

Kundinger, McCutcheon, Corder & Engle, P.C.

*Certified Public Accountants
1407 Larimer Street, Suite 200
Denver, Colorado 80202*

*Phone (303) 534-5953
FAX (303) 892-7776
Email kncepc@msn.com*

To: Members of the Legislative Audit Committee

From: Kundinger, McCutcheon, Corder & Engle, P.C.

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Re: Colorado Tourism Office

Background

The Colorado Tourism Office (Office) was created by the General Assembly to promote the coordinated development of tourism and travel in Colorado. Prior to Fiscal Year 2000, the Colorado Tourism Board (Board) within the Department of Local Affairs and the Colorado Travel and Tourism Authority (Authority) were responsible for promoting Colorado as a quality travel destination. In 2000, the General Assembly passed House Bill 00-1224, which abolished the Board and the Authority and created the new Colorado Tourism Office as a division within the Governor's Office to continue tourism functions for Colorado. This change was effective June 30, 2000, with a 30 day wrap-up period for the Board and Authority to be completed by August 1, 2000. The Colorado Tourism Office is governed by a board of directors consisting of 13 members. Of the 13 members, 1 member must be from the House of Representatives, 1 member must be from the Senate, and the remainder must represent various tourism based industries. Administrative oversight is provided by the Office of Economic Development and International Trade within the Governor's Office.

To carry out its mission, the Colorado Tourism Office oversees the following activities:

1. Operation of the State's eight Welcome Centers located at the major highway gateways to Colorado that provide travel information to motorists.
2. Advertising and public relations funded by the State in conjunction with private partners.
3. Customer response services and promotional materials, including maintenance of the official state travel Web site, www.colorado.com, the 1-800-COLORADO telephone information center, and publication and distribution of the Colorado Official State Vacation Guide.
4. Research on trends in the Colorado travel and tourism industry and the economic impact of the industry in the State.

Summary of Revenue and Expenses

The Office is primarily funded through general fund appropriations. The Office also receives non-state monies from the sale of advertisements in the Colorado Official State Vacation Guide and on the Colorado.com Web site. The following is a summary of revenue and expenditures for Fiscal Years 2001 and 2002:

Colorado Tourism Office Revenue and Expenditure Summary For Fiscal Years 2001 and 2002		
	Fiscal Year 2001	Fiscal Year 2002
Appropriations and Revenue		
General Fund Appropriation	\$ 6,103,256	\$ 5,894,738
Transfers ¹	145,307	500,000
Advertising income	1,606,321	1,575,098
Limited Gaming	168,368	179,392
Sponsorships	-	141,427
Interest and other	105,837	17,137
Total Appropriations and Revenue	8,129,089	8,307,792
Expenditures		
Professional Services ²	7,033,326	7,486,594
Salaries	149,587	140,899
Grants	453,975	451,737
Other	293,792	243,093
Total Expenditures	7,930,680	8,322,323
Net Income	<u>\$ 198,409</u>	<u>\$ (14,531)</u>
<p>Source: Data obtained from the Colorado Tourism Office. Revenue and expenditures reflect adjustments identified during review of Fiscal Years 2001 and 2002, performed by Kunding, McCutcheon, Corder & Engle, P.C. under contract with the Office of the State Auditor.</p> <p>¹Transfers for Fiscal Year 2001 were from Colorado Travel and Tourism Authority. Transfers for Fiscal Year 2002 were from Economic Development Commission.</p> <p>²Contractual services for advertising and promotion.</p>		

Purpose and Scope of Review

This review was conducted under the authority of Section 24-49.7-108, C.R.S., which authorizes the Office of the State Auditor to review the activities of the Colorado Tourism Office.

The purpose of this review was to evaluate and report on the activities of the Colorado Tourism Office and the board of directors to ensure compliance with the provisions of Article 24-49.7, C.R.S. The Article states the need for planning, promotion, coordination, and development of Colorado as a quality tourist destination and outlines the responsibilities of the Office and the

board of directors. Our review examined contracts held by the Office and the manner in which monies were expended, evaluated the Office's system of internal controls, and assessed the implementation status of recommendations from the 2000 close-out audit of the Colorado Travel and Tourism Authority and the Colorado Tourism Board. This is a statutorily required review and covers the period from July 1, 2000, to June 30, 2002. The review was conducted by Kunding, McCutcheon, Corder & Engle, P.C., under contract with the Office of the State Auditor. The following presents the findings and recommendations resulting from the review.

Comments and Recommendations

Recording and Monitoring Advertising Revenue Collected by Vendors

The Colorado Tourism Office engaged the services of Checkmark/PDI, LLC., to publish and print the Official State Vacation Guide (OSVG), maintain and enhance the official state tourism internet Web site (Colorado.com), operate the visitor information telephone service (1-800-COLORADO), and fulfill requests for travel information from the database of Colorado travel information gathered from in-bound calls, readers' service leads, and mail-in and internet page requests. In addition, Checkmark is responsible for selling and collecting all revenue generated from advertising sales related to the OSVG and Colorado.com and applying this revenue to pay for advertising sales commissions and other related contract expenses as directed by the Office's board. The contract with Checkmark expires on June 30, 2003.

We noted that the Office does not record advertising income, and the related expenditures, on its books and records, even though it is responsible for directing the expenditure of the funds collected by Checkmark. This revenue, and the related expenditures, totaled \$1,575,098 in Fiscal Year 2002 and \$1,606,321 in Fiscal Year 2001. In Fiscal Year 2002, the Office made the corrections to its records for both fiscal years when it was informed of the appropriate accounting. In addition, we noted that the Office has not developed any internal audit procedures to test the completeness and accuracy of the revenue and expenditures reported by Checkmark.

While the Office intended to fully privatize these activities, this was not clearly delineated in the contract. The contract does not transfer risk of loss (or gain) on these activities from the Office to Checkmark. The Office owns the assets from which the revenue is generated and bears the cost of operations. Essentially, Checkmark provides contract services to the Office. Under a fully privatized arrangement, Checkmark, and not the Office, would be responsible for any revenue shortfalls and expense overruns (or be able to keep any excess revenue or expense savings).

We recommend that the Office properly record the advertising revenue and related expenditures that are currently being collected and spent by Checkmark on behalf of the Office.

Colorado Tourism Office Response:

Agree. Post-closing adjustments were prepared which have addressed and implemented this recommendation for Fiscal Years 2001 and 2002. The Office of Economic Development and International Trade, which provides administrative oversight for the Colorado Tourism Office, is currently working with the State Controller's Office and the State Treasury to develop systems in order to directly manage advertising revenues and expenditures for Fiscal Year 2003 and beyond. Final implementation by June 30, 2003.

We recommend that the Office develop procedures to monitor the contract activities of Checkmark to ensure the completeness and accuracy of advertising revenues collected and expended by Checkmark and reported to the Office.

Colorado Tourism Office Response:

Agree. The Office will implement an internal audit process to monitor Checkmark's advertising activities. The Office will randomly contact various advertisers and will also conduct an annual site visit at Checkmark's offices to ensure that revenue and expenditure records are accurate and complete. Implementation date: June 30, 2003.

We recommend that the Office consider the feasibility and desirability of fully privatizing the contract with Checkmark (or the replacement vendor) upon expiration of the existing contract. If the Office does pursue full privatization, it should consult with the State Controller's Office and the Attorney General's Office to ensure that the contract clearly defines the duties and risks to be born by each party.

Colorado Tourism Office Response:

Agree. Pursuant to the tourism statute, which encourages privatization of tourism services, the Office considered Checkmark to be a privatized contract vendor. However, based upon this recommendation, the Office will further explore the definition of privatization, and the feasibility and desirability of pursuing full privatization of these services. Implementation date: June 30, 2003.

Recording the Usage of Airline Tickets Received in Barter Transactions

The Office receives airline tickets from Frontier Airlines in exchange for advertising space on the Web site. The Office controls the use of these tickets, but the usage was not recorded as an expenditure on the books and records. This resulted in revenue and expenditures being understated on the State's financial records by \$3,000 in Fiscal Year 2002 and \$33,500 in Fiscal

Year 2001. No adjustment was made to the records. The Office should make sure that all activity related to its operations is recorded.

We recommend that the Office record the usage of Frontier Airline tickets received in exchange for advertising space sold on the State's Web site.

Colorado Tourism Office Response:

Agree. During Calendar Year 2002, the Office is receiving 24 Frontier airline tickets in exchange for advertising space on www.colorado.com, the state's tourism web site. Frontier values these tickets at \$500.00 each. If all tickets are used, the maximum value is \$12,000. Although this exchange is non-monetary, the Office will prepare an annual entry to record these small transactions in the future. Implementation date: June 30, 2003.

Status of Prior Recommendations

This is the first audit of the Colorado Tourism Office. During 2000, a close-out audit of the Colorado Travel and Tourism Authority, was performed by the Office of the State Auditor. Because many of the duties and responsibilities of the Authority were transferred to the Office, we are providing the following update on certain recommendations that were made in the 2000 audit:

Transfer of Funds and Colorado.com. The Office of the State Auditor recommended the new Tourism Office work with the Tourism Authority to complete wrap-up activities and transfer the remaining funds and Web site to the Office.

Implemented. The transfer of funds from the Authority was completed in August 2000 and recorded on the Office's books in Fiscal Year 2001. All the necessary steps were taken to transfer ownership of the Web site to the Office.

Funding Cutoffs. The Authority committed funds past the date on which it was required to end operations. The Authority contracted with a lobbyist for the 2001 legislative session through the Tourism Industry Association of Colorado (TIAC). The Authority had no authority to commit funding to projects past June 30, 2000. The Office of the State Auditor recommended the Office either request a refund for a \$25,000 advance payment made to the TIAC or establish an agreement whereby the Office was a party to the services provided.

Implemented. The Office was made party to the contract and monitored the activities of the lobbyist.

Airline Tickets Used. The Authority obtained airline tickets through multiple trade agreements with Frontier Airlines. However, the Authority was unable to provide a complete accounting for the tickets or documentation as to who held the remaining tickets. These tickets were used by the Authority employees and for promotional purposes. In addition, the business purpose for the use of airline tickets was not clearly documented and the required federal reporting forms (1099s) were not issued to individuals receiving the tickets. The Office of the State Auditor

recommended the Office work with the former Authority to resolve the accounting and tax reporting issues related to the use of the airline tickets.

Implemented. In a November 2, 2000, letter to the State Auditor, the Office provided documentation validating disposition of 142 tickets issued to employees of the Authority. We reviewed the documents during the current audit. While the Office made a concerted effort to determine the disposition of ticket use by the former Authority, this effort was hampered by the poor documentation maintained by the Authority. In some instances, there was partial or no documentation to validate ticket use. The Office was unable to obtain additional information on the use of the tickets. Finally, the Office attempted to obtain W-9s from ticket recipients and passed the information on to the payroll service retained by the Authority in order that appropriate 1099s could be prepared for the 2000 tax year.

For Fiscal Years 2002 and 2001, we noted that the Office has current agreements with Frontier Airlines that allow the airlines to pay for advertising space on the Web site with airline tickets. The Office ensures that the use of tickets for business purposes is appropriate and documented. In cases where tickets were used for non-business purposes, the Office ensured that 1099s are issued to all individuals who receive tickets. The Office tracks all tickets held, used, and returned.

Advertising Agreements. The Office of the State Auditor found significant discrepancies between the schedule of marketing partners provided by the Authority and actual advertisements on the Web site and/or information provided directly for the marketing partners. The Office of the State Auditor recommended the Office review the Web site in order to determine which advertisers are active and determine whether or not there is a current paid agreement for the advertisement.

Implemented. The Office obtained marketing agreements, or other supporting documentation, for active ads to effectively manage the remaining period of the contracts. Also, as discussed earlier, beginning in Fiscal Year 2001 the Office contracted with Checkmark to generate and manage the advertising sales from the OSVG and website.