

February 20, 2003

The Honorable Bill Purcell, Mayor
Metropolitan Government of Nashville and Davidson County
Metropolitan Courthouse
Nashville, TN 37201

Teresa Evetts Horton, Executive Director
Members of the Metropolitan Convention Center Commission
601 Commerce Street
Nashville, TN 37203

Report of Internal Audit Section

Dear Mayor Purcell, Ms. Horton and Commission Members:

We have recently completed a performance audit of the Nashville Convention Center and the Nashville Convention & Visitors Bureau. According to the *Government Auditing Standards* issued by the Comptroller General of the United States, “a performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision making by parties with responsibility to oversee or initiate corrective action.” A performance audit is different than a financial statement audit, which is limited to auditing financial statements and controls, without reviewing operations and performance. In performing this audit, we retained KPMG to work under our direction. Their final report dated February 2003, *Performance Audit of the Nashville Convention Center and the Nashville Convention & Visitors Bureau*, accompanies this letter and is hereby submitted to you.

Background

Convention Center

The Nashville Convention Center (NCC) was opened in January 1987 and markets to trade shows, conventions, corporate meetings, consumer shows, and food and beverage functions.

The NCC contains approximately 166,700 square feet of rentable space including its main exhibit hall containing 118,700 square feet. NCC is connected via an underground walkway to the Gaylord Entertainment Center (GEC) which contains additional exhibit and meeting space and has a seating capacity of approximately 20,000. The NCC is also connected to the Renaissance Hotel which contains 673 sleeping rooms, various meeting rooms and an 18,000 square foot ballroom which services convention and tradeshow groups that utilize the NCC. NCC's operating revenues for the fiscal year ending June 30, 2002 were approximately \$3.8 million, and the net operating loss, excluding depreciation, was \$1.4 million.

The Metropolitan Convention Center Commission (MCCC) is the governing body of the NCC and is charged with the responsibility of managing, operating and promoting the NCC and reporting results to the Metropolitan Council.

The NCC is unique among its peers in that it serves as the secondary facility in the market. In terms of square footage of exhibit and meeting/ballroom space the Opryland Hotel is the primary facility in the market. The Opryland Hotel contains approximately 289,000 square feet of exhibit space and 192,000 square feet of meeting/ballroom space.

Convention & Visitors Bureau

The Nashville Convention & Visitors Bureau (CVB) is an affiliate organization of the Nashville Area Chamber of Commerce (Chamber). The CVB operates under a contract with the Metropolitan Government of Nashville and Davidson County (Metro) to establish Nashville as an international meeting and leisure destination. The mission of the CVB is to market Nashville as a destination. It does not market any particular facility or attraction but promotes Nashville as a premier destination for both tourism and conventions.

The Metropolitan Tourism and Convention Commission (Commission) has the responsibility for monitoring and evaluating service agreements relating to the direct promotion of tourism and tourist related activities for Metro. Currently, the only service agreement relates to the hotel/motel tax contract. The CVB is the current contract holder and receives the vast majority of its funding from the hotel/motel tax collections passed through to it by the contract. The CVB receives two-fifths of the Metro hotel/motel tax proceeds, which totaled \$7.3 million for the fiscal year ending June 30, 2002.

Additional background information on the NCC and on the CVB is contained in the attached KPMG report.

Objectives, Scope and Methodology

The NCC and CVB audits were performed by KPMG's Convention, Sports and Entertainment Practice under our direction. The audits included jointly designed tests and procedures and utilized KPMG's specialized industry experience and knowledge. The scope of work for the audits focused specifically on the operations of the NCC and the CVB and included analysis of various issues and aspects of their operations.

For the NCC, the audit addressed several areas of the operation including: commission structure, organizational structure, staffing levels, mission statement, marketing efforts, rental rate structure, major contractual agreements, facility utilization, financial results, and capital improvement planning.

For the CVB, the audit focused on governance, organizational structure, staffing levels, marketing efforts, stakeholder communication, the amount of funding, the allocation of resources, and tourism and convention booking activity.

The primary objective in each case was to gain an understanding of and information about the NCC's and CVB's organization and operations. This information served as a basis for the peer comparison and benchmarking analysis, which, taken together, provided the basis for KPMG's recommendations.

The methodology employed throughout the audit was one of objectively reviewing various forms of documentation including policies and procedures, mission statements, financial information, and various other data and reports maintained by the NCC and CVB and by central Metro departments. Management, administrative and operational personnel from the NCC and CVB were interviewed. Stakeholders in the community including business and community leaders, hoteliers, restaurateurs, tour operators, attraction owners and management, music industry representatives, educational institution representatives and other local stakeholders were also interviewed.

We performed the audit procedures in accordance with generally accepted government auditing standards.

Findings

The operations of the NCC and the CVB are complex and somewhat inter-dependent. Both are significantly impacted by external influences including the economy and significant events such as those of September 11, 2001. The KPMG report addresses these complex issues and includes detailed information on analysis performed as well as detailed findings. The KPMG report should be reviewed in its entirety to gain a complete understanding of the audit process and the resulting findings and recommendations.

Convention Center

Following is a summary of some of the more significant findings for the NCC included in the KPMG report.

- Overall, the NCC is a well-operated facility. The facility hosts a variety of events and compares favorably with its peers, especially in terms of the total number of events, which is particularly notable given that the Convention Center is the secondary facility in Nashville.
- Most of the peer facilities serve as the primary convention center in their market. The performance indicators for the NCC are particularly positive given the direct competition from the Gaylord Opryland Resort and Convention Center (Opryland Hotel) and a larger amount of exhibit and meeting/ballroom space in Nashville than in the peer cities.
- The mission statement of the NCC focuses on generating economic impact to Nashville and the surrounding region and its booking policy supports that mission through its prioritization of events.
- Although the NCC's mission statement does not emphasize financial operating results, the MCCC has a strong focus on the financial performance of the facility. This focus on financial results may influence decisions contrary to the NCC's mission.

- The majority of stand-alone convention centers typically realize an operating deficit. The operating loss at the NCC is one of the lowest among peer facilities. The NCC's operating results compare particularly favorably when considering that, unlike the situation at the NCC where the Renaissance Hotel gets the revenue from ballroom rental, peer convention centers' revenues include ballroom rental.
- There is a difference in perception between facility management teams at the NCC and the GEC regarding the ability to book activity at the GEC in the long-term to jointly market the facilities. This miscommunication may be impacting marketing and booking efforts at both facilities. Jointly hosting events helps to more fully utilize both facilities and maximize economic impact.
- The NCC operates an independent accounting and facility management software system that does not electronically interface with the Metro accounting system. The NCC does not reconcile internally prepared financial statements to the annual audited financial statements of Metro. Significant differences exist between the internal statements and Metro's audited Comprehensive Annual Financial Report (CAFR). In each of the last three years, the NCC net loss reported in Metro's CAFR was larger than the net loss reported to the MCCC based on NCC prepared financial statements.
- Although aesthetic improvements could be made, there do not appear to be any inherent physical or structural limitations that challenge the marketability of the NCC facility as it currently exists. This, in addition to the conclusions noted above, indicate that the current facility is serving Nashville well.

Convention & Visitors Bureau

Following is an overview of some of the more significant findings for the CVB included in the KPMG report.

- Overall and as compared to peer cities, the CVB is effectively executing its mission to market Nashville as a premier destination.
- The CVB is an affiliate of the Chamber and its Executive Vice-President reports to both the President of the Chamber and to the Commission. This dual oversight structure does not appear to be the most efficient way to govern the CVB. This structure creates inefficiencies and an overall lack of accountability and strategic guidance for the organization. The current governance structure of the CVB does not allow for effective oversight or timely input on the CVB's operations.

- The CVB and the tourism and meetings industry in Nashville do not use a consistent methodology to estimate the economic impact of events.
- The CVB produces numerous reports that summarize various components of its operations and that contain data that the CVB could use to better communicate its results and performance to stakeholders.
- The CVB does not appear to be maximizing the generation of private dollars compared to its peers. The most common private source of funding for peers, other than membership dues, is advertising.

Recommendations to the Metropolitan Convention Center Commission

The KPMG report contains numerous recommendations for several areas of the NCC. All of the recommendations should be reviewed in their entirety by the Commission and considered for implementation. Listed below are key recommendations related to the most significant findings and issues.

- The MCCC should evaluate its focus to ensure that it is consistent with the mission statement and operating objectives of the facility - maximizing events at the facility to generate economic impact to the region - even if they do not result in a financial profit to the facility.
- The miscommunication regarding the GEC's availability for scheduling events in advance should be clarified in order for the NCC and the GEC to most effectively work together to maximize the usage of both facilities and to maximize economic impact.
- The NCC should evaluate, refine, and improve its system for tracking lost business to provide the tools necessary to better understand whether the reasons for lost business are controllable or non-controllable factors.
- The NCC should eliminate its duplicate accounting system and work with the Finance Department to modify the reporting and other tools available in Metro's central accounting system (FASTnet) to meet the NCC's needs.
- The NCC should reconcile the past three years of internally prepared statements of operations to the Metro CAFR and report the amount and nature of past differences to the Commission.

During this audit no analysis was conducted relative to the operational or financial feasibility of a new or expanded convention center. However, several observations were made regarding the issues that should be addressed if Metro were to consider expansion or construction relative to the Convention Center.

- Before considering expansion, the NCC should assess whether it has the capacity to increase the use of the existing facility by accessing additional convention and tradeshow events that the current facility can accommodate.
- Expanding the NCC or constructing a new facility would create a greater competitive environment with the Opryland Hotel. In order to fundamentally change the mix of business in the Nashville market, any expanded or new facility would need to be significantly larger than the Opryland Hotel.
- Nashville's current infrastructure would be challenged to adequately accommodate a major expansion or new facility, particularly when compared to the attributes offered in markets that have significantly larger convention facilities. In addition, it is likely that a new convention hotel would need to be built in conjunction with any new or expanded space.
- Prior to considering expansion or construction of additional space, Metro should conduct a comprehensive cost/benefit analysis. This analysis should include an estimate of the incremental new economic benefits to the community compared to the anticipated capital cost and on-going operating expenses. The analysis should also include an evaluation of the impact of necessary infrastructure improvements, including a new convention hotel. It is unlikely that the Nashville market can adequately support three convention facilities; consequently, Metro would need to consider the costs of discontinuing use of the existing facility as well as the impact on the attached Renaissance Hotel.

Recommendations to the Mayor

The KPMG report contains numerous recommendations for several operational areas of the CVB. All of the recommendations should be reviewed in their entirety and considered for implementation. Listed below are key recommendations related to the most significant findings and issues.

Key recommendations for the CVB include:

- Metro should create a Board of Directors (Board) as a single governing body that is exclusively responsible for the overall conduct and operation of the CVB. In addition, the Board should be charged with monitoring the CVB's use of revenue from the hotel/motel tax.
- Major duties of the Board should include: (1) Ensuring the development of a well-defined mission statement, (2) Developing performance measures for the CVB, (3) Monitoring achievement of the performance measures, (4) Hiring, in conjunction with the Mayor, the Executive Director of the CVB, and (5) Establishing committees to advise the leadership of the CVB on all major areas of operations, strategic planning and financial matters.
- The Board should substantially improve the level of oversight and accountability of the CVB. Under the Board, the CVB could continue to contract with the Chamber for administrative services but should obtain its own appropriate designation as a non-profit organization.
- The CVB should take the lead in developing a consistent methodology to estimate the economic impact of events. The CVB should work to create a consensus with Metro and industry representatives on the approach to monitor and document reported economic impact and more actively communicate the information to stakeholders and the community.
- The CVB should improve and increase communication with the community and stakeholders regarding its activity and performance. To help accomplish this, the CVB should develop a convention calendar that includes contact information for groups coming to the city. Additionally, the CVB should conduct monthly or bi-monthly informational forums open to all stakeholders and the public.
- Most peer CVBs outsource their publications and advertising sales. The Nashville CVB should explore the merits of outsourcing its publications by completing a cost/benefit analysis to determine if it could realize additional revenue from advertising.

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Mayor Purcell's and the NCC's responses to the audit recommendations are attached to this report.

We greatly appreciate the cooperation and help of the Metro Convention Center Commission, the NCC management and staff, the CVB management and staff, and of all stakeholders who participated throughout the course of this audit.

This report is intended for the information of the management of the Metropolitan Government of Nashville and Davidson County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Internal Audit Section

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