

**Colorado Office of the State Auditor  
Colorado Tourism Office**

Agreed-upon Procedures Report

Fiscal Year Ended June 30, 2017

Members of the Legislative Audit Committee:

This report contains the results of our procedures surrounding the Colorado Tourism Office. We were engaged to conduct these procedures pursuant to Section 24-49.7-108, C.R.S., which requires that the State Auditor review, at least every two years the manner in which monies are expended, any contracts entered into, and the activities of the Tourism Board and the Tourism Office to ensure compliance with Section 24-49.7-101 et seq., C.R.S. In addition, we were engaged under Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct or cause to be conducted audits of all departments, institutions and agencies of state government. The reports we have issued as a result of this engagement are set forth in the table of contents as follows.

*BKD, LLP*

Denver, Colorado  
January 12, 2018

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## **Description of the Colorado Tourism Office**

The Colorado Tourism Office (CTO, Office) and its Board of Directors (Board) operate under Title 24, Section 49.7, C.R.S. state statute [Section 24-49.7-101 through 104, C.R.S.] which directs the Board to implement the General Assembly's policy "to guide, stimulate and promote the coordinated, efficient, and beneficial development of tourism and travel in Colorado." Among other requirements, statute directs the Board to:

- Set and administer policies for expenditures related to travel and tourism development and promotional activities.
- Gather and disseminate statistical information regarding the economic effect of travel and tourism marketing.
- Operate Welcome Centers (currently 10) throughout the state.
- Contract for necessary services and ensure state funds are maximized to the fullest extent possible.

The Board consists of 15 members. Two are members of the House of Representatives (appointed by the Speaker and the Minority Leader of the House) and two are members of the Senate (appointed by the President and the Minority Leader of the Senate). The Governor appoints, and the state Senate confirms, the remaining 11 members, representing various tourism-based industries. All legislative members of the Board serve one-year terms and can be appointed to serve succeeding terms as long as they are members of the General Assembly. Non-legislative members serve four-year terms and can be reappointed for one additional four-year term.

The Board governs the CTO, and the Office is responsible, under the direction of the Board, for implementing policies outlined in statute to promote travel and tourism in Colorado. The CTO is organizationally located within the Governor's Office of Economic Development and International Trade (OEDIT). OEDIT provides some staff and administrative support, such as accounting assistance, to the CTO.

## Accountant's Compilation Report

Legislative Audit Committee  
and Colorado Tourism Office  
Denver, Colorado

Management is responsible for the accompanying statement of revenues and expenditures and changes in fund balance of the Colorado Tourism Office in accordance with accounting principles generally accepted in the United States of America. We have performed the compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants for the years ended June 30, 2017 and 2016. We did not audit or review the financial statement nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

*BKD, LLP*

Denver, Colorado  
January 12, 2018

**Statement of Revenues, Expenditures  
and Changes in Fund Balance  
For the Fiscal Years Ended June 30, 2017 and 2016**

	<b>2017</b>	<b>2016</b>
<b>Revenues</b>		
Transfers from Limited Gaming	\$ 15,000,000	\$ 15,000,000
Transfers from General Fund	4,000,000	4,000,000
Unclaimed Property Fund interest received	490,410	457,831
Other interest income	126,708	99,753
Other revenue	216,217	376,956
	<hr/>	<hr/>
Total revenues	19,833,335	19,934,540
	<hr/>	<hr/>
<b>Expenditures</b>		
Professional services	15,973,519	15,836,399
Personal services	1,130,040	926,635
Travel	189,033	196,542
Operating transfers	185,103	-
Intergovernmental payments	173,440	-
Grants to nongovernmental organizations	454,107	561,320
Advertising and marketing	846,013	1,620,290
Purchased services	128,944	471,030
Dues and memberships	161,816	30,334
Other operating expenditures	416,819	553,696
	<hr/>	<hr/>
Total expenditures	19,658,834	20,196,246
	<hr/>	<hr/>
<b>Net Change in Fund Balance</b>	174,501	(261,706)
	<hr/>	<hr/>
<b>Fund Balance, Beginning of the Year</b>	17,957,163	18,218,869
	<hr/>	<hr/>
<b>Fund Balance, End of the Year</b>	<u>\$ 18,131,664</u>	<u>\$ 17,957,163</u>

## Independent Accountant's Report on Application of Agreed-upon Procedures

Legislative Audit Committee  
and Colorado Tourism Office  
Denver, Colorado

We have performed the procedures enumerated in the attachment to this report, which were agreed to by the Colorado Tourism Office, solely to assist you with respect to compliance with Section 24-49.7-108, CRS, for the year ended June 30, 2017. The management of the Colorado Tourism Office is responsible for its financial statement elements, accounts and items. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in the attachment to this report for the purpose for which this report has been requested or for any other purpose.

The finding we identified is described in the attachment to this report.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. We were not engaged to and did not conduct an examination or a review, the objective of which would be the expression of an opinion or conclusion, respectively, on the specified elements, accounts, and items described above. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Legislative Audit Committee, the Colorado Office of the State Auditor, and the Colorado Tourism Office and is not intended to be and should not be used by anyone other than these specified parties. However, upon release by the Legislative Audit Committee this report is a public document.

*BKD, LLP*

Denver, Colorado  
January 12, 2018

## Procedures Performed

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### 1. Hold an entrance conference with CTO on or before August 15, 2017.

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We held an entrance conference on September 5, 2017, with representation from BKD, the Office of the State Auditor (OSA) and the Colorado Tourism Office (CTO) to discuss preliminary logistics of the fiscal year 2017 agreed-upon procedures engagement such as timing of fieldwork and procedures to be performed. The entrance conference was held after the proposed deadline due to contract negotiations and scheduling conflicts.

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### 2. Review the CTO's Board of Directors' minutes.

- a. Obtain and read the board minutes for fiscal year 2017 and associated board book material.
  - b. Note any decision / action items for agreement as to:
    - i. Activities for consistency with the goals of the CTO (Section 24-49.7-101 et seq. C.R.S.).
    - ii. Changes in the nature of the CTO's programs.
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We obtained and reviewed minutes from all Board of Directors' meetings held during fiscal year 2017. Through review of the minutes, we noted that decision and action items discussed were consistent with the goals of the CTO and no major changes in the nature of the CTO's programs were noted.

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### 3. Review contracts between the CTO and its vendors for appropriateness and compliance with Section 24-49.7-101 et seq., C.R.S.

- a. Determine the population, including amounts of vendor contracts from fiscal year 2017. From the population, select and obtain a sample of the CTO's vendor contracts from fiscal year 2017. The sample should include at least one grant contract.
  - b. Describe the CTO's approval process for contracts and grant contracts and review to ensure appropriate approval and signing.
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CTO provided a listing of contracts for fiscal year 2017, as described below:

We noted a total of 140 vendor contracts during fiscal year 2017 with an aggregate value of \$18,369,813. Of these 140 contracts, 30 were identified as being grant-related. The non-grant related contracts ranged in value from \$355 to \$10,241,000. Grant-related contracts ranged in value from \$4,320 to \$25,000.

Based on these contracts, we first selected the five largest contracts representing a total of \$13,035,540, or 71.0% of all fiscal year 2017 contracts. We then selected every 9<sup>th</sup> contract in descending value order from the remaining population of contracts with a value of \$25,000 or greater, ensuring at least one grant contract was selected for testing. This process yielded 12 total contracts for testing with an aggregate value of \$13,477,390, or 73.4% of all contracts. Two of the contracts selected for testing were grant-related.

Through review of contracts, we noted the CTO's approval process for contracts includes the standard state contract form requiring signature and approval by the vendor, the Executive Director of the Office of Economic Development & International Trade, and the State Controller (or his delegate). The effective date of contracts is considered the signature date of the State Controller (or his delegate) on the contracts.

We noted for all purchase orders selected for testing (purchases equal to or less than \$100,000 per state statute), the CTO's approval process included the requirement of signature and approval by the State Controller (or his delegate) and the Director of CTO.

### *Contracts*

The following contracts were selected for review during the current year:

K&H LLC (Document 201700001232) dated as signed on 6/30/2016, totaling \$10,075,000 for the period July 1, 2016 through June 30, 2017. Contract was amended on 6/19/2017, totaling \$10,241,000 for the period July 1, 2016 through June 30, 2017.

Miles Media Group/Miles Partnership (Document 201700001977) dated as signed 6/30/2016, totaling \$2,140,000 for the period July 1, 2016 through June 30, 2017. Contract was amended on 6/29/2017, totaling \$2,171,000 for the period July 1, 2016 through June 30, 2017.

RPM Events Group Colorado LLC (Document 201700003065) dated as signed 1/4/2017, totaling \$350,000 for the period January 4, 2017 through June 30, 2017.

Get It Across – Albert Jennings (Document 201700002315) dated as signed 8/31/2016, totaling \$253,540 for the period September 1, 2016 through June 30, 2017. Contract was amended on 6/26/2017, totaling \$273,540 for the period September 1, 2016 through June 30, 2017.

Broadmoor Hotel (Document 201700007328) dated as signed 12/7/2016, totaling \$100,000 for the period December 7, 2016 through June 30, 2017. Contract was amended on 6/28/2017, totaling \$150,000 for the period December 7, 2016 through June 30, 2017.

Longwoods Group Inc. (Document 201700009534) dated as signed 3/9/2017, totaling \$60,600 for the period March 9, 2017 through June 30, 2017. Contract was amended on 6/6/2017, totaling \$95,600 for the period March 9, 2017 through June 30, 2018.

Dean Runyan Associates Inc. (Document 201700008875) dated as signed 1/30/2017, totaling \$65,000 for the period February 1, 2017 through June 30, 2017.

Sarah-Jane Johnson (Document 201700008288) dated as signed 1/10/2017, totaling \$49,750 for the period January 15, 2017 through June 30, 2017.

Tourism Economics LLC (Document 201700002085) dated as signed 7/13/2016, totaling \$6,500 for the period July 13, 2016 though June 30, 2017. Contract was amended on 7/13/2016, totaling \$31,500 for the period July 13, 2016 though June 30, 2017.

Clear Creek County Tourism (Document 201700006813) dated as signed 11/18/2016, totaling \$25,000 for the period November 18, 2016 through June 30, 2017. Contract was amended on 1/20/2017, totaling \$25,000 for the period November 18, 2016 through September 30, 2017.

North Fork Valley Creative Coaltn. (Document 201700006828) dated as signed 11/18/2016, totaling \$25,000 for the period November 18, 2016 through June 30, 2017. Contract was amended on 1/20/2017, totaling \$25,000 for the period November 18, 2016 through September 30, 2017.

The State Controller (or his delegate), the vendor, and the Executive Director of OEDIT approved all contracts tested for fiscal year 2017. All contracts tested were signed prior to the beginning of work or incurrence of related expenditures. Timing and completion of signatures and approvals based on the policies in effect for the contracts noted above were considered appropriate.

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- 4. Review the annual operating budget of CTO for the fiscal year ended June 30, 2017, and a comparison to actual revenue and expenditures.**
- a. Identify whether an initial budget was provided to the Board at the beginning of the fiscal year.*
  - b. Identify whether any changes to the budget were communicated to the Board throughout the year.*
  - c. Compare actual revenues and expenditures to budgets.*
- 

During our review of the Board minutes, we noted the annual operating budget was provided to the Board for review and approval. Additionally, it was noted that the initial budget for fiscal year was provided to the Board during the June 2016 meeting (prior to the beginning of Fiscal Year 2017).

Subsequent updates or changes to the budget are noted in the minutes as having been discussed and recorded under the sections titled “Fiscal Update” or some variation.

Per review of the minutes, it was noted that the budget is updated for changes throughout the year, but also includes a comparison of budget to actual as well as a comparison to fiscal year-to-date budget. Any variances are identified between actual year-to-date expenses and year-to-date budget for ease of comparison. Proper review of budgeted to actual revenues and expenditures appears to be completed by CTO staff and presented to the Board for review. BKD reviewed the budget to actual comparisons included within the minutes, noting no significant expenditures in excess of budgeted amounts.

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**5. Identify whether the CTO’s Board of Directors is in compliance with the provisions of Section 24-49.7-101 et seq., C.R.S.**

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Through review of the board minutes and testing completed on contracts, revenues and expenses, we noted the activities of the CTO appear to be consistent with and in compliance with the provisions of Section 24-49.7-101 et.seq., C.R.S. Activities required under State statute include annual adoption of an operating budget, administration of policy, and proper planning for the promotion and development of the travel and tourism industries.

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**6. Evaluate the manner in which the monies from the travel and tourism promotion fund and the additional source fund are expended and whether such funds were spent in accordance with Section 24-49.7-101 et seq., C.R.S.**

*a. This evaluation should include a comparison of a sample of expenditures to the limitations set forth in Section 24-49.7-106, C.R.S.*

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Through review of the board minutes and testing completed on contracts, revenues and expenses, we noted the activities of the CTO appear to be consistent with and in compliance with the provisions of Section 24-49.7-101 et seq., C.R.S.

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**7. Evaluate CTO’s internal controls over revenues and expenditures for the travel and tourism promotion fund and the additional source fund.**

- a. Develop an understanding of internal controls over revenue and expenses through:*
- i. Testing performed in other steps*
  - ii. Inquiry*
  - iii. Process documentation*
- b. Describe the policies or significant components of the controls as noted.*
- 

The CTO follows the procurement policies of the OEDIT. Upon receipt of invoices for expenditures the Fiscal & Operations Manager reviews an invoice and provides the invoice to the program manager or director responsible for the contract for which the underlying expenditure relates. This manager or director will further review the invoice to ensure the expenditure is reasonable and in compliance with the contract and its expected charges. The invoice is then provided to the CTO Director for the final, official approval of the invoice before it is provided to the accounting staff of the OEDIT for processing. Accounting staff generate payment vouchers that are then approved by the OEDIT Accounting Manager or the Controller. The Office of the State Controller generates warrants or other payments payable and then warrants (checks) or funds transfers (EFTs) are initiated. After payment is processed, the OEDIT accounting function attaches the invoice and any relevant support together and includes the warrant or EFT information on the face of the invoice before filing.

With respect to revenue controls, we noted that the revenue stream for CTO primarily consists of lump-sum funding from the long-bill appropriation and interest allocations from the State Treasurer. The only other significant revenue during the year consists of sponsorship for the Governor’s conference, advertising revenue share from the privatized contract and periodic grants from other organizations. Because revenue flow is not a

typical transaction and is infrequent, there are no formal controls other than typical check handling as amounts are made payable to the state.

See step eight (8) for testing of revenues and expenditures from throughout the fiscal year to confirm our understanding of internal controls and procedures in place. No reportable issues were identified in these procedures.

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**8. Identify whether CTO properly recorded revenues and expenditures related to appropriations of any contracts.**

- a. *Obtain an understanding of revenue sources other than interest and transfers from limited gaming related funding and obtain support for receipts during each year.*
  - b. *Select a sample of expense transactions from the sample of contracts selected for testing. Test a maximum of all or fifteen expenditures per contract.*
  - c. *Compare transaction activity with the provisions of the related contracts.*
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*Revenue Sources*

Revenue sources for the CTO during fiscal year 2017 consisted primarily of transfers from the gaming fund (\$15.0 million in fiscal year 2017) and appropriation from the general fund (\$4.0 million in fiscal year 2017). Secondary sources of revenue consisted of interest income, royalties, grants, and trade show revenue.

As described below in procedure 9, royalty revenues were tested in conjunction with the privatized contract.

*Expenditure Testing*

For the 12 contracts reviewed, we selected the greater of 15 expenditures or all expenditures indicated for that contract, if less than 15 during the fiscal year. The selection resulted in 72 items selected for review related to fiscal year 2017. Through completion of the testing, it was noted that expenditures were consistent with requirements of the contract, contained proper approval for each invoice, and were recorded in the proper period, with the exception of one (1) expenditure selected for testing.

While many invoices associated with the contracts are for fees negotiated within the contracts, several of the expenditures are pass-through or detailed material expenditures. The review of underlying support was indicated as an appropriate oversight procedure. While initials or other approval were documented, it is not possible to determine the extent to which the underlying detail was reviewed.

Please refer to the “**Findings and Recommendations**” section of the report beginning on page 12 for additional detail regarding this exception.

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**9. For privatized contracts, test contract monitoring procedures of CTO to ensure that funds are spent appropriately and activities associated with the contract are being implemented.**

- a. *With the CTO, identify and define monitoring procedures.*

- b. *Select and obtain a sample of privatized contracts. Select a subsample of expenditures per contract.*
  - c. *Perform a walkthrough of the selected fund expenditures and document the CTO's adherence to the procedures.*
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The contract for certain services including production of the vacation guide, state map and management of the official state website is specifically designed to be a privatized contract. The terms of this contract for fiscal year 2017 indicate that the risks and rewards for performance remain with the vendor (a requirement for a privatized contract) and that the CTO shares in a percentage of the revenues in excess of certain planned levels.

The contract provides for quarterly monitoring, or more frequent monitoring if requested by the state. Additionally, monthly reports are to be provided to CTO staff, committees, and board members. CTO monitored this privatized contract through a monthly review of contractor schedules and through discussions during weekly meetings with the vendor.

As only one privatized contract was identified, we selected this contract and tested expenditures and the process (walkthrough), noting that those expenditures were properly approved and consistent with the requirements of the contract.

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**10. Identify whether CTO has adequate monitoring procedures over its Welcome Centers and for its advertising contract.**

- a. *Inquire of personnel to identify monitoring procedures and contracts and evaluate adequacy of those efforts.*
- 

Per our inquiry, two program staff at the CTO oversee the Welcome Center operations and activities. The CTO partners with local communities and regional entities to operate Welcome Centers that provide information and travel advice to motorists at 10 locations throughout the state. The majority of this oversight relates to contracting for Welcome Center operations, ordering materials for the centers and management of the volunteer staff. Expenditures are primarily to the coordinating agencies with small amounts of expenditures for phone service and miscellaneous items. While not specifically reviewed, the agency contracts are subject to the same oversight as all other CTO expenditures. In addition, Welcome Centers have the following monitoring procedures in place:

- Budget tracker for all Welcome Centers.
- Monthly Welcome Center managers meetings to discuss procedures and operations.
- Monthly reporting that includes statistics on visitation and updates on Welcome Center activities.
- Weekly calls between Welcome Center managers and the Senior Manager of Visitor Services.
- Annual quality control visits to each Welcome Center.

Oversight, as a result, is consistent with other components of the organization and is considered adequate.

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**11. Inquire of CTO personnel and describe the current nature of operations and staffing at the time of the procedures performed.**

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Our procedures related to the fiscal year 2017 agreed-upon procedures engagement were performed during October 2017. At the conclusion of fieldwork, Cathy Ritter was serving as CTO Director and David Fishman was serving as Fiscal & Operations Manager. The CTO staff consisted of nine additional personnel serving the following primary roles:

- U.S. Marketing
- Destination Development
- International Marketing
- Visitor Services and Welcome Center Management
- Administrative Support

Please refer to the description of the Colorado Tourism Office also included as page 1 of the report.

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**12. Compile a summary of revenues and expenditures and changes in fund balance for the CTO for the fiscal year ended June 30, 2017.**

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The compiled Summary of Revenues, Expenditures and Changes in Fund Balance, for which management is responsible, is included as page 3 of this report.

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**13. Perform follow-up procedures on the two outstanding prior recommendations contained in the Fiscal Year 2012 agreed-upon procedures report.**

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Please refer to the “Disposition of Fiscal Year 2012 Recommendations to the Colorado Tourism Office” section of this report.

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**14. Hold an exit conference with CTO and the OSA on or before October 31, 2017, to discuss the draft report and recommendations.**

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An exit conference was held on November 1, 2017, with representation from BKD, the Office of the State Auditor (OSA) and the Colorado Tourism Office (CTO) to discuss the draft report and recommendations. The exit conference was held after the proposed deadline due to scheduling conflicts.

## **Findings and Recommendations Resulting From Procedures Performed**

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### **Issue #1 – Expenditure Recorded in Improper Period**

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#### **What was the purpose of the procedure performed?**

The purpose of the procedure was to test proper recording of revenues and expenditures related to appropriations of any contracts in accordance with Section 24-49.7-101 et seq., C.R.S. This was achieved by:

- a. Obtaining an understanding of revenue sources and reviewing support for related receipts during the fiscal year,
- b. Selecting a sample of expense transactions from the sample of contracts selected for testing and testing the sample of expenditures, and
- c. Comparing transaction activity with the provisions of the related contracts.

#### **What work was performed and how were results measured?**

A total of 246 expenditures were incurred under the provisions of the contracts selected for testing during the current year. Of this total, 72, or 29.3%, were tested as part of our procedures. The 246 total expenditures equated to a total of \$13,422,590, of which \$9,343,158, or 69.6%, was covered by our testing of the 72 expenditures included within the sample. According to accounting principles generally accepted in the United States of America, expenditures should be recorded in the period in which they are incurred. In addition to reviewing all expenditures for recording in the proper fiscal year, each transaction was also reviewed for consistency with contract requirements, accuracy as to amount, and proper authorization.

#### **What problem did the procedure identify?**

We found that one of the expenditures related to Fiscal Year 2017 that was selected for testing was improperly recorded in Fiscal Year 2018. This expenditure cut-off issue related to contract #201700009534 with Longwoods International, Inc. The expenditure related to marketing services provided to CTO in the amount of \$15,000, which represents 17.8% of the total \$84,470 incurred under this contract during Fiscal Year 2017. A total of six expenditures were selected for testing as part of our procedures, which represents 100% of expenditures incurred under this contract during the fiscal year. No other exceptions were noted with respect to proper expenditure cut-off for this contract or any other expenditures tested in connection with our procedures performed.

#### **Why did the problem occur?**

While CTO staff followed procedures with respect to recording of expenditures in accordance with relevant regulations, the related invoice was misplaced after receipt by CTO staff and was not provided to the accounting department in a timely manner. Due to lack of adequate communication, the invoice was missed during payment and/or the year-end accrual period. CTO staff followed procedures with respect to all other expenditures tested in connection with our procedures performed.

### **Why does this problem matter?**

Management has a responsibility to ensure expenditures are recorded in accordance with accounting principles generally accepted in the United States of America. Inaccuracies in reporting of annual expenditures may affect future financial decisions and impair comparison of budgeted to actual expenditures.

### **Recommendation No. 1**

The Colorado Tourism Office (CTO) should continue to focus attention on the cut-off period surrounding fiscal year-end so as to ensure all expenditures are recorded within the proper period. Year-end procedures should be reviewed and updated, as necessary, to ensure proper cut-off of expenditures occurs. Communication between CTO staff, reviewers, and the accounting department should occur with respect to year-end dates to ensure all expenditures are paid or accrued for in the proper fiscal year.

### **Colorado Tourism Office Response**

Agree. Implementation Date: May 2018

In the rush to complete and process all year-end invoices before the fiscal year cut-off, one invoice was missed, as noted above. In response to this finding, the Colorado Tourism Office has set up a separate email account for submission of vendor invoices. A fiscal year-end process will be reviewed and disseminated to all CTO staff prior to year-end, so that expenditures are paid or accrued for in the proper fiscal year.

**Disposition of Fiscal Year 2012 Recommendations to the Colorado Tourism Office dated  
December 14, 2012**

**Recommendation No. 1 – Improving Board Minutes and Budget Documentation**

We recommend that the Colorado Tourism Office (CTO) implement a policy that clarifies the expected content under the “Decision Items” section of the minutes to capture board approval and the nature of budget changes. The policy should also require staff to agree the changes to the budgeted and actual expenditures to the general ledger to ensure that the numbers reported to the CTO Board are accurate.

*Status Determined by BKD:*      IMPLEMENTED

**Recommendation No. 2 – Improving Board Minutes and Budget Documentation**

The Colorado Tourism Office should consider revising the format of the minutes to include additional specific approvals by the Board and budget updates. Budget data presented should also be periodically reconciled to actual results.

The CTO should also consider reporting the final negotiated contract approvals so that it is clear that the Board understands the timing and extent of the contracts executed.

*Status Determined by BKD:*      IMPLEMENTED