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To: Members of the Legislative Audit Committee

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

Date: August 27, 2006

Re: Colorado Tourism Office

Background

The Colorado Tourism Office (Office) was created under Title 24, Article 49.7 of the Colorado Revised Statutes to promote the coordinated development of tourism and travel in Colorado. The Colorado Tourism Office is governed by a Board of Directors consisting of 15 members. Of the 15 members, two members are from the House of Representatives (appointed by the Speaker and the Minority Leader), two members are from the Senate (appointed by the President and the Minority Leader), and the remaining eleven members, representing various tourism-based industries, are appointed by the Governor and approved by the Senate. 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, which 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 Appropriations, Revenue, and Expenditures

Through Fiscal Year 2006, the Office has been primarily funded through general fund appropriations. Under House Bill 06-1201, the Office received $19 million in funding from the Division of Gaming to fund the promotion of tourism in the State. The funds will be available for use in Fiscal Year 2007 with future annual appropriations.

The following summary is for Fiscal Years 2005 and 2006:

Colorado Tourism Office Appropriations, Revenue, and Expenditure Summary For Fiscal Years 2005 and 2006		
	Fiscal Year 2005	**Fiscal Year 2006**
Appropriations and Revenue		
Appropriations		
Cash and General Fund Appropriation	$ 5,763,768	$ 5,762,443
Limited Gaming [1]	185,860	19,000,000
Unclaimed Property Trust Fund [2]	-	2,982,020
Transfers in [4]	15,163	15,456
Subtotal Appropriations	$ 5,964,791	$ 27,759,919
Revenue		
Advertising income	-	20,000
Sponsorships	163,978	216,552
Colorado Historical Society grant	45,027	259,724
Advertising royalties	86,627	100,000
Interest and other	31,943	64,704
Subtotal Revenue	$ 327,575	$660,980
Total Appropriations and Revenue	$ 6,292,366	$ 28,420,899
Expenditures		
Professional Services: [3]		
Advertising and promotion	$ 3,838,962	$ 5,234,107
Publications, call center and website	571,767	566,937
Other	804,089	990,639
Salaries	342,425	396,438
Grants to Welcome Centers	322,553	314,123
Transfer to the State Fair [2]	-	263,412
Other	362,175	539,078
Total Expenditures	$ 6,241,971	$ 8,304,734
Net Income	$ 50,395	$20,116,165
Fund balances at the beginning of year	1,036,261	1,086,656
Fund balances at the end of year	$ 1,086,656	$21,202,821

See notes on page 3.

Source: Data obtained from the State's accounting system (COFRS) and the Colorado Tourism Office.

Note: Statutes allow monies remaining in the Colorado Travel and Tourism Promotion Fund and the Colorado Travel and Tourism Additional Source Fund at fiscal year-end to remain in the funds and not revert to the State's General Fund.

[1] Under H.B. 06-1201, $19,000,000 was transferred to the Colorado Tourism Office at June 30, 2006 for the promotion of tourism in the State. Expenditures of the funds will occur subsequent to Fiscal Year 2006. This will be an annual transfer which may decrease based upon the revenue forecast each year.
[2] Represents an appropriation from the Trust Fund that was created from the interest derived from the liquidation of unclaimed property under S.B. 04-256. The Colorado Tourism Office is required to distribute a portion (ten percent in Fiscal Year 2006) of the proceeds to the State Fair. Under H.B. 06-1384, for Fiscal Years 2007, 2008, and 2009, the distribution amount to the State Fair will be the amount necessary for the State Fair to repay any loans to the State Treasurer and any outstanding debt related to the Events Center in Pueblo, plus an additional $550,000 per year from remaining moneys.
[3] Represents amounts paid to independent contractors and vendors.
[4] Special purpose transfers from the Governor's Office for employee benefits and salary increase.

Purpose and Scope of Review

This engagement was conducted under the authority of Title 24, Article 24 which authorizes the Office of the State Auditor to review the manner in which moneys from the Office's Travel and Tourism Promotion Fund and the Travel and Tourism Additional Source Fund are expended, any contracts entered into pursuant to the statute, and the activities of the Board and the Office to ensure compliance with the statute. According to Section 24-49.7-106, C.R.S., all monies in the Travel and Tourism Promotion Fund and the Travel and Tourism Additional Source Fund remain within the Funds and do not revert to the State's General Fund.

Under contract with the Office of the State Auditor, the firm of Kundinger, Corder & Engle, P.C. conducted certain agreed-upon procedures in order to evaluate and report on the activities of the Colorado Tourism Office and the Board of Directors to ensure compliance with the provisions of Section 24-49.7-101 C.R.S., et.seq. The procedures performed included reviewing the annual operating budget; examining contracts held by the Office and its vendors; determining whether the Tourism Board is in compliance with the above statutes; examining the manner in which monies from the Travel and Tourism Promotion Fund and the Travel and Tourism Additional Source Fund were expended and whether those moneys were expended in accordance with the statute; evaluating the Office's system of internal controls over revenues and expenditures; and assessing whether the Office has adequate monitoring procedures over its Welcome Centers and for its advertising and public relations contracts. For the revenues tested, we verified that revenues agreed to the contracts and the rates set by the Board. For expenditure testing, we verified that expenditures were properly recorded. In addition, we assessed the implementation status of prior recommendations from the August 13, 2004 report on the Office conducted by Kundinger, Corder & Engle, P.C.

The current report covers the period from July 1, 2004 to June 30, 2006 (Fiscal Years 2005 and 2006). The following presents the findings and recommendations resulting from this review.

Comment and Recommendations

Payment Processing

As stated earlier, as part of our review we tested expenditures at the Office. We tested 118 disbursements (many of which were for the payment of multiple invoices) totaling $11,951,292 for the two year period and found that processes over payments could be improved. Specifically, we noted the following:

- The contract with the Office's largest vendor, PRACO, Ltd., which provides advertising and promotion services, requires that invoices be paid no later than 30 days after the Office receives the invoice. The contract provides that interest on late payments will accrue as provided in Section 24-109-301, C.R.S. The Office paid PRACO approximately $9 million for the two years ended June 30, 2006. It was not possible to determine when the invoices were received because there was no "Date Received" stamp on the invoices; thus we could not determine if the payments were paid late under the terms of the contract. However, we noted that 141 invoices totaling $6,023,067 were not paid within 30 days of the invoice date, and these payments were 31 to 90 days after the invoice date. Despite interest not being charged by PRACO, the Office risks incurring interest charges by not date stamping the invoices and ensuring that payments are made within the terms of the contract.

- We noted that photocopies of invoices (and not the original) were occasionally used to process disbursements. The use of photocopies for payment processing increases the risk that a duplicate payment could be made or that other irregularities could occur. We did not note any duplicate payments during our testwork that were due to using copies for making payments.

- The Office's contract with Weaver Publications for publications, website and the call center requires Weaver to "invoice the amounts due under the terms of this Contract on a quarterly basis." For 3 of the 8 quarters the contract has been in existence, the Office paid the quarterly fee of $119,916 in Fiscal Year 2005 and $99,750 in Fiscal Year 2006 between 23 and 25 days before the end of the quarter. Paying vendors before all services for the period are rendered increases the risk of loss from the nonperformance of services.

The Office should improve its payment processes by making payments on a more timely basis and only from original invoices.

Recommendation

The Office should improve its payment processing procedures by:

a. Stamping all invoices with the date received.

b. Paying all vendors within the time frames established by the contract. If the Office believes that additional time is necessary to verify the accuracy of certain invoices, the reason for the delay should be noted on the invoice. If the processing of invoices from certain vendors consistently requires more than 30 days, we recommend that new contracts contain a 45-day payment period instead of a 30-day payment period.

c. Issuing payments only with the original copy of the invoice attached to the request for payment.

Colorado Tourism Office Response:

Agree. Most of the recommendation has been implemented. A date stamp has been ordered. New and amended contracts have been changed to reflect the 45-day payment period. Payments are being made from original copies of the invoice whenever possible. Procedures are being established for tracking invoices transmitted through email or fax. Implementation Date: November 15, 2006.

Status of Prior Recommendations
August 13, 2004

Recommendation No. 1 - The Office should ensure the accuracy and completeness of financial activity reported on the State's financial system and improve its monitoring of the contract with the publisher of the Official State Vacation Guide by:

a. Ensuring that all advertising contracts issued by the publisher accurately reflect all terms, such as rates and discounts, affecting sales revenue and contain appropriate detail, such as locations, size, and frequency of ads.

b. Receiving detailed information, on a monthly basis, on all advertising sales generated by the publisher.

c. Ensuring that additional financial information is furnished to the Office, including monthly balance sheets and income statements, including comparisons with the budget approved by the Office and detailed information on expenditures made by the publisher.

No longer applicable. This recommendation was made because the publishing contract in existence at the time of the audit was not privatized and required oversight to ensure that the Office was receiving the services stated in the contract and that reporting obligations under the contract were met. This contract ended on July 31, 2004. At the time of the 2006 audit these services were being provided by a different vendor under a new contract that meets the criteria to be considered "privatized" (see status of prior Recommendation No. 3 below). Since this activity has been privatized, the Office does not need to perform the same level of oversight.

Recommendation No. 2 - The Office should properly record barter transactions on the State's financial system in accordance with generally accepted accounting principles. In addition, the Office should reevaluate the number of airline tickets that it is receiving to ensure that all tickets are used before the expiration date. Furthermore, the Office should monitor the advertising contractor's use of agreements involving noncash payments in return for advertising and ensure that all related transactions by the contractor are recorded.

Implemented. The Office no longer has any barter transactions related to advertising in official publications because the advertising is now being handled through the privatized contract. During the two years ended June 30, 2006, the Office did receive and use airline tickets valued at $2,182 from a "sponsor" of a conference. These were recorded in the accounting system, and the Office maintained records of the use of the tickets.

Recommendation No. 3 – The Office should continue to work with legal counsel and determine whether the arrangement with Weaver Publications, Inc., for Fiscal Year 2005, is a fully privatized contract, joint venture, or some other type of arrangement. Upon obtaining that information, the Office should:

a. Consult with the State Controller's Office to ensure that financial activity related to the contract is appropriately reported on the State's accounting system.

b. Establish appropriate oversight activities to ensure that the products and services required under the contract are successfully delivered. Activities should include submission of monthly financial information such as balance sheet, income statements, and budget-to-actual comparisons based on the Office-approved budget, and detailed information on expenditures made by the contractor, including travel and other such costs incurred under the contract.

Implemented. The Office consulted with the State Controller's Office and the Governor's legal counsel, and determined that the Weaver contract is fully privatized. The Office receives and reviews financial reports from Weaver, including comparisons of actual and budgeted expenditures. The contract with Weaver specifies that the "contractor shall bear the risk of revenues falling short of the amount budgeted for this contract." The contract also allows Weaver to retain all revenues, including those that may exceed the amounts projected in the budget. The Office has also established appropriate oversight procedures to ensure fulfillment of the deliverables under the contract.

Kendinger, Cordon & Engle, P.C.

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