

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

Agreed Upon Procedures Report

Fiscal Years Ended June 30, 2012 and 2011

**LEGISLATIVE AUDIT COMMITTEE
2012 MEMBERS**

Representative Cindy Acree
Chair

Representative Angela Williams
Vice-Chair

Senator Lucia Guzman
Representative Jim Kerr
Senator Steve King

Senator Scott Renfroe
Representative Su Ryden
Senator Lois Tochtrop

OFFICE OF THE STATE AUDITOR

Dianne Ray
State Auditor

Kerri Hunter
Deputy State Auditor

Monika Treipl-Harnke
Legislative Auditor

BKD, LLP
Contractor Auditors

Table of Contents

Description of the Colorado Tourism Office1

Accountants’ Compilation Report2

Summary of Revenues and Expenditures and Changes in Fund Balance For the Fiscal Years
Ending June 30, 2012 and 20113

Independent Accountants’ Report on Application of Agreed-Upon Procedures.....4

Procedures Performed.....5

Findings and Recommendations Resulting From Procedures Performed12

Disposition of Fiscal Year 2009–2010 Recommendations to the Colorado Tourism Office
dated December 8, 201014

Description of the Colorado Tourism Office

The Colorado Tourism Office (CTO, Office) and its Board of Directors (Board) operate under Title 24, Article 49.7, C.R.S. Statute [Section 24-49.7-101, and 103 to 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 11) 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.

Accountants' Compilation Report

Legislative Audit Committee
and Colorado Tourism Office
Denver, CO

We have compiled the accompanying schedule of revenues and expenditures and changes in fund balance for the fiscal years ending June 30, 2012 and 2011. We have not audited or reviewed the accompanying financial schedule and, accordingly, do not express an opinion or provide any assurance about whether the financial schedule is in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial schedule in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial schedule.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial schedule without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial schedule.

BKD, LLP

December 14, 2012

**Summary of Revenues and Expenditures
and Changes in Fund Balance
For the Fiscal Years Ending June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Revenues		
Transfers from Limited Gaming	\$ 11,049,424	\$ 12,002,687
Interest	505,403	647,558
Revenues		
Colorado Historical Society grants	-	196,853
Advertising royalties	135,000	49,858
Other	<u>286,772</u>	<u>354,842</u>
 Total revenues	 <u>11,976,599</u>	 <u>13,251,798</u>
 Expenditures		
Professional services		
Advertising, marketing and public relations	12,345,271	14,897,081
City Agreements	500,291	488,925
International marketing promotions	628,149	311,776
Heritage tourism	144,355	228,934
Agritourism	109,164	45,506
Transfers to the general fund	<u>-</u>	<u>2,500,000</u>
 Total expenditures	 <u>13,727,230</u>	 <u>18,472,222</u>
 Net Change in Fund Balance	 (1,750,631)	 (5,220,424)
 Fund Balance, Beginning of the Year	 <u>15,293,614</u>	 <u>20,514,038</u>
 Fund Balance, End of the Year	 <u><u>\$ 13,542,983</u></u>	 <u><u>\$ 15,293,614</u></u>

Independent Accountants' Report on Application of Agreed-Upon Procedures

Legislative Audit Committee
and Colorado Tourism Office
Denver, CO

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 years ended June 30, 2012 and 2011. The management of the Colorado Tourism Office is responsible for its financial statement elements, accounts and items. 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. The sufficiency of the 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 findings we identified are described in the attachment to this report.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the specified elements, accounts and items described above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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.

BKD, LLP

December 14, 2012

Procedures Performed

1. Hold an entrance conference on or before August 1, 2012.

We held an entrance conference on July 23, 2012, with representation from BKD, the Office of the State Auditor (OSA) and the Colorado Tourism Office (CTO) to discuss the previous findings from the Fiscal Years 2010 / 2009 agreed upon procedures engagement and the preliminary logistics of this Fiscal Years 2012 / 2011 agreed upon procedures engagement.

2. Review Board Minutes.

- a. Obtain and read a sample of three monthly board minutes from each year (2012 and 2011) 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 (Article 24-49.7-101 et seq. C.R.S.)
 - ii. Changes in the nature of the CTO's programs
-

We selected the following board books for review:

Fiscal Year 2012

- August 2011
- September 2011
- May 2012

Fiscal Year 2011

- September 2010
- January 2011
- April 2011

Decision and action items noted were consistent with the goals of the CTO, and no changes in the nature of the CTO's programs were noted in these months.

3. Review contracts between the CTO and its vendors.

- a. Select and obtain a sample of four of the CTO's vendor contracts from each fiscal year, 2012 and 2011. In addition, select one grant contract.
 - b. Describe the stated approval process for contracts and grant contracts and review to ensure appropriate approval and signatory.
-

CTO provided a contract list for each of the fiscal years, 2012 and 2011, as described below:

In 2012, there were 25 contracts, excluding grants, ranging in value from \$35,000 to \$10,550,000 for a total contract value of \$14,710,405. The three largest

contracts totalled \$11,958,000, representing 81.3% of total contract value. There were 24 grant contracts, ranging in value from \$3,500 to \$15,000 for a total grant contract value of \$268,127.

In 2011, there were 28 contracts, excluding a single interagency agreement of \$10,000, ranging in value from \$5,000 to \$11,275,123 for a total contract value of \$14,781,495. The three largest contracts totalled \$12,683,907, representing 85.8% of total contract value. No grant contracts were signed in Fiscal Year 2011.

We selected the following contracts and grant contract for review:

2012 Vendor Contracts

K&H LLC (Advertising Campaign) dated as signed on 7/6/11, totalling \$10,550,000 for the period July 1, 2011, through June 30, 2012.

Miles Media Group (Travel Resources) dated as signed on 8/31/11, totalling \$706,990 for the period August 30, 2011, through June 30, 2012.

Miles Media Group (Promotional Websites) dated as signed on 3/6/12, totalling \$701,010 for the period August 31, 2011, through June 30, 2012.

City of Fort Collins (Welcome Center) dated as signed on 6/30/11, totalling \$77,291 for the period July 1, 2011, through June 30, 2012.

2012 Grant Contract

Destination Colorado (Tradeshaw Marketing) dated as signed on 1/10/2012, totalling \$14,725 for the period 1/10/2012, through August 15 2012.

2011 Vendor Contracts

AKA Advertising Inc (Advertising, Marketing and Public Relations) dated as signed on 9/27/2010, totalling \$11,275,123 for the period July 1, 2010, through June 30, 2011.

Miles Media Group (Travel and Promotion) dated as signed on 6/22/2011, totalling \$815,184 for the period July 1, 2010, through August 30, 2011.

AKA Advertising Inc (Promotional Websites) dated as signed on 9/27/2010, totalling \$636,100 for the period July 1, 2010, through June 30, 2011.

Sedgewick County (Welcome Center) dated as signed on 6/25/2010, totalling \$65,269 for the period July 1, 2010, through June 30, 2011.

The CTO utilizes a state standard contract form, requiring the State Controller's (or delegatee's) approval in addition to the vendor and Director of the Office of Economic Development and International Trade (OEDIT). The effective date of contracts is considered the signature date of the State Controller (or delegatee) on the contracts. For the contracts noted above, contracts indicate in some circumstances a period that begins prior to the signature date; however, the executed state standard contract indicates the term is the later of either the effective (signature) date or the stated date. The signature date may also reflect the date of an extension on an earlier signed original contract. No expenditures between the beginning date and the effective (signature) date were noted.

The Director of the OEDIT and the State Controller (or designee) approved all contracts reviewed for 2012 and 2011, with the exception of the Sedgewick County contract signed on 6/25/10, which preceded the adoption of the standard contract process and was signed only by the Director of the OEDIT.

The timing and completion of the signatures and approvals based on the policies in effect for the contracts noted above were appropriate.

4. Review annual operating budgets of the Office for Fiscal Years 2012 and 2011 and a comparison to actual revenue and expenditures.

- a. *Confirm that an initial budget was provided to the Board at the beginning of the fiscal year.*
 - b. *Confirm that changes to the budget were communicated to the Board throughout the year.*
 - c. *Compare actual revenues and expenditures to the budgets.*
-

We noted budgets were provided to the Board through each of the board books for both the 2012 and 2011 Fiscal Years, with an initial action item noting approval of the following year's initial budget near the end of each of the preceding fiscal years. Subsequent changes are generally noted in the minutes as having been discussed. While a notation indicating "Decision Items" was added to some of the minutes, no specifics as to what the decision item consisted of or indicating the change to the budget was indicated.

While the reports indicate Fiscal Year 2011 and 2012 actuals were compared to the respective Fiscal Year budgets, the actual amounts from the general ledger system do not agree with the expenses reported to the Board (see total expenses for 2012 and 2011 of \$13,727,230 and \$18,472,222, respectively, compared to expenses reported in the board book for 2012 and 2011, respectively, of \$13,718,624 and \$16,274,583).

See **Recommendation #1**.

5. Determine that the Board is in compliance with the provisions of Article 24-49.7-101 et seq., C.R.S.

From the board minutes reviewed along with the contract, revenue and expense testing performed, the activities of the CTO appeared to be consistent with and in compliance with the provisions of Article 24-49.7-101 et.seq., CRS.

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

a. Specifically test by comparing a sample of expenditures to the limitations set forth in 24-49.7-106.: Colorado travel and tourism promotion fund—Colorado travel and tourism additional source fund—creation—nature of funds

From the board minutes reviewed along with the contract, revenue and expense testing performed, the activities of the CTO appeared to be consistent with and in compliance with the provisions of Article 24-49.7-101 et seq., C.R.S.

7. Evaluate the internal controls over revenues and expenditures for the Office.

- a. Develop an understanding of internal controls over revenue and expenses via*
- 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. Generally, the program staff review and submit invoices to the Division Director of the CTO, who approves the invoice. The approved invoice is submitted to the accounting function of the OEDIT for processing. Accounting staff generate payment vouchers that the OEDIT Controller then approves. After the OEDIT accounting function obtains support for payment, the approved payment voucher, invoice support and payment support are attached to each other and filed. The Office of the State Controller generates the warrants, fund transfers or other payments, as appropriate.

With respect to revenue controls, the revenue stream primarily consists of the lump sum end of year 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 inflow is not a typical transaction and is infrequent, there are limited controls other than typical check handling as amounts are received by the State.

See step nine (9) for testing of revenues and expenditures from throughout the two fiscal years to confirm our understanding of internal controls. No reportable issues were identified in these procedures.

-
- 8. Follow-up on the disposition of recommendations to the Colorado Tourism Office dated December 8, 2010.**
- a. *Obtain disposition and review the recommendations*
 - b. *Document and evaluate client actions taken to address recommendations*
-

Please refer to the “Disposition of Fiscal Year 2009–2010 Recommendations to the Colorado Tourism Office” section starting on page 14 of this report.

-
- 9. Test proper recording of 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 each of the four contracts selected for each of the two years. Test a maximum of all or 15 expenditures per contract per year.*
 - c. *Compare transaction activity with the provisions of the related contracts.*
-

Revenue Sources

Revenue sources for the CTO during fiscal 2012 and 2011 consisted primarily of transfers from the gaming fund (\$11.0 and \$12.0 million in Fiscal Years 2012 and 2011). Secondary sources of revenue consisted of interest and tourism trust transfers. Smaller revenues consisted of royalty payments and grant revenues.

As described below in procedure 10, royalty revenues were tested in conjunction with the privatized contract with a vendor. The majority of the other revenues consisted of the gaming fund and interest transfers. Grants and other revenues were consistent with prior years.

Expenditure Testing

For the four vendor contracts reviewed in each fiscal year, we selected the greater of 15 expenditures per contract or the total number of expenditures indicated for that program in the fiscal year. The selection resulted in 40 items selected for review in Fiscal Year 2011 and 38 items selected for review in Fiscal Year 2012, for a total of 78 items reviewed. We noted there were proper approvals for each invoice. We also noted expenditures were consistent with requirements of the contracts.

While many invoices associated with the contracts are for fees negotiated within the contracts, several of the expenditures are pass-through expenditures or detailed expenditures for materials. Underlying support was reviewed by the CTO as an oversight

procedure. Initials or other approval were documented on the support as an indication that a review of the underlying support had been completed.

-
- 10. For privatized contracts, test contract monitoring procedures of the 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.*
-

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 and is the only identified privatized contract in the review of board minutes and contracts. The terms of this contract for both fiscal years 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. CTO monitored this privatized contract through a monthly review of income statement 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.

-
- 11. Determine if the 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, one program staff at the CTO oversees the welcome center activities. The CTO partners with local communities and regional entities to operate welcome centers that provide information and travel advice to motorists at 11 locations through 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 payments to the coordinating agencies with small amounts of expenditures for phone service and miscellaneous items. Agency contracts are subject to the same oversight as all other CTO expenditures, two of which were tested in the expenditure testing in procedure 9. Oversight, as a result, is consistent with other components of the organization and is considered adequate.

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

Our procedures were performed between July 2012 and December 2012. At the conclusion of that period, Al White was serving as the CTO Director and John Ricks as Associate Director. The other CTO staff consisted of eight personnel serving the following areas:

- Marketing and Industry Relations and Public Relations
- Heritage and Agritourism Manager
- International Marketing and Public Relations
- Tourism Program
- Welcome Center Program

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

13. Compile a summary of revenues and expenditures and changes in fund balance for the CTO for the fiscal years ending June 30, 2012 and 2011.

The compiled summary of revenues and expenditures and changes in fund balance is included as page 3 of this report.

Findings and Recommendations Resulting From Procedures Performed

Issue #1– Improving Board Minute and Budget Documentation

What was the purpose of the procedure performed?

The purpose of the procedure was to evaluate the Board’s review of the budget and the board minutes in order to determine if the Board’s oversight and management of the budget and general operations is appropriate.

What work was performed and how were results measured?

We reviewed a sample of six of the board books that the CTO produced in Fiscal Years 2012 and 2011. The board books contained budgets, budget-to-actual schedules and budget modifications. We reviewed the board books to determine if changes to the budget were documented as having been approved by the Board. They should include clear documentation of formal board actions to approve budget changes. The documentation should also include notes that capture the discussions regarding the nature of the budget modification and regarding board approval. Amounts reported in the budget-to-actual schedule should be accurate.

What problem did the procedure identify?

While the board books contained budget reports in each month tested, there were two deficiencies in the documentation. First, the board minutes contained neither documentation of formal board actions to approve changes to the budget nor documentation of the related discussions. Second, the actual expenditure amounts reported in the budget-to-actual schedules did not agree to the actual expenditures recorded in the general ledger. These differences were corrected in later reports to the Board.

Why does this problem matter?

The Board has a fiduciary responsibility to provide oversight of the CTO’s operation. Without adequate documentation, it is difficult to substantiate that the appropriate oversight has occurred. Inaccuracies in the budget-to-actual reporting of expenditures do not allow the Board to completely understand those expenditures.

Why did the problem occur?

While there was a “Decision Items” section in some of the minutes, CTO staff were not certain what specifically should be documented in this section. In addition, the CTO did not have a process in place to agree amounts reported in the budget to actual reports to the underlying general ledger, resulting in the Board receiving inaccurate information.

Recommendation No. 1

The Colorado Tourism Office (CTO) should 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.

Colorado Tourism Office Response

Agree. Implementation Date: December 2012.

The CTO agrees with this recommendation. The CTO communicated corrected actual results to the Board subsequent to the dates reviewed and has obtained board approval throughout the budgeting process, although not well documented. Based on this comment, the Office has put in place a policy that clarifies the extent of documentation within the “Decision Items” section. The same policy also requires staff to agree amounts reported to the general ledger.

**Disposition of Fiscal Year 2009–2010 Recommendations to the Colorado Tourism Office
dated December 8, 2010**

Recommendation No. 1 – Contract and Expenditure Timing

We recommend that the Colorado Tourism Office put in place procedures to negotiate and approve contracts in advance of the start of the fiscal year. In addition, the CTO should ensure staff receive training on contracting practices and requirements, if state training is available.

Status Determined by BKD: IMPLEMENTED

In the 2010 report, the CTO agreed with these recommendations and indicated that it had or would take the following actions by May 2011:

- a) Updating the timeline for contracting activities to ensure contracts are finalized prior to the start of the next fiscal year
- b) Providing procurement training to the staff members.

The CTO implemented new procedures in July 2009. The CTO implemented a timeline that ensured that payments on contracts could not be made until the contract was signed, and staff underwent training. Both items were deemed 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: PARTIALLY IMPLEMENTED

In the 2010 report, the CTO agreed with these recommendations and indicated that it had or would take the following actions by July 2011:

- a) Adding a separate recurring section entitled “Decision Items,” which will include the original budget and any subsequent changes reported for that period.
- b) Including a list of negotiated contracts with specific detailed information.
- c) Modifying the current budget report format in order to reflect updated projected budget information and separately reflect actual results to date on a periodic basis.

The CTO changed the board minutes to include a section entitled “Decision items.” However, no details were added to the section; thus BKD determines this portion not implemented. Recommendations b) and c) were both implemented and tested through review of the board meeting packets provided by the CTO. See current year recommendation 1 regarding board documentation.

Recommendation No. 3 – Expenditure Support

The Colorado Tourism Office should consider whether a subsequent internal audit of detailed invoices is appropriate for the vendor relationships in order to continue to pay from summary invoices. If subsequent review is appropriate, the CTO should consider a stamp, certification statement or other improved form of documentation to indicate that the invoices have been appropriately reconciled. The CTO should also consider the scope of this review, including whether it will be applied to all contracts and whether the reconciliation will be done on a sample basis or on every invoice.

Status Determined by BKD: IMPLEMENTED

In the 2010 report, the CTO agreed with these recommendations and indicated that it had or would take the following actions by April 2011:

- a) Requiring an internal audit of detailed supporting documentation when paying from summary invoices
- b) Stamping and initialing / dating the summary invoice indicating it has been reconciled to the detailed supporting documentation.

The CTO implemented a process to ensure that detailed supporting documentation for summary invoices was reviewed, stamped and dated. BKD obtained the summary invoice and supporting documentation noting it was reviewed and approved by the CTO. BKD deems recommendation implemented.

Recommendation No. 4 – Monitoring of Privatized Contracts

The Colorado Tourism Office should develop and document a formal quarterly fiscal review process for the privatized contract and any similar contracts that, although privatized, provide for a variable revenue stream based on the results of the vendor's collections.

Status Determined by BKD: IMPLEMENTED

In the 2010 report, the CTO partially agreed with these recommendations and indicated that it had or would take the following actions by April 2011:

- Conducting a quarterly review of each contractor and stamp, initial and sign the revenue report indicating that revenues reported and due/paid to the CTO were reconciled to contract requirements.

In conjunction with testing performed in procedure #10 above, BKD deems recommendation implemented.

The electronic version of this report is available on the website of the
Office of the State Auditor
www.state.co.us/auditor

A bound report may be obtained by calling the
Office of the State Auditor
303.869.2800

Please refer to the Report Control Number below when requesting this report.

Report Control Number 2128-12