47%	47%	57%	50%	48%	24%
* <i>Unidentified Room Nights</i>	0%	0%	0%	3%	12%	34%
Average Room Nights - New Events	1,011	1,097	711	514	465	246
Average Room Nights - Recurring Events	1,917	1,406	572	492	380	203
Average Room Nights - All Events	1,303	1,213	625	513	452	308
Convention Center Events	44	31	37	46	21	10
Events at Other Locations	102	122	156	277	229	136
* <i>Undocumented Locations</i>	3	11	128	248	218	117
<b>Total Events</b>	<b>149</b>	<b>164</b>	<b>321</b>	<b>571</b>	<b>468</b>	<b>263</b>
Event Subsidies - New Events	\$ 274,016	\$ 115,000	\$ 40,756	\$ 445,145	\$ 166,871	\$ 141,506
Event Subsidies - Recurring Events	173,901	165,131	7,500	156,265	394,311	299,365
Event Subsidies - All Events	<b>\$ 447,917</b>	<b>\$ 280,131</b>	<b>\$ 48,256</b>	<b>\$ 601,410</b>	<b>\$ 561,181</b>	<b>\$ 440,871</b>
New Event Subsidies as % of Total	61%	41%	84%	74%	30%	32%
Recurring Event Subsidies as % of Total	39%	59%	16%	26%	70%	68%

\* Some event locations and details (i.e. new vs. recurring event) were not documented in the VisitPITTSBURGH information system from which the event data was drawn.

David L Lawrence Convention Center  
Building Utilization Report

Exhibit II

Building Utilization - Occupancy Rate (1)	2022	2021	2020	2019	2018	2017
<b>I. Exhibit Halls:</b>						
<b>A. Main:</b>						
1. A	59%	34%	50%	63%	59%	51%
2. B	60%	35%	19%	72%	62%	58%
3. C	53%	26%	20%	56%	63%	52%
Average - Main	<u>58%</u>	<u>33%</u>	<u>33%</u>	<u>65%</u>	<u>61%</u>	<u>54%</u>
<b>B. Ancillary:</b>						
1. D	52%	44%	43%	49%	56%	36%
2. E	41%	58%	43%	43%	48%	33%
Average - All Exhibit Halls	<u>56%</u>	<u>37%</u>	<u>36%</u>	<u>60%</u>	<u>59%</u>	<u>49%</u>
<b>II. Ballrooms:</b>						
A. A	58%	27%	6%	66%	62%	55%
B. B/C	67%	30%	7%	73%	73%	65%
Average - Ballrooms	<u>63%</u>	<u>29%</u>	<u>7%</u>	<u>70%</u>	<u>68%</u>	<u>60%</u>

Total Average Occupancy	56%	37%	36%	60%	59%	49%
Total Average Vacancy	44%	63%	64%	40%	41%	51%

**Note:**

1. ASM Global reports that the occupancy rate calculation is an industry standard. Occupancy rate is calculated as total rented sq ft/total rentable sq ft annually (including move in/move out days).

**Source:** Sports & Exhibition Authority

April 7, 2023

Mr. Corey O'Connor  
Office of the Controller  
Allegheny County  
104 Courthouse  
436 Grant Street  
Pittsburgh, PA 15219

Dear Mr. O'Connor:

VisitPITTSBURGH appreciates the opportunity to respond to this document in a thoughtful and thorough manner while acknowledging that this audit came about as a special request from Senator Wayne Fontana.

Our staff cooperated fully with the audit team during the last three months and made a concerted effort to provide extensive, detailed information in response to questions and information requests.

VisitPITTSBURGH is fully transparent in reporting details of both its fiscal and performance results, as well as its budget and spending. Performance results are continually measured and shared regularly with stakeholders. Audited financial statements and detailed performance results are shared via our Annual Report; our *Quarterly Performance Overviews*, which deliver data-supported performance statistics for our sales and marketing activities every three months; our bi-weekly newsletter; and our Annual Meetings provide details of our performance in all areas of marketing and sales, including business, sports and leisure, communications, and services.

Despite the breadth and detail of information that our staff provided, we find that the audit contains multiple factual errors, unfounded allegations and misleading statements. A public audit should be fact-based and objective, and in all cases, factual information that refutes an opinion should be included in the interest of truth and transparency. Most notably, we call attention to the following:

- VisitPITTSBURGH's accounting processes are conducted in full compliance with all GAAP and FASB guidelines. Language in the audit that states or implies otherwise is factually incorrect.
- VisitPITTSBURGH appropriately tracks all hotel tax dollars received and spent in full compliance with all GAAP and FASB guidelines. These financial reports are fully documented. Language in the audit that states or implies otherwise is factually incorrect.

The audit also presents content without necessary context and selectively omits relevant information that is critical to understanding the reported data.

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While announced publicly as a performance audit, the audit fails to report VisitPITTSBURGH's actual performance results. Detailed data on the tracked results of our sales efforts were shared with the auditors, including total number of events and room nights booked by VisitPITTSBURGH sales staff and trackable direct spending associated with these bookings. This data follows industry standards used to gauge the success of a Destination Marketing Organization (DMO) and is a critical measure of our performance and effectiveness.

In fact, despite lingering impacts of the global pandemic on business travel, VisitPITTSBURGH's Business Events Sales and Services Team and SportsPITTSBURGH division recorded a record year in 2022.

In 2022, VisitPITTSBURGH:

- Booked 223 events, generating 319,000 hotel room nights and an expected record high of \$266 million in direct visitor spending;
- Booked 74 events for the David L. Lawrence Convention Center for 2022 and beyond, a 54% increase over 2019 bookings, resulting in an expected \$159 million in direct spending for more than 188,000 hotel room nights.

Most notably, the report reveals a lack of understanding regarding destination marketing and how marketing strategies that support business, convention and sports sales overlap with multi-faceted efforts to attract leisure tourism. This despite efforts by our team to explain how tools such as website and online marketing, exhibits, printed marketing materials, social media campaigns, photo and video assets and partner services all clearly support convention sales and sports events sales while also promoting the Pittsburgh region as a leisure destination.

Of considerable concern is the fact that this audit report reflects a singular interest in and focus on SEA-owned properties. The audit fails to recognize that as the official tourism marketing and promotion agency for Allegheny County, VisitPITTSBURGH is charged by statute with generating business events, sports events and leisure travel business for the entire Pittsburgh region.

Simply put, this means we promote and drive visitor business to venues large and small and work on behalf of the hundreds of hospitality businesses, hotels, cultural attractions, entertainment venues, festivals, special events and event services businesses that rely on our efforts to attract visitor spending to the region. While selling and promoting the David L. Lawrence Convention Center is a primary focus for our sales divisions, we serve the entire market.

References in the document questioning the need for reserves indicate a lack of understanding that our reserves determine our ability to pursue large, high-economic impact events. Event subsidies are critical to securing event bookings that bring significant economic impact to the region. They are part of the assurances that event planners look for when selecting a destination. They represent a financial obligation and commitment on the part of the host city, and without them we would lose business to our competitors.

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Lastly, while all VisitPITTSBURGH accounting processes are fully in line with GAAP and FASB accounting principles and industry best practice, we agree to review them for possible modification to improve clarity.

Our responses to each of the audit's findings are detailed on the following pages. We look forward to working with the Controller's Office and our community of stakeholders to ensure a prosperous and successful Pittsburgh.

VisitPITTSBURGH remains committed to its mission of generating economic impact through business, sports and leisure tourism, and showcasing Pittsburgh as a vibrant, global destination that is welcoming to all. We continue our dedication to working with all stakeholders, including the Sports & Exhibition Authority, to move the industry forward.

Sincerely,



Jerad Bachar  
VisitPITTSBURGH President & CEO

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## Summary of Responses to Allegheny County Performance Audit

### **Finding #1: VisitPITTSBURGH Has Lacked Transparency Regarding Staff Compensation**

#### **VisitPITTSBURGH RESPONSE**

If the Allegheny County Solicitor will guarantee the confidentiality of the personal salary data of all employees unless stipulated by a 990 requirement, then VisitPITTSBURGH will submit a summary of individual salaries by position, without names of individual employees.

### **Finding #2: Operators of Large Event Venues Need Representation on VisitPITTSBURGH's Board of Directors**

#### **VisitPITTSBURGH RESPONSE**

VisitPITTSBURGH has a comprehensive board nomination and election process. However, VisitPITTSBURGH's Board of Directors can consider a rotating board seat for a senior member of staff from Pittsburgh's professional sports teams, ensuring at least one team is represented on all board rosters in a voting position. If the teams do not nominate anyone for a particular board cycle, the invitation to join the board will be reviewed in the following cycle. VisitPITTSBURGH will also extend a reciprocal board position to the SEA Executive Director in exchange for a position on the SEA board for VisitPITTSBURGH's President & CEO.

### **FINDING #3: Hotel Tax Dollars Need to Be Restricted and Accounted for Separately**

#### **VisitPITTSBURGH Response**

VisitPITTSBURGH's accounting process is well within all GAAP and FASB standards and has been audited frequently by external CPA firms and the County. However, VisitPITTSBURGH will review additional processes of recording and reporting private and public revenues and associated expenses.

### **FINDING #4: The Allocation of Personnel Resources Appears to Have Adversely Impacted the Number of Locally Hosted Events**

#### **VisitPITTSBURGH Response**

VisitPITTSBURGH refutes this Finding in its entirety. It is incorrect and demonstrates a lack of basic knowledge of – or willful disregard for – the way in which destinations are marketed, how a DMO operates, our responsibilities as an economic generator for this region and how specifically VisitPITTSBURGH functions as the official tourism agency for Allegheny County. A majority of our resources are allocated to Sales functions vs. Marketing functions. Financial allocation as well as headcount allocation support the sales functions to a far greater proportion.

### **FINDING #5: The Reserve Amounts Being Maintained by VisitPITTSBURGH Are Not Reasonable**

#### **VisitPITTSBURGH Response**

VisitPITTSBURGH contends that the level of reserves is appropriate as an insurance policy against diverted revenues and as a guarantee of funding for major events (ex. National Senior

Games). VisitPITTSBURGH will consider redefining the reserve categories to illustrate more clarity regarding their intended purpose.

**FINDING #6: The Improper Recording of Event Subsidy Liabilities Has Led to a Misleading Financial Presentation**

**VisitPITTSBURGH Response**

VisitPITTSBURGH's accounting process is well within all GAAP and FASB standards and has been audited frequently by external CPA firms and the County. However, VisitPITTSBURGH will add footnotes to the annual reporting to expand the information related to subsidies given to hosted events.

**FINDING #7: A Greater Focus on Cost Control is Warranted**

**VisitPITTSBURGH Response**

VisitPITTSBURGH has a robust process for controlling all costs, including a notable decrease in labor expenses compared to 2019. Travel and Entertainment expenses are paid from private funding sources, which will be further clarified in the accounting review process from Finding #3. VisitPITTSBURGH's current office space has been on the market for sublease for the past two years, as it is no longer fit-for-purpose for the organization's new structure.

**FINDING #8: The Investment Strategy Being Utilized Needs to Account for Market Volatility**

**VisitPITTSBURGH Response:**

The investment strategy has garnered a positive result over the audit period. VisitPITTSBURGH will continue to invest the funds appropriately to balance risk and return under the advisement of our financial advisors, finance committee and board of directors.





## VisitPITTSBURGH Official Audit Response

*Below are VisitPITTSBURGH's official responses to subject matter areas discussed in the audit by the Allegheny County Controller's office.*

### **TRANSPARENCY**

VisitPITTSBURGH is fully transparent in reporting details of both its fiscal and performance results, which we continually measure and share. We have also cooperated fully during the audit process. The only data point that was not submitted was the detailed compensation information of every staff member. Based upon the legal opinion we have received; employees have a right and expectation of privacy of data. We have provided detailed financial statements with overall compensation data and our 990s as requested, however, the public release of employees' private information is of great concern.

Our commitment to transparency is evidenced by the following:

- Financial statements and detailed performance results are included in our Annual Reports, which are published and shared with the more than 600 local businesses, hotels, restaurants, attractions, and cultural institutions that partner with us, and shared with our community stakeholders, including government leaders.
- Our *Quarterly Performance Overviews* deliver data-supported performance statistics for our sales and marketing activities every three months.
- Our Annual Meetings provide details of our performance in all areas of marketing and sales, including business, sports and leisure, communications and services.
- We set Annual Sales Goals and publish them in our Business Plan. They are board approved and ambitious, and we hold ourselves accountable to achieve them. Our 2023 goals include:
  - Booking 336,000 room nights; and
  - Achieving \$237 million in direct spending from events that we booked.
- VisitPITTSBURGH is audited annually by a Certified Public Accounting Firm.
- 990 tax forms are filed in a timely manner annually as required by the IRS.

### **BOARD DIVERSITY**

VisitPITTSBURGH works to ensure the diversification of its board so that it represents not only SEA-owned properties but all of Allegheny County's travel and tourism community, including hotels, cultural attractions, restaurants, small businesses, event owners, large corporations, transportation providers and more, as well as elected officials.

VisitPITTSBURGH has had representation from the Pittsburgh Steelers (Acrisure Stadium) and the Pittsburgh Penguins (PPG Paints Arena) in recent years, and we would welcome them again when they are nominated and available.

The board governance committee meets annually to review a running record of board nominations, which come from a variety of sources. The governance committee makes the final decision on nominees to be vetted and pursued for appointments. Nominee appointments undergo four voting procedures:

1. By the governance committee;
2. By the board executive committee;
3. By the full board of directors; and
4. By a quorum of VisitPITTSBURGH partners at the Annual Meeting.

## **PERFORMANCE**

Though publicly billed as a performance audit, the auditors chose to omit VisitPITTSBURGH sales and marketing performance data from the report.

The audit does not contain information on all actual bookings by VisitPITTSBURGH sales staff; the economic impact of those bookings; the hotel room night bookings by sales staff; or attendance figures for events booked by staff. These metrics are the industry standard by which the success and performance of destination marketing organizations are measured.

In fact, despite lingering impacts from the global pandemic, VisitPITTSBURGH set a record in 2022. Our Business Events Sales and Services Team (referred to as “MeetPITTSBURGH” within audit) and SportsPITTSBURGH division achieved the following results:

- Booked 223 events, generating 319,000 hotel room nights and an expected record high of \$266M in direct visitor spending;
- Booked 74 events for the David L. Lawrence Convention Center for 2022 and beyond, a 54% increase over 2019 bookings, resulting in an expected \$159M in direct spending for more than 188,000 hotel room nights; and
- 163 VisitPITTSBURGH and SportsPITTSBURGH-booked events were held in 2022, generating \$164M in direct spend and more than 153,000 hotel room nights.

## **ACCOUNTING PROCESSES**

VisitPITTSBURGH’s accounting processes are conducted in full compliance with all GAAP and FASB guidelines. **Language in the audit that states or implies otherwise is factually incorrect.**

VisitPITTSBURGH tracks all expenditures, knows how every dollar is spent, and properly records and reports Allegheny County hotel tax dollars in accordance with established accounting practices that are industry-accepted.

Recording hotel tax revenues as unrestricted income is in keeping with industry standards.



**VisitPITTSBURGH's Board of Directors conducts an external audit every year. The current account process has been in place for more than 20 years and has been audited every year, including additional audits from the County. The processes have never been called into question in any previous audit.**

### **SUBSIDIES and RESERVES**

VisitPITTSBURGH maintains its reserves in order to guarantee the necessary subsidies for booked business and to attract new business. Subsidies are mission critical to our ability to generate future business for the region.

VisitPITTSBURGH's reserves act as a guarantee and enable us to offer subsidies and incentives as part of our sales proposals and are part of the sales process when working with event planners to finalize the parameters of a sales contract.

These event subsidies are critical to securing event bookings and are part of the assurances that event planners look for when selecting a destination. Essentially, subsidies represent a financial obligation and commitment on the part of the host city. Without them, we would lose business to our competitors.

**Example:** In 2019, with board approval, VisitPITTSBURGH drew \$2.9M from its reserves to support the PCMA Convening Leaders event. This event generated \$6.01M in direct visitor spend and unprecedented promotional opportunity since hundreds of event organizers attended the conference in Pittsburgh.

In addition, these reserves are necessary to maintain operations in the case of hotel tax diversion which we experienced for 14 months during the peak of the COVID pandemic.

### **COST CONTROLS**

VisitPITTSBURGH continually seeks cost savings and greater efficiency, and when making purchases, it follows industry standard procurement guidelines.

We agree that our current office space in Fifth Avenue Place, for which we are contracted through 2026, is no longer fit-for-purpose. In 2021, VisitPITTSBURGH put the space on the market for sublease with JLL. We continue to work with Jenkins Empire Associates (a division of Highmark) to find an alternative space so that we are prepared to move should a tenant be secured to take over our lease.

Since 2019, VisitPITTSBURGH has reduced its staff by 54% - from 55 people to 39 with substantial savings in staff compensation.

Our Expense Account Procedures and Guidelines require four points of review and approval for all Travel & Entertainment expenses. Travel and Entertainment expenses are paid from private funding sources, not hotel tax dollars.

### **STAFF SALARIES AND COMPENSATION**

Every three years, VisitPITTSBURGH appoints an external consultant to evaluate salaries to ensure staff compensation is in line with market averages. This analysis is reported directly to the board of directors and is used as a guideline in recruitment and retention strategies.

Every open position is surveyed to determine current market salary averages before the position is posted for recruitment.

While the audit report states that three positions in the 2022 Salary Survey were paid more than 25% above market median rates, the auditors omitted the fact that 21 of the 34 evaluated positions were below the market median in total compensation.

### **SALES EFFORTS, INCLUDING DAVID L. LAWRENCE CONVENTION CENTER**

The auditors chose to omit pertinent VisitPITTSBURGH booking performance data for the David L. Lawrence Convention Center.

In 2022, VisitPITTSBURGH's allocated resources for business and sports events sales efforts totaled \$4.9M, and our allocated resources for marketing, website and communications totaled \$4.0M. In addition, the current staff allocation for sales positions is 10 while the marketing positions is 8. Also relevant to this analysis is the fact that a large portion of marketing functions are to support sales initiatives.

Regarding performance, 2022 was a record year for events booked by VisitPITTSBURGH and SportsPITTSBURGH for the convention center, as noted above.

- The team booked 74 events for convention center business (54% ahead of 2019 levels) for 2022 and future years, with some events going as far out as 2029.
- The number of room nights booked in 2022 for future convention center business was 40% ahead of 2019 levels.
- In 2022, 43 VisitPITTSBURGH- and SportsPITTSBURGH-generated events took place at the David L. Lawrence Convention Center. This is approximately 80% of 2019 levels.
- Hotel room nights associated with events generated by VisitPITTSBURGH and SportsPITTSBURGH and held at the convention center in 2022 were at approximately 66% of pre-pandemic 2019 levels.

### **ADDITIONAL COMMENTARY**

During the COVID-19 global pandemic that decimated the travel industry, VisitPITTSBURGH conducted extreme cost cutting, including the reduction of staff by 54% and temporarily removing many benefits to save costs. It should be noted that approximately 50% of the audit review period was during the global pandemic, with recovery for the travel industry still underway.

Language in the audit's introduction, specifically in the repeated use of the word "attempts," (p. 3) implies that VisitPITTSBURGH is trying but failing in its sales and marketing efforts. The audit then fails to include VisitPITTSBURGH performance results for event bookings, hotel night bookings and direct spending tracked to sales efforts.



By stating the VisitPITTSBURGH has “*claimed*” to bring events to Pittsburgh (p. 6), the audit language is establishing that the events booked by sales staff cannot be verified. This language is misleading and false. VisitPITTSBURGH sales bookings are confirmed directly through our sales efforts and signed contracts.

The statement that MeetPITTSBURGH’s efforts are “*primarily*” to attract events to the David L. Lawrence Convention Center is inaccurate, as it does not reflect the organization’s responsibility to attract business events to all venues in the County, including hotels and other business and event venues.

### **FINDING #1: VisitPITTSBURGH Has Lacked Transparency Regarding Staff Compensation**

#### **VisitPITTSBURGH Viewpoint of Finding #1**

VisitPITTSBURGH is fully transparent in regularly reporting in detail to stakeholders both its fiscal results, including budget and spending breakdowns, and its sales and marketing performance results.

VisitPITTSBURGH, with guidance from our legal counsel, has reviewed this request to disclose all staff salaries and determined that since VisitPITTSBURGH is a private 501(C)(6) organization, it is obligated to protect the privacy of employee data, including salaries directly identifiable by name or position. There is legal precedent in the Commonwealth of Pennsylvania that states employees have an expectation and right to privacy of salary information.

**Every three years, VisitPITTSBURGH appoints an external consultant to evaluate salaries to ensure staff compensation is in line with market averages.** This analysis is reported directly to the board of directors and is used as a guideline in recruitment and retention strategies. Over the years, we have received legal guidance from outside counsel advising us not to disclose employee private information, including salaries.

***The following omission is especially concerning as it demonstrates a decision to leave out information that provides an accurate portrayal of VisitPITTSBURGH salaries:***

- The audit report states that three positions in the 2022 Salary Survey were paid more than 25% above market median rates. **The report fails to include the fact that 21 of the 34 evaluated positions were below the market median in total compensation.**
- Wages and benefits in 2019 were 39% of total expenses and came in at \$6.77M. Wages and benefits in 2022 were 41% of total expenses and came in at \$4.46M.

In response to requests, VisitPITTSBURGH provided the following to the audit team:

- The individual salaries of the top earners are publicly available on the 990 forms submitted annually to the IRS.
- Total salary spending for every year of the audit period.
- The executive summary of our most recent Cowden Salary Review.



**VisitPITTSBURGH RESPONSE**

If the Allegheny County Solicitor will guarantee the confidentiality of the personal salary data of all employees unless stipulated by a 990 requirement, then VisitPITTSBURGH will submit a summary of individual salaries by position, without names of individual employees.

**FINDING #2: Operators of Large Event Venues Need Representation on VisitPITTSBURGH's Board of Directors**

**VisitPITTSBURGH Viewpoint of Finding #2**

**This finding as written is factually incorrect.** VisitPITTSBURGH works to ensure that its board represents not only SEA-owned properties, but all of Allegheny County's travel and tourism community, which includes hotels, cultural attractions, event owners, transportation, large corporations, small businesses and more, as well as elected officials.

*It would be helpful if the audit report defined what the Controller's office defines as a "Key Stakeholder."* There is no mention of non-SEA affiliated businesses and organizations represented on our board, such as large hotel ownership groups, the Pittsburgh Cultural Trust, Allegheny County Airport Authority, Palace Entertainment and other businesses that directly benefit from and are reliant on the performance of VisitPITTSBURGH and the travel and tourism sector as a whole.

**This section also includes incorrect assumptions and misleading inferences.** Please note the following:

- VisitPITTSBURGH has had representation from the Pittsburgh Steelers (Acrisure Stadium) and the Pittsburgh Penguins (PPG Paints Arena) in recent years, and we would welcome them again when they are nominated and available.
  - The board governance committee meets annually to review board nominations. These nominations come from a variety of sources including but not limited to: VisitPITTSBURGH President & CEO, board chair, board members, organization partners and self-nominations.
  - The governance committee makes the final decision on which nominees should be vetted and courted for board appointments. Following a preliminary interest meeting with nominees identified by the governance committee with the President & CEO, appointments are voted on four times:
    - By the board governance committee;
    - By the board executive committee;
    - By the full board of directors; and
    - By a quorum of VisitPITTSBURGH partners at the Annual Meeting.
- Board members are also nominated based on their individual skill sets and business networks. Individuals who have strong sales and marketing backgrounds or relationships with growing economic sectors such as Pittsburgh tech organizations are also highly desirable. Board appointments are not contingent upon a member's job title or place of employment.
- Board diversification is also key to ensuring VisitPITTSBURGH represents our region's diverse economic and societal communities.

- The VisitPITTSBURGH Board of Directors is equally committed to attracting business and sports events as it is to generating leisure tourism. It is untrue that our business events and sports events sales teams are missing opportunities to secure more business in these sectors.

**VisitPITTSBURGH RESPONSE**

VisitPITTSBURGH has a comprehensive board nomination and election process. However, VisitPITTSBURGH's Board of Directors can consider a rotating board seat for a senior member of staff from Pittsburgh's professional sports teams, ensuring at least one team is represented on all board rosters in a voting position. If the teams do not nominate anyone for a particular board cycle, the invitation to join the board will be reviewed in the following cycle. VisitPITTSBURGH will also extend a reciprocal board position to the SEA Executive Director in exchange for a position on the SEA board for VisitPITTSBURGH's President & CEO.

### **FINDING #3: Hotel Tax Dollars Need to Be Restricted and Accounted for Separately**

#### **VisitPITTSBURGH Viewpoint of Finding #3**

The language used in this section is **factually incorrect**. VisitPITTSBURGH tracks all income and spending, knows how every dollar is spent and properly records and reports Allegheny County hotel tax dollars in accordance with established accounting practices that are industry-accepted.

While complex, VisitPITTSBURGH's accounting practices, including the way that tax dollars are recorded, **adhere to all** GAAP and industry standards. Any implication that they do not is a false accusation.

These accounting procedures for recording revenues and expenses have been in place for more than 20 years and have been reviewed in annual audits conducted by external CPA firms, as well as three previous County audits.

#### **Additionally:**

- **VisitPITTSBURGH has made clear that all lobbying expenses are paid from private sources, not hotel tax revenues. The insinuation that we pay for lobbying fees from hotel tax revenues is patently false.**
- There is no stated time restriction for the spending of hotel tax revenues provided to VisitPITTSBURGH and based on the overview of Act 76, the provided list encompasses everything that we do and therefore qualify as general in nature according to PPC Guide on Accounting and Reporting Requirements for Contributions, which states that, *"If a donor stipulates that a contribution should be used for a broad purpose that is essentially the same as the nonprofit organization's mission, then that contribution would not be considered restricted. To be considered a restricted contribution, the donor stipulates that the contribution must be used for something that is narrower in scope than the mission or purpose of the nonprofit organization."*
- **Furthermore, recording hotel tax revenues as unrestricted income is in keeping with industry standards.**
- When analyzing the receipt and payment of hotel tax collections over the 5-year audit period, we demonstrated that in each year, the amount of money disbursed was higher than the amount of restricted revenues collected in the period. Thus, recording tax revenues as restricted income is unnecessary.
- **The statement that VisitPITTSBURGH failed to adequately track expenditures of tax revenues is not true; however, we do understand that the complexity of our system can be difficult for someone unfamiliar with our process to understand.** The General Ledger expense account structure was not designed to differentiate expenses paid from private versus public funding; we use our cash accounts to do that. It is not possible to issue two payments for one invoice or payment request, which sometimes results in a qualified use of tax dollars being paid from the private funding account. This is a conservative way to manage the separation of the funding. It protects the organization and provides assurance to the County that we are not misusing tax dollars.



- VisitPITTSBURGH and the auditors hold different opinions on how to track hotel tax revenues within the accounting system; both satisfy robust accounting standards but track the flow of revenues through the budget process differently. VisitPITTSBURGH’s current processes have been validated through dozens of external audits over the years and are within GAAP and FASB guidelines.
- All credit card payments, lobbying fees and expense reimbursements are made from the private bank account which is set up as a Zero Balance Account. This means that the account itself does not carry a balance. When cash is deposited to the account, it is immediately transferred to the general bank account, which is the account where public funds are also deposited. When a private cash disbursement is presented to our bank for payment, the funds are then transferred from the general cash account to the private cash account for payment.
- The use of the term “Hybrid” is used to describe a project that could have some expenses that fall into more than one category and therefore may or may not qualify as an appropriate use of tax funding. The best demonstration of this would be promotional expenses that include costs for food, venue and alcohol. Food and venue costs for clients are clearly allowable uses of hotel tax, while the purchase of alcohol is not.
- Regarding CARES and ARPA funding, detailed lists of the expenses used to qualify these two grants and all other grants are available.

**VisitPITTSBURGH Response**

VisitPITTSBURGH’s accounting process is well within all GAAP and FASB standards and has been audited frequently by external CPA firms and the County. However, VisitPITTSBURGH will review additional processes of recording and reporting private and public revenues and associated expenses.

**FINDING #4: The Allocation of Personnel Resources Appears to Have Adversely Impacted the Number of Locally Hosted Events**

**VisitPITTSBURGH Viewpoint of Finding #4**

VisitPITTSBURGH refutes this finding IN ITS ENTIRETY. The audit “condition” statement is factually incorrect, and the “cause” is erroneous.

The language in this Finding conveys considerable misleading information and overall demonstrates a lack of understanding of destination marketing and of VisitPITTSBURGH’s post-pandemic recovery strategy. The simple fact is that **VisitPITTSBURGH allocates more resources to sales activities than marketing activities.** The term “marketing” includes both leisure marketing and the support of business and sports sales initiatives through the development of exhibition booths, essential collateral materials, web content, bid templates, advertisements, photography and video assets, and social media messaging.

Furthermore, in 2022, our allocated resources for business and sports events sales efforts total \$4.9M and our allocated resources for marketing, website and communications total \$4.0M.

We currently have 10 individuals dedicated to sales and 8 staff members dedicated to various marketing functions.

**Lastly, our 2022 sales results, which the audit has chosen not to include, demonstrate that the claims made in this section are untrue.** Our Business Events Sales and Services Team [MeetPITTSBURGH] and SportsPITTSBURGH division achieved the following results:

- Booked 223 events, generating 319,000 hotel room nights and an expected record high of \$266M in direct visitor spend;
- For the **David L. Lawrence Convention Center**, booked 74 events for 2022 and beyond, a **54% increase over 2019 bookings**, resulting in an expected **\$159M** in direct spending for more than 188,000 hotel room nights;
- And, 163 VisitPITTSBURGH and SportsPITTSBURGH-generated events were held in 2022, generating \$164M in direct spend and more than 153,000 hotel room nights.

**Additionally:**

- In the current sales structure, the two senior sales directors focus exclusively on convention center business, defined by any event that utilizes more than 750 hotel rooms on its peak night.
- With the anticipated slow but steady rebound of business events post-pandemic, we have expanded our sales capacity, recently adding new sales positions in Washington, D.C., and Chicago, cities that are the headquarters for many national associations and organizations that book major events.
- Leisure tourism has driven recovery for Pittsburgh since June of 2020 and continues to drive recovery to the current day. From 2020 to 2022, the leisure travel sector drove recovery globally, with sports and business events still rebounding at their own rate.

- There was an extreme pent-up demand for travel in early 2021, and while a growing number of people felt more comfortable with leisure travel, companies were still not heavily re-investing in business travel. Alongside our event sales efforts, it was important for VisitPITTSBURGH to position Pittsburgh and Allegheny County as a vibrant leisure destination as we worked to differentiate ourselves from the thousands of other destinations embarking on their own post-pandemic rebounds.

**VisitPITTSBURGH Response**

VisitPITTSBURGH refutes this Finding in its entirety. It is incorrect and demonstrates a lack of basic knowledge of – or willful disregard for – the way in which destinations are marketed, how a DMO operates, our responsibilities as an economic generator for this region, and how specifically VisitPITTSBURGH functions as the official tourism agency for Allegheny County. A majority of our resources are allocated to Sales functions vs. Marketing functions. Financial allocation as well as headcount allocation support the sales functions to a far greater proportion.



## **FINDING #5: The Reserve Amounts Being Maintained by VisitPITTSBURGH Are Not Reasonable**

### **VisitPITTSBURGH Viewpoint of Finding #5**

VisitPITTSBURGH's reserves enable us to offer subsidies and incentives as part of our sales proposals and when working with event planners to finalize the parameters of a sales contract.

**These event subsidies, sometimes referred to as incentives, are critical to securing event bookings and are part of the assurances that event planners look for when selecting a destination. Essentially, subsidies represent a financial obligation and commitment on the part of the host city. Without them, we would lose business to our competitors.**

Subsidies are mission critical to our ability to generate future business for the region. VisitPITTSBURGH must hold this subsidy money in a reserve fund so that contracts can be guaranteed when needed.

As the COVID-19 pandemic proved, strong reserves are also critical for VisitPITTSBURGH's stability and ability to do our job. During the pandemic, **VisitPITTSBURGH went 14 months without receiving a single dollar of hotel room tax revenue.** Without strong reserves, we would have had to further reduce staff (beyond the 29 employees laid off at the onset of the pandemic), which would have negatively impacted our ability to market the region and drive the hospitality industry's rebound.

And while it is true that some DMOs do not have the level of reserves that we have in Pittsburgh, **other DMOs in the country are not susceptible to full hotel tax diversion**; this is a unique funding structure. In addition, other DMOs do not have the requirement to backstop debt financing as we do.

The recommendation in the audit to use the reserves rather than creating a Tourism Improvement District (TID) is illogical, as it does not make fiscal sense. The audit suggests the one-time use of \$5M for event subsidies or increased staff rather than establishing a recurring funding source to support these initiatives. The TID fund is estimated at \$9M; however, approximately \$2M has been proposed to divert to the SEA.

Additionally:

- VisitPITTSBURGH receives 28% of Allegheny County hotel room tax revenue. **70% of the hotel tax stays with the County and the Sports & Exhibition Authority**, and 2% to Visit Monroeville.
- The operational reserve is under the control of the VisitPITTSBURGH Board of Directors.
- **The reserves guarantee the necessary subsidies for booked business** and allow us to make strategic decisions to secure large events for the region. Examples include:
  - In 2019, with board approval, VisitPITTSBURGH drew \$2.9M from its reserves to support the PCMA Convening Leaders event. This event generated \$6.01M in direct visitor spend and unprecedented promotional opportunity since hundreds of event organizers attended the conference in Pittsburgh.
  - The 2023 National Senior Games requires us to guarantee up to \$3.6M in hosting costs; the event is expected to surpass an estimated \$30M in direct visitor spending.

- NCAA Championship events have guarantee requirements, many of which can be substantial.
- To be eligible to bid on the prestigious NFL Draft, the local DMO is required to guarantee between \$8M and \$10M in event subsidies. We have committed to the Pittsburgh Steelers that we will provide \$2M toward a draft bid, which we must be able to guarantee with our reserves should we be unable to draw funds from our operational budget.

**VisitPITTSBURGH Response**

VisitPITTSBURGH contends that the level of reserves is appropriate as an insurance policy against diverted revenues and as a guarantee of funding for major events (ex. National Senior Games). VisitPITTSBURGH will consider redefining the reserve categories to illustrate more clarity regarding their intended purpose.



**FINDING #6: The Improper Recording of Event Subsidy Liabilities Has Led to a Misleading Financial Presentation**

**VisitPITTSBURGH Viewpoint of Finding #6**

**Language stating that we do not comply with GAAP or FASB is untrue.** There is a disagreement on standard accounting reporting formats. **VisitPITTSBURGH properly records event subsidy liabilities in compliance with accepted accounting practices.**

VisitPITTSBURGH's Event Subsidy Liability is recorded according to FASB 5, which addresses loss contingencies, which is also defined as an incurrence of a liability. In VisitPITTSBURGH's account system, when the liability is recorded, there is an entry made to the proper sponsorship expense line item. The financial incentives provided for events do not represent an exchange transaction and are conditional. If an event does not occur, no payment is made.

Other DMOs record the number of financial incentives due to be paid out in any given year as a line item on their budget, which impacts the amount of funding made available for sales and marketing initiatives in that specific year. In one case, this caused significant strain on their budget to the point where a TID was put in place to provide up to \$1M in dedicated funding each year for these financial incentives.

In another case, a DMO that funds these through their operating budget is exploring the implementation of a TID to support these commitments and is using ARPA funding to cover the current expenses as the strain on their operating budget is affecting their ability to market and sell. VisitPITTSBURGH's ARPA grant funding contract does not allow this.

**VisitPITTSBURGH Response**

VisitPITTSBURGH's accounting process is well within all GAAP and FASB standards and has been audited frequently by external CPA firms and the County. However, VisitPITTSBURGH will add footnotes to the annual reporting to expand the information related to subsidies given to hosted events.

**FINDING #7: A Greater Focus on Cost Control is Warranted****VisitPITTSBURGH Viewpoint of Finding #7**

Points made throughout this finding have factual inaccuracies and incorrect assumptions.

VisitPITTSBURGH has always looked for cost savings and greater efficiency, and when making purchases, it follows industry standard procurement guidelines.

We agree that our current space in Fifth Avenue Place is no longer fit-for-purpose, and in 2021, VisitPITTSBURGH put the space on the market for sublease with JLL. We continue to work with Jenkins Empire Associates to find an alternative space so that we are prepared to move should a tenant be secured to take over VisitPITTSBURGH's lease. Almost every organization or company that has a commercial office lease is reevaluating its needs in the post-pandemic environment; and VisitPITTSBURGH is no exception.

With regard to travel and entertainment expenses, it is important to note that all T&E expenses are paid from private funds, not from hotel tax revenues.

**Additionally:**

- **Since 2019, VisitPITTSBURGH has reduced its staff by 54% - from 55 people to 25. (We are currently at 39 staff members). Wages and benefits in 2019 were 39% of total expenses and came in at \$6.77M. Wages and benefits in 2022 were 41% of total expenses and came in at \$4.46M.**
- **We undertake a salary survey every three years to guide our recruitment and compensation decisions. The results are reviewed independently and reported to the VisitPITTSBURGH Board of Directors.** This effort is critical to decisions made under the direction of the board to keep salary expenses in line with market standards.
- Salary spending for the entire audit period was provided to auditors, as we respect the need to analyze the total spending in this area. Detailed salaries were provided for top earners, as reported on VisitPITTSBURGH's public 990 forms, but was not supplied for other individual staff members. This personnel decision was made based on legal guidance that we received regarding the protection of employee privacy.
- **VisitPITTSBURGH currently has four points of approval built into its Travel & Entertainment expenses review processes.**
- Expenditures noted in the audit reflect sales and marketing initiatives or events hosted involving meeting and event planners, and decision makers.

**VisitPITTSBURGH Response**

VisitPITTSBURGH has a robust process for controlling all costs, including a notable decrease in labor expenses compared to 2019. Travel and Entertainment expenses are paid from private funding sources, which will be further clarified in the accounting review process from Finding #3.

VisitPITTSBURGH's current office space has been on the market for sublease for the past two years, as it is no longer fit-for-purpose for the organization's new structure.

**FINDING #8: The Investment Strategy Being Utilized Needs to Account for Market Volatility**

**Overall Viewpoint of Finding #8**

This finding notes the losses VisitPITTSBURGH incurred in our investment portfolio in 2022 (approximately \$1.1M) due to extreme market volatility. Our portfolio performance throughout the audit period is a more accurate representation and shows overall gains. Our investment strategy is based on advisement from our portfolio managers, in consultation with the Finance Committee and a board member who is a Chief Economist and leading investment strategist in the region.

**Additional Supporting Points:**

- Like any portfolio, performance must be measured over a long period of time rather than in a small timeframe that is notably volatile. The portfolio’s performance over the period of this audit and beyond is illustrated below:

Month	Year	Ending Balance	withdrawals	Additions	Notes
December	2012	4,685,633			
December	2013	5,440,746		650,857	
December	2014	6,170,467		472,425	
December	2015	6,696,121		428,593	
December	2016	6,910,625			
December	2017	7,483,034			
December	2018	6,228,771	1,000,000		Funding for PCMA
December	2019	6,335,643	1,000,000		Funding for PCMA
December	2020	5,372,818	1,750,000		COVID Operating expenses
December	2021	6,241,913			
September	2022	4,959,155			

**VisitPITTSBURGH Response:**

The investment strategy has garnered a positive result over the audit period. VisitPITTSBURGH will continue to invest the funds appropriately to balance risk and return under the advisement of our financial advisors, finance committee and board of directors.



**Addendum #1****From Sisterson & Co., VisitPITTSBURGH's Contracted Audit and CPA firm:**

*The following is offered as support for VisitPITTSBURGH's accounting policy to record Hotel Tax Revenue as net assets without donor restrictions.*

VisitPITTSBURGH's nature of operations is that it is the official tourist promotion agency for Allegheny County, Pennsylvania, in the areas of tourism, convention and group sales. The Bureau's goal is to enhance the county's economy by increasing visitation through leisure tourism and conventions as a source of revenue and create jobs. The Bureau is responsible for introducing people to the area by means of aggressive convention sales, service, marketing, membership cooperation and tourism programs. Note that these operations are in agreement with how the Hotel Tax is to be used, as detailed in the Pennsylvania General Assembly Act 76. VisitPITTSBURGH has determined that the Hotel Tax is to fund the operations of the organization, is not restricted by time or manner of use, and therefore reports the Hotel Tax as revenue received without donor restrictions in the consolidated statements of activities and changes in net assets.

*The PPC Guide on Accounting and Reporting Requirements for Contributions, specifically paragraph 105.53, states, "If a donor stipulates that a contribution should be used for a broad purpose that is essentially the same as the nonprofit organization's mission, then that contribution would not be considered restricted. To be considered a restricted contribution, the donor stipulates that the contribution must be used for something that is narrower in scope than the mission or purpose of the nonprofit organization."*

*One of our objectives as auditors is to evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements. **Based on the above, we believe the presentation of Hotel Tax revenue as being received without donor restrictions in the consolidated statements of activities and changes in net assets fairly presents the changes in its net assets in accordance with accounting principles generally accepted in the United States.***

- With regard to cash management, VisitPITTSBURGH maintains two checking accounts from which all payments are made. The accounts are titled **General Operating** and **Private Operating**. The account names do not indicate whether the transactions are using tax revenue or other sources of revenue, however, the Private account **MUST** be used to pay all expenses that are **NOT** eligible for payment with tax dollars or those which may be considered questionable. Lobbying costs are paid from private funding.
- The General Operating bank account receives deposits for all A/R invoice payments, COBRA payments, Hotel Tax, Grant funding and other miscellaneous incoming cash.
- The Private bank account receives deposits for all credit card payments, Partnership Dues, Partnership Events, GPCVB Educational Foundation Contributions via negative dues check-off, Welcome Center retail sales transactions and reimbursement of personal charges made in error on the corporate credit card.
- The private bank account is a Zero Balance Account. All deposits sweep to the general account, and when checks are presented for payment, funds sweep back to the private account for payment. This is a process that has been in place for many years to ensure that expenses that are not proper use of tax dollars are not paid with tax funding. VisitPITTSBURGH expenses that are **NEVER** an appropriate use of tax dollars include lobbying and GPCVB EDF reimbursements, specific marketing costs which are reasonable and customary in private industry (alcohol, promotional items) and local awareness efforts that are not tied to the attraction of visitors to the region.
- Corporate credit card payments are made from the Private account. At this time, the bank servicing our card account can only accept one EFT payment each month. Furthermore, some expenses charged

to these cards might not be an appropriate use of tax dollars OR expenses might be considered only partly qualified for payment from tax funding.

- **The General ledger accounts are used to classify expenses according to industry best practices, and while we do our best to code payments to project codes that are fully tax qualified or completely unqualified, some expenses overlap, so payment from the Private account is the most conservative path.** We regularly analyze the amount of non-tax funding received compared to the amount of payments from the private account to ensure that private funding supports these payments. Some publicly funded projects are reimbursed to a certain level and costs above the maximum reimbursement may be considered an appropriate use of tax funding. In some instances, VisitPITTSBURGH may receive a revenue share which also offsets expenses. These transactions are recorded in the general cash account.

#### **Addendum #2**

##### **From Sisterson & Co., VisitPITTSBURGH's Contracted Audit and CPA firm:**

*The following is offered as support for VisitPITTSBURGH's accounting policy regarding Event subsidies.*

Event subsidies are considered money promised by VisitPITTSBURGH to support an event in the future. It is an industry standard for customers/future conventions to send out an RFP to let various cities nationwide know that they are looking for a city with X number of hotels, certain specifications for a venue, transportation, and other various requests.

For accounting purposes, we view these event subsidies to be contingent liabilities. As defined by accounting principles generally accepted in the United States, a contingent liability are liabilities that may occur if a future event happens. GAAP accounting rules require probable contingent liabilities, ones that can be estimated and probable to occur, to recorded in the financial statements.

Because there are letters of intent to various conventions and groups to incur these costs in the future, it is both probable a liability has been incurred and the amount of the liability can be reasonably estimated. Therefore, we feel recognition of these events subsidies as a liability is conservative to ensure availability of sufficient resources to cover the costs of promised services. However, it should be noted the estimate of the liability incurred is fluid as a) conventions may be canceled, b) attendance will impact the actual amount of costs that the Bureau would need to spend in order to fulfill the promise, c) negotiations with the convention may change the nature of the promise, d) in-kind services may be procured to cover certain promises therefore necessitating less to be spent, and e) promises are ultimately estimates of the costs that will be required to fulfill the promise.

Events subsidies include both a mix of tentative and definite promises. "Definite" promises are those where we have received confirmation that the convention, or event, will be coming to Pittsburgh and the entity has accepted our promise. "Tentative" promises are those in which we have made a promise but are unsure if we will ultimately be responsible for fulfilling the promise, as the convention may never come to the city. Our history has shown that estimates of about 35% of tentative promises will actually fall through. As this liability is accounted for as a contingent liability, it appears the tentative promises are not accrued for, as it is uncertain if a liability has been incurred.



## **VII. Controller's Office Comments in Connection with VisitPITTSBURGH's Response**

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The Allegheny County Controller's Office Audit Division adheres to professional standards, including *Government Auditing Standards*, as it conducts its audits. Those standards require us to evaluate potential impairments to our independence to help ensure that the audits we perform are conducted fairly and objectively. We identified no impairments to our independence in connection with our performance audit of VisitPITTSBURGH. The Allegheny County Controller's Office Audit Division has been peer reviewed every three years, five times altogether, most recently in 2022. The peer review results have consistently indicated that our internal quality control system has been suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards*.

VisitPITTSBURGH claims that it has been fully transparent, but it has refused to provide the information that we requested about compensation costs, its largest expense. VisitPITTSBURGH cited a legal opinion that it had obtained as the basis for withholding the information from us. However, we requested a copy of the legal opinion in order to evaluate the basis for the claim being made, and the legal opinion was not provided to us in its entirety. An email sent to us contained a reference to only one particular court ruling.

Although VisitPITTSBURGH claims in its response that its accounting processes are conducted in full compliance with GAAP and FASB guidelines, its accounting treatment for the event subsidy commitments that it is making is clearly not consistent with U.S. generally accepted accounting principles. The event subsidy commitments that Visit Pittsburgh is making, which could eventually result in liabilities only in future accounting periods, cannot be recorded as liabilities in the current accounting period.

VisitPITTSBURGH's response also indicates that it appropriately tracks all hotel tax dollars received. An implication has been made in the response that we did not fully understand the Organization's accounting system. However, we did gain an understanding of the accounting system that was sufficient for us to determine, without any degree of uncertainty, that it does not properly track the Organization's expenditure of County hotel tax dollars.

VisitPITTSBURGH's response does not actually acknowledge the Organization's responsibility in connection with any of our audit findings. We believe that our findings are clearly illustrated and adequately supported by audit evidence, so we will not reiterate the remainder of them here. However, we believe that VisitPITTSBURGH's response suggests that it is very interested in maintaining its status quo. If those charged with governance would like to ensure that tax dollars are being used effectively to promote tourism, they should consider establishing a framework that provides for greater oversight of the Organization.