# Colorado Tourism Office
# Governor's Office

## Performance Audit
## May 2009

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Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the Colorado Tourism Office. The audit was conducted 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. The report presents our findings, conclusions, and recommendations, and the responses of the Colorado Tourism Office and Board.

# Overview of the Colorado Tourism Office and Board

## Chapter 1

The Colorado Tourism Office (Tourism Office) and its Board of Directors (Board) were both created under Title 24, Article 49.7 in 2000. The Board is directed by statute [Section 24-49.7-101, and 103 to 104, C.R.S.] 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 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 remaining 11 members, representing various tourism-based industries, are appointed by the Governor and confirmed by the State Senate. 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. Nonlegislative members serve four-year terms and can be reappointed for one additional four-year term.

The Tourism Office is governed by the Board, 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 Tourism Office 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 Tourism Office.

# Tourism Promotion

The Tourism Office performs a variety of functions to promote travel and tourism in the State, including:

- **Marketing, advertising, and outreach activities.** The Tourism Office contracts with outside vendors to provide the majority of its marketing, advertising, and outreach services. These services include promoting Colorado as a tourist destination nationally and internationally through online media, magazines, radio, television, newspapers, trade shows, and newsletters. The Tourism Office also has a website and a toll-free number that provides information including places to visit, eat, and stay overnight in Colorado. The Tourism Office 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. Additionally, the Tourism Office coordinates and oversees the annual Governor's Tourism Conference. This conference, according to the Tourism Office, provides a forum for tourism industry professionals to meet and discuss challenges and opportunities for promoting Colorado tourism.

- **Public relations.** The Tourism Office works in coordination with its vendors and local businesses to host trips in which tour operators and travel writers visit Colorado and learn about various travel and tourism opportunities. The goal of these trips is to increase tour operators' knowledge about Colorado so that they can better promote the State to their clients and to encourage travel writers to publish articles about Colorado, thereby encouraging readers to visit Colorado. The Tourism Office develops public relations through other means as well, such as media events and press releases.

- **Grants.** The Tourism Office administers two grant programs. The first is the marketing grant program, which began in 2001 and provides funding to nonprofit organizations (e.g., associations, cities, counties, and visitor bureaus) for promoting Colorado tourism locations throughout the State. Examples of grant-funded projects included a brochure to encourage travelers to visit Black Hawk and Central City and marketing materials for the Santa Fe Trail Scenic and Historic Byway. For every $1 the grantee spends, the Tourism Office will provide $2 in matching funds—up to the maximum award amount of $15,000.

  The second is the heritage tourism grant program, established in 2006 as a joint effort between the Colorado Historical Society and the Tourism Office to encourage tourism to historical sites statewide. On an annual basis, the

Tourism Office receives a grant from the Colorado Historical Society. In turn, the Tourism Office uses these funds to promote heritage tourism including providing grants to groups of nonprofit organizations that operate historical sites, such as scenic railroads, historic buildings, and wagon wheel trails. At the time of our audit the maximum grant award was $75,000 per grantee. Grantees are required to match at least 25 percent of the grant award with other funds.

- **Publications.** The Tourism Office works with one of its contractors to produce publications including the Official State Vacation Guide, which contains advertisements, activity ideas, and in-depth stories about places to visit, and the Official State Map, which contains facts about Colorado, drive times between major cities, and 10 great experiences in Colorado. The guide and map are available free of charge to the public.

# Marketing Effectiveness Measures

In recent years the General Assembly has placed greater importance on the need to promote Colorado as a tourist destination in the hopes of growing the economy. As such, it has directed significant amounts of state funding toward this effort. As discussed later, beginning in Fiscal Year 2006 the Tourism Office received a significant increase in funding for Fiscal Year 2007 expenditures. Revenue increased from about $5.4 million in Fiscal Year 2004 to $25.2 million in Fiscal Year 2008. Statute [Section 24-49.7-104(c), C.R.S.] requires the Tourism Board to annually gather and disseminate statistical information on its travel and tourism marketing efforts, including the amount of public and private monies expended, how they are expended, and the economic effect on the State. To meet this statutory requirement, the Tourism Office contracts with firms that specialize in measuring the effectiveness of tourism marketing efforts.

Measuring marketing effectiveness is not an exact science because people visit Colorado for a variety of personal and business reasons. In any of these cases it is difficult to determine whether the incentive to visit Colorado was prompted by the Tourism Office's marketing efforts, such as an advertisement in a magazine, or by other factors, such as a family reunion, increased snowfall, lower airfare costs, or the opening of a new state park. Changes in the overall economy can also affect tourism. For these reasons, it is difficult to establish a direct cause-and-effect relationship between the Tourism Office's marketing activities and fluctuations in Colorado tourism. Nonetheless, a number of measures are commonly used by state tourism offices, including Colorado's, to determine the effectiveness of marketing efforts. The following information describes the Tourism Office's market performance based on several measures. We have also included a table on page 5 showing Colorado's market performance based on these measures for Calendar Years 2002 through 2007, the most recent year for which data are available.

**Return on investment.** The Tourism Office's primary method for measuring its effectiveness is to evaluate return on investment (ROI). ROI is calculated by adding state and local tax revenue related to tourism and dividing the total by Tourism Office marketing expenditures during the year. State and local tax revenue related to tourism includes estimated sales and hotel taxes collected for the year. In Calendar Year 2007, the Tourism Office's ROI was about $13. That is, the state and local governments received $13 of tourism-related tax revenue for every $1 the Tourism Office spent on marketing. ROI increased significantly from about $13 in Calendar Year 2003 to $18 in Calendar Year 2004. According to the Tourism Office, the increase in ROI in Calendar Year 2004 can be attributed to a consistent marketing campaign over a number of years that encouraged travelers to come to Colorado. The Tourism Office reported that it did not calculate ROI for Calendar Years 2005 or 2006 because it continued the same advertising campaign for both calendar years. As shown in the table on page 5, when ROI was calculated again in Calendar Year 2007 it had dropped down to $13.

**Market share and rank.** Market share is the number of overnight trips visitors spend in Colorado, expressed as a percentage of all overnight trips in all 50 states. Market rank indicates each state's ranking, among all 50 states, in market share; market rank is expressed on a scale of 1 to 50, with 1st being the highest rank and 50th the lowest. Over the past six years Colorado's market rank has fluctuated between 23rd and 17th.

The following table shows Colorado's total advertising expenditures and market performance for the last six years.

| Colorado Tourism Office<br>Marketing Expenditures and Market Performance<br>Calendar Years 2002 Through 2007 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** | **Percentage Change 2002-2007** |
| **Marketing Expenditures** | **$2.5 M** | **$5.2 M** | **$4.9 M** | **$2.7 M** | **$4.8 M** | **$10.7 M** | **328%** |
| **Return on Investment**[1] | $12.74 | $12.63 | $18.10 | -- | -- | $12.96 | 2% |
| **Market Share** | 2.2% | 2.1% | 2.1% | 2.1% | 2.3% | 2.5% | 14% |
| **Market Rank** | 21st | 23rd | 23rd | 18th | 20th | 17th | N/A |

**Source:** Most recent data available provided by the Colorado Tourism Office.
[1] The Tourism Office did not calculate return on investment for 2005 and 2006.

As the table shows, while the Tourism Office's marketing expenditures increased 328 percent from Calendar Year 2002 to 2007, its return on investment (about $13) fluctuated during the period but overall remained about the same. During this same period the Tourism Office's market share increased 14 percent, and market rank moved up from 21st in 2002 to 17th in 2007.

**Other measures.** In addition to calculating ROI, market share, and market rank the Tourism Board also establishes annual goals to measure marketing effectiveness. For example, the Tourism Board's goals for Calendar Year 2007 included:

- Increasing the number of overnight trips to Colorado from 26.9 million in Calendar Year 2006 to 28.2 million in Calendar Year 2007.

- Increasing overnight spending from $8.9 billion in Calendar Year 2006 to $9.5 billion in Calendar Year 2007.

The Tourism Board and Office reports that in 2007 it came close to meeting the first goal, with overnight trips of 28 million, and exceeded the second goal, with overnight spending of $9.8 billion.

# Fiscal Overview

Prior to Fiscal Year 2006, the Tourism Office received the majority of its funding (between $3.3 million in Fiscal Year 2004 and $5.8 million in Fiscal Year 2005) from general funds. The Tourism Office did not receive any funds from the Division of Gaming in Fiscal Year 2004 and received limited funding (about $186,000) from the Division of Gaming in Fiscal Year 2005. However, in Fiscal Year 2006, the General Assembly approved a significant increase in gaming funds for the Tourism Office. Specifically, House Bill 06-1201 authorized $19 million in limited gaming revenue to be transferred to the Tourism Office annually for promoting Colorado tourism. The annual transfer amount is required to be adjusted for the percentage change in the Consumer Price Index. Funds are transferred to the Tourism Office on June 30 and available for expenditure in the following fiscal year. The amount available for transfer is contingent upon the State's annual revenue forecast and the sufficiency of funding for the State's General Fund appropriations.

Senate Bill 09-217 reduced the Tourism Office's funding from gaming funds to about $15.6 million for Fiscal Year 2010. In addition, the General Assembly passed Senate Bill 09-279, which requires $5 million from interest earned on monies in the Unclaimed Property Tourism Promotion Trust Fund to instead be transferred to the General Fund on the date the bill is enacted. Currently 10 percent of these funds are required to be transferred to the Tourism Office for promoting agritourism in accordance with statute [Section 38-13-116.7(3)(a)(III)(A), C.R.S.]. At the time of our audit this bill was awaiting the Governor's signature.

The following table shows the Tourism Office's revenue, expenditures, and fund balance for the past five fiscal years. As the table shows, between Fiscal Years 2004 and 2008, there was a significant increase in revenue (about 372 percent), due to the increase in transfers from limited gaming beginning in Fiscal Year 2006.

**Colorado Tourism Office**
**Revenue, Expenditures, and Fund Balance**
**Fiscal Years 2004 Through 2008**
**(In Thousands)**

| | 2004 | 2005 | 2006 | 2007 | 2008 | Percentage Change 2004-2008 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| General Fund Appropriation | $3,265 | $5,764 | $5,762 | $396 | $405 | (88%) |
| Transfers from Limited Gaming[1] | 0 | 186 | 19,000 | 19,677 | 20,108 | N/A |
| Transfers from the Unclaimed Property Tourism Promotion Trust Fund | 0 | 0 | 2,982 | 0 | 0 | N/A |
| Miscellaneous Revenue[2] | 1,954 | 266 | 352 | 176 | 401 | (79%) |
| Colorado Historical Society Grants | 0 | 45 | 260 | 198 | 356 | N/A |
| Interest | 132 | 32 | 64 | 3,936 | 3,970 | 2,908% |
| **Total Revenue** | **$5,351** | **$6,293** | **$28,420** | **$24,383** | **$25,240** | **372%** |
| **Expenditures** | | | | | | |
| Personal Services Contracts and Grants | $12,076 | $5,215 | $6,792 | $17,744 | $18,667 | 55% |
| Transfers to the State Fair[3] | 0 | 0 | 263 | 3,265 | 3,284 | N/A |
| Salaries | 322 | 323 | 397 | 455 | 464 | 44% |
| Welcome Centers | 322 | 362 | 314 | 344 | 386 | 20% |
| Other | 398 | 342 | 539 | 537 | 500 | 26% |
| **Total Expenditures** | **$13,118[4]** | **$6,242** | **$8,305** | **$22,345** | **$23,301** | **78%** |
| **Net Income (Loss)** | **($7,767)** | **$51** | **$20,115** | **$2,038** | **$1,939** | |
| Beginning Fund Balance | $8,442 | $1,036 | $1,087 | $21,203 | $23,241 | 175% |
| Ending Fund Balance | $1,036 | $1,087 | $21,203 | $23,241 | $25,180 | 2,331% |

**Source:** Data obtained from the Colorado Financial Reporting System (COFRS) and the 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 SB 03-274 suspended the annual transfer from the Limited Gaming Fund for Fiscal Year 2004. HB06-1201 authorized $19 million in limited gaming monies to be transferred to the Tourism Office beginning in Fiscal Year 2006, to be adjusted annually for the percentage change in the Consumer Price Index. Funds are transferred on June 30 and available for expenditure in the following fiscal year. The amount is subject to available appropriations.

2 Includes advertising income, sponsorships, and donations from travel industry partners.

3 Statutorily required transfers under Section 24-49.7-106(5)(a)(I), C.R.S.

4 Under SB03-202, $9 million was transferred to the Tourism Office during Fiscal Year 2003 as part of the supplemental general fund appropriation to provide economic stimulus. These funds were used for both Fiscal Year 2003 and 2004 expenditures.

# Audit Scope

This performance audit was performed from July 2008 through May 2009 and conducted 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. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit reviewed the Tourism Office's and Board's operations, including contract and grant management practices, controls over expenditures, and administrative activities. We interviewed Tourism Office staff and Board members, as well as representatives in other state tourism offices (Missouri, Nebraska, North Dakota, Pennsylvania, Tennessee, Texas, Utah, and Wyoming). Our audit also evaluated the Tourism Office's implementation of recommendations made in our last audit report, dated August 2006. The audit did not include an evaluation of the effectiveness of the Tourism Office's marketing and promotional activities in increasing travel and tourism in Colorado.

# Fiscal Accountability

## Chapter 2

As reported in Chapter 1, Tourism Office revenue has increased dramatically since Fiscal Year 2006 when the Tourism Office began receiving an influx of limited gaming funds to help promote travel and tourism in the State. Over the past three fiscal years (2006, 2007, and 2008) the Tourism Office has received more than $78 million, about $59 million of which was from limited gaming funds.

We evaluated controls related to the Tourism Office's contracts, grants, and expenditures, as well as the Tourism Board's conflict of interest policies. We found several areas where the Tourism Office and Board could provide greater accountability and oversight of public funds. The problems we found and areas for improvement are addressed in this chapter.

# Contracts

The Tourism Office contracts with private vendors for the majority of its activities, including marketing, advertising, research, and evaluation. In Fiscal Year 2008, the Tourism Office's personal service contracts totaled about $17.5 million (75 percent of total expenditures). With the influx of additional funds in Fiscal Year 2006, the Tourism Office began contracting with a large advertising firm to increase the marketing of Colorado as a tourist destination. The Tourism Office also contracts with international marketing representatives in France, Germany, Japan, and the United Kingdom to promote Colorado in their respective countries.

Statute [Section 24-49.7-104(1)(m), C.R.S.] requires the Board "to ensure that contracts involving the expenditure of moneys . . . are granted on a fair and equitable basis and that the purchasing value of such moneys is maximized to the fullest extent possible." The Department of Personnel and Administration has developed a model contract for personal services that contains recommended provisions for state contracts. According to the model, contracts should include the tasks and activities the contractor is required to perform to fulfill its obligations under the contract, including the performance of the services. The model also contains recommended provisions for addressing and remedying a contractor's failure to perform or satisfy contract duties. Remedies include withholding or denying payment, assessing liquidated damages, and terminating the contract.

The need to develop performance measures and remedies for a contractor's lack of performance was reinforced with the enactment of Senate Bill 07-228. This bill requires that the Department of Personnel & Administration, on or before June 30, 2009, implement and maintain a centralized database of all personal service contracts entered into by any government body, including elected officials such as the Governor's Office, for personal service contracts for $100,000 or more. This requirement would apply to most of the Tourism Office's contracts entered into on or after June 30, 2009, the date the centralized database is implemented. As part of the bill, Section 24-103.5-101 and Section 24-102-205, C.R.S., specifically require all state agencies to develop performance measures and standards for evaluating contractors that relate to "quality, cost, and deadlines" and to enter this information into the State's centralized database. Included in the bill is an accountability clause that:

> . . . requires the vendor to report regularly on achievement of the performance measures and standards specified in the contract and that allows the governmental body to withhold payment until successful completion of all or part of the contract and the achievement of established performance standards . . . [as well as] methods and mechanisms to resolve any situation in which the governmental body's monitoring assessment determines noncompliance, including termination of the contract. (Section 24-103.5-101(2)(b), C.R.S.)

We reviewed eight of the Tourism Office's personal service contracts for Fiscal Years 2007 and 2008. The total value of the contracts reviewed was about $31.0 million. Of this total, about $25.3 million (82 percent) was for the Tourism Office's largest contract for advertising and promotion. While the Tourism Office has procedures in place to monitor the contracts, we found that the contracts lack performance measures and adequate enforcement provisions. These deficiencies in the contracts could affect the Board's and Office's ability to ensure the State receives maximum value from the contractors. The specific deficiencies are discussed below.

**Performance measures.** For the two-year period reviewed, five of the eight contracts did not contain performance measures. Although these five contracts contained lists of deliverables, they did not contain targets or measurable goals associated with the deliverables. For example, one deliverable was for the contractor to develop and execute an online advertising program. However, there were no indicators to measure the effectiveness of the deliverable, such as an increase in the number of airline tickets sold or overnight stays booked in Colorado as a result of the online advertisement program. Another contract stated that the contractor was to organize trips to Colorado for travel writers to promote tourism in the State. However, the contract did not include performance measures such as a minimum number of trips the contractor would organize or a minimum number of writers to visit the State. Performance measures can also be timelines, such as due dates for deliverables to ensure that services are provided in a timely manner. The contracts we reviewed generally did not have due dates for the deliverables. For example, one contract required the contractor to develop a media plan and to develop and execute a trade show plan, but due dates for the deliverables were not included in the contract. Tourism Office staff informed us that during Fiscal Year 2007, the Tourism Board expressed concern about whether it was receiving adequate value from a specific contractor, and as a result the Tourism Office and Board developed a number of performance measures (e.g., targets) for each deliverable in the contract. The Tourism Office and Board should consider including performance measures in all contracts.

**Enforcement provisions.** None of the eight contracts we reviewed included remedies for substandard work or failure to comply with the contract requirements except contract termination. Other types of remedies, such as assessing liquidated damages and withholding of payments, offer alternatives for situations in which a contractor's poor performance needs to be remedied but may not be serious enough to warrant contract termination.

We identified two reasons for the problems we found. First, the Tourism Office staff reported that it did not include specific performance measures in its contracts because marketing strategies occasionally need to be modified to respond to changes in market conditions, and the contractor needs the flexibility to make those modifications. While not all deliverables can be easily tied to a specific due date, metric, or target, in those areas where a timeline or a goal can be established, the Tourism Office should clearly stipulate its expectations in the contract. The Tourism Office should also increase efforts to include outcome measures in contracts. We contacted Tourism Offices in eight other states to determine the types of performance measures they use related to marketing and advertising contracts. Two states, Missouri and Texas, have been successful in specifying performance measures in their advertising contracts. These performance measures included increasing tax revenues from tourism by a specific amount, increasing expenditures per person per trip, and guaranteeing a certain number of consumer inquiries as a result of the advertising.

Second, Tourism Office staff have not received formal contract training. One option the Tourism Office should consider is to attend training offered by the Department of Personnel & Administration on procuring goods and services. The training covers best practices related to information that should be included in a contract, such as performance metrics and targets, and remedies that can be used when a contractor does not meet contract obligations.

Contracts with vendors represent a significant portion of the Tourism Office's expenditures. Additionally, as discussed earlier, as of July 2009 the Tourism Office will be required to comply with statutory contract requirements for establishing performance measures and remedies for noncompliance in personal service contracts. Therefore, the Tourism Office should ensure contracts contain performance measures and adequate sanctions for nonperformance and that staff receive the necessary contract training.

## Recommendation No. 1:

The Colorado Tourism Office should strengthen the quality of its contracts to ensure the State receives maximum value by:

a. Including provisions for measuring contractor performance and for applying remedies and sanctions for nonperformance in addition to contract termination.

b. Ensuring staff receive training on contracting practices and requirements.

## Colorado Tourism Office Response:

a. Agree. Implementation Date: July 2009.

The Colorado Tourism Office (CTO) believes it has ensured that the State received maximum value for funds utilized to date based on the use of CTO, including Board-approved, and vendor agreed-upon measurables and deliverables (and monitoring of results) in addition to CTO's contracts containing enforceable provisions as a result of state legal counsel review and approval.

The CTO understands the need and relevance of continuously strengthening its contracts when possible and ensuring compliance with the new law, Senate Bill 07-228. The State Controller's Office has made significant revisions to its contracting requirements and language over the last two years and has recently made model contract language available on-line to state agencies. The CTO is now using this available guidance and model to ensure that the most current contract language is consistent and current non-performance remedies are implemented in all of its contracts.

b. Agree. Implementation Date: August 2009.

It is the CTO's understanding that there is no formal comprehensive contract training currently available to state employees. One CTO staff member has already attended and by the end of May 2009, two more CTO staff members will have participated in the procurement training suggested in the audit report. The other two members of the CTO staff will also participate in this training in the near future.

# Grant Management

Grants are a tool used by government agencies to achieve specific goals and support programs that benefit the public but might not otherwise be funded. Best practices for grant management include ensuring that grantees have a reasonable amount of time to conduct and subsequently report on their grant activities. In addition, consistency in grant cycles from year to year ensures that the government agency has sufficient assessment time before the next grant award cycle and that grantees have a consistent length of time to conduct grant activities.

Once grants are awarded, the grantor should have effective monitoring in place to ensure that the grantee complies with all grant requirements and achieves the desired outcome. A critical component of monitoring involves requesting and reviewing documentation related to grantee activities and performance. This may include documentation such as receipts for grant expenditures and evidence demonstrating that the project was completed.

The Tourism Office manages two competitive grant programs: (1) marketing and (2) heritage tourism grants. As mentioned in Chapter 1, the maximum grant award is $15,000 for the marketing grants and $75,000 for the heritage tourism grants. Marketing grants are awarded each fiscal year, and the Tourism Office requires the project to be completed and funds spent by the end of the fiscal year. Marketing grants are paid on a reimbursement basis, that is, after the grantee has incurred an expense and submitted a request for reimbursement. For the first heritage tourism grant cycle, grantees had one year and ten months to complete projects and spend grant funds. The Tourism Office provides heritage tourism grantees an advance payment of 40 percent of the grant award to help the grantee with project start-up costs. The remaining funds are paid on a reimbursement basis. Both programs require grantees to provide matching funds for a portion of the grant. Together, these programs awarded approximately $1.1 million in Fiscal Years 2007 and 2008 to a total of 75 local governments and nonprofit organizations to promote tourism in Colorado. We reviewed the Tourism Office's grant practices and found that its process for requesting applications and awarding marketing grants is not timely or consistent. Specifically:

- **Grant Cycle.** We found that Tourism Office's marketing grant cycle is inconsistent from year to year. For example, the Tourism Office began accepting grant applications in August 2006 for the Fiscal Year 2007 grant cycle and in October 2007 for the Fiscal Year 2008 grant cycle. Grant applications were due about two months later in both Fiscal Years 2007 and 2008 and grants were awarded about two months after the due date for both years. Although we did not review the Fiscal Year 2009 grant cycle, the Tourism Office reported that it began accepting applications in July 2008.

- **Grant Awards.** As mentioned earlier, the Tourism Office requires that marketing grantees spend all grant funds by the end of the fiscal year. We found that marketing grants are not awarded early enough to allow grantees an entire fiscal year to spend the grant funds and complete their projects. For example, the Fiscal Year 2007 marketing grants were awarded at the beginning of January 2007 or six months after the start of the fiscal year. Therefore grantees had only the remaining six months to spend grant funds. The Fiscal Year 2008 grants were awarded at the beginning of February 2008, about seven months after the start of the fiscal year and therefore grantees had five months to spend grant funds. While we did not review the 2009 grants, the Tourism Office reported that Fiscal Year 2009 grants were awarded four months after the start of the fiscal year.

The problems with the grant process occurred because the Tourism Office has not developed policies and procedures to ensure awards are made in a timely manner and grantees have sufficient time to complete projects and spend grant funds. According to the Tourism Office, volunteer committee members are used, as discussed later in this report, to review grant applications and make recommendations to the Board for awarding grants. While the Tourism Office receives assistance from committee members, it reports that the process is still time-consuming and it has limited staff to complete the work. However, by having fluctuating application periods and not awarding grants in a timely manner, the Tourism Office places an unreasonable burden on grantees who may miss the application time frame or, in many cases, may be small local government or nonprofit agencies with limited resources to complete a project in a limited time—in some cases, within five months. In addition, the inconsistent grant cycle affects agencies' ability to effectively plan a project and apply for a grant.

We reviewed other state agencies' grant award practices and found that some agencies begin their grant selection process prior to the start of the fiscal year, thereby ensuring that grant funds are available to grantees at the beginning of the fiscal year. For example, the Veterans Trust Fund Program, which is overseen by the Board of Veterans Affairs and the Division of Veterans Affairs, manages a grant program that requires that grant applications be submitted by April 1. The Board of Veterans Affairs reviews applications in May and selects the grantees and makes the awards in June. Grantees are notified that funds are available at the start of the fiscal year. We believe that the Tourism Office should implement a similar timeline that is consistent and provides a reasonable amount of time for the Office to review grant applications and for grantees to complete projects. To help address resource issues, the Tourism Office could consider training and using other Tourism Office staff to help with the grant application and review process.

We also reviewed files for a sample of 29 grants awarded during Fiscal Years 2007 and 2008 (all 4 heritage grants and 25 of 71 marketing grants). The 29 grant awards in our sample totaled about $513,000. Our review included examining information contained in the grant files to determine whether grant applications were submitted timely and whether the Tourism Office received sufficient documentation from the grantee to ensure compliance with grant requirements and best practices. We identified the following problems:

- **Project deliverables.** Of the 29 grants we reviewed, 4 marketing grant files did not have evidence that the deliverable (such as a travel brochure ) had been produced. The Tourism Office staff subsequently requested and obtained documentation of the deliverables from the grantees for three of the four grants. The fourth grantee reported that its project was not completed. The Tourism Office reimbursed the grantee $10,100, about 84 percent of the grant award, for costs related to a project that was required to be completed by June 2008 but still was not finished in December 2008, about six months after the project completion deadline. One option for ensuring grantees complete projects in a timely manner would be for the Tourism Office to retain a certain percentage of the grant award until grantees provide evidence of project completion.

- **Project expenditures**. For all four heritage tourism grants, receipts were not consistently included with all expenditures related to the grants. The expenditures that lacked receipts for the heritage tourism grants totaled about $205,000. The Tourism Office stated that at the time of our review it did not require receipts for the heritage tourism grants. However, without the receipts, it is not possible to verify whether or not the expenditures were allowable under the grants.

- **Matching funds.** As mentioned previously, both grant programs require the grantee to match a portion of the grant with its own funds. However, 10 grant files (all four heritage and six marketing grants) did not contain documentation of any matching funds. For example, the files did not contain copies of receipts for expenditures paid for by the grantee as part of its match requirement. Two additional grant files for marketing grants contained documentation for only a percentage of the match amount. Specifically, one grant file contained 37 percent and the other grant file contained 5 percent of the match amount. According to the Tourism Office, while some grantees may elect to provide documentation of matching funds, the Tourism Office does not require them to do so. However, without documentation of matching funds, it is not possible to verify whether or not the grantee met the match requirements.

- **Application deadline.** None of the grant applications were stamped with the date the application was received by the Tourism Office. As a result, we were not able to verify that applications were received by the submission deadline. According to the Tourism Office, all mail is stamped when received. However, only the envelope is date-stamped, not the contents, and staff did not retain the envelopes after staff accepted the applications.

- **Final status report.** One of the 29 grant files did not have the required final status report. The final status report should document the grantee's evaluation of the project and whether the project goals were accomplished.

The problems we found with the grants were caused by the fact that the Tourism Office has not developed adequate policies and procedures to oversee the performance of its two grant programs. In particular, the Tourism Office does not have adequate grant monitoring to ensure that project deliverables are completed and a final status report on the accomplishment of project goals is submitted. As part of this, consideration should be given to withholding a portion of grant funds until evidence has been provided that all grant requirements have been met. In addition, while the Tourism Office does not require receipts for expenditures of heritage tourism grants, or documentation of matching funds for either grant program, as noted earlier, without this information neither the Tourism Office nor the Board can determine if public monies were spent appropriately. Therefore, it is important that receipts and documentation of matching funds are required for all expenditures related to the grants. Finally, date-stamping grant applications ensures that applications were submitted in accordance with the required due date.

Improving the grant application and award process and the oversight of grant projects will help ensure that funds invested in the grant programs are effective in meeting the goal of promoting tourism in Colorado.

## Recommendation No. 2:

The Colorado Tourism Office should strengthen its grant management by working with the Tourism Board to develop and implement policies and procedures that ensure:

a. Marketing grant cycles are consistent and grants are awarded early enough to allow grantees an entire fiscal year to spend grant funds and complete projects.

b. Grantees are adequately monitored and provide sufficient documentation to demonstrate compliance with grant requirements, such as providing receipts and documentation of matching funds for all expenditures related to the grants.

## Colorado Tourism Office Response:

a. Agree. Implementation Date: July 2009.

The CTO's grant programs are contingent upon funding availability, which has fluctuated for the CTO. The CTO agrees to make every effort to provide consistent and longer marketing grant cycles; however, the CTO must maintain the ability to be flexible with its program should funding availability or CTO Board priorities or strategies change, which could impact grant programs and cycles.

b. Agree. Implementation Date: Implemented.

The CTO was in the process of changing its grant practices for Fiscal Year 2009 when the audit began. Specifically, the CTO's practices include better reporting and more consistent requirements, which are standard among the heritage tourism and marketing grant programs. A standard form requiring submission of receipts and invoice documentation, proof of grant match and interim financial reports has already been implemented in the Fiscal Year 2009 grant cycles. In addition, both grant programs require that the final invoice is payable upon approval of all deliverables according to the grant agreement.

# Expenditures

Fiscal Rules require state agencies to have adequate procedures in place to ensure effective control over financial activities. As part of our audit, we reviewed expenditures incurred by the Tourism Office during Fiscal Years 2007 and 2008. Specifically, we reviewed a sample of 104 payment vouchers. For each of the vouchers in our sample, we selected a single expenditure line to review. The total value of expenditure lines in our sample was about $6.4 million for the period reviewed. These expenditures related to contracts, grants, official functions, and travel. Of the 104 expenditures we tested, 13 (or 13 percent) had one or more exceptions. The total value of the 13 expenditures with exceptions was $3.69 million and represented more than half the total value of the payments we sampled. The exceptions fell into the following categories:

- **Insufficient or incorrect documentation.** Seven expenditures did not have adequate documentation to support them. These expenditures totaled $3.68 million, or almost 57 percent of the total value of expenditures we reviewed. Six of the expenditures were for marketing and advertising services provided by contractors. The Tourism Office's contractors typically work with other vendors, such as radio stations or magazines, to provide advertising services. Although the contractors submitted invoices to the Tourism Office, there was no additional documentation, such as tear sheets from the contractors' vendors, to support the amount billed to the Tourism Office. Individual payments for these six transactions ranged from about $120,000 to $1.9 million. For the seventh expenditure, the wrong receipts were attached to the voucher.

- **Lack of director's signature.** Two expenditures valued at about $200 each were not properly authorized; that is, they lacked the Office Director's signature approval.

- **Late payments.** Three of the expenditures were paid after the invoice due date. Payments for these three expenditures were made between 3 and 25 days after the required due date. We also found, during our testing of a credit card statement for another transaction, that the Office was assessed and paid a $25 fee for paying its credit card bill late. During our 2006 audit of the Tourism Office, we found similar problems with late payments.

The Tourism Office has a responsibility to ensure that its expenditure of public monies is reasonable, allowable, and timely. Therefore, the Tourism Office should strengthen its controls over expenditures in three areas.

First, the Tourism Office should require adequate supporting documentation for all expenditures. According to staff, this could create a burden on contractors and Tourism Office staff. Although compiling and reviewing receipts may cause additional work, the risk of an improper, unallowable, or unsupported expenditure of state funds outweighs the time and effort needed to ensure that funds are used appropriately. One option the Tourism Office could consider is to require contractors to submit all receipts electronically, particularly for invoices containing multiple deliverables.

Second, the Tourism Office should consider reallocating duties of some staff. The Tourism Office has indicated that limited staff resources make timely review difficult. At the time of our audit, the Tourism Office had 8.3 FTE; however, the Tourism Office Director reviews every invoice from contractors. The Tourism Office could consider a policy change designating another staff member to review and approve invoices up to a certain dollar limit. The Director could periodically review a sample of those expenditures to ensure that staff reviews are adequate, and the Director would continue to review invoices over the threshold.

Third, accounting procedures should be documented in a written policy and distributed to Tourism Office staff. The Tourism Office should work with the Controller of the Office of Economic Development and International Trade to establish procedures related to the accounting responsibilities of the Tourism Office Director and staff, and ensure all staff are aware of their job duties in this area.

## Recommendation No. 3:

The Colorado Tourism Office should ensure the validity and timeliness of expenditures by taking appropriate steps to ensure that payments are supported with appropriate documentation, reviewed by management, and processed in a timely fashion. In addition, the Tourism Office should establish and document accounting procedures and ensure staff are aware of their job duties in this areas.

### Colorado Tourism Office Response:

Agree. Implementation Date: July 2009.

The CTO believes that the documentation received with invoices provided sufficient proof of payment for services rendered. Similar types of invoices have been reviewed in previous financial audits with no comment. However, the CTO is committed to continuing to improve its efficiency and documentation. The CTO will work with its contractors to ensure that additional back-up documentation is consistently provided, while being mindful of paper reduction efforts and limited storage factors. Beginning in Fiscal Year 2010, the CTO's contracts will require its contractors to provide electronic back-up documentation when substantial amounts of paper are involved and the Office of Economic Development and International Trade (OEDIT) Controller will develop procedures to randomly audit such invoices and documentation.

In addition, the CTO will continue to make every effort to pay invoices in a timely fashion. The CTO will develop policies starting in Fiscal Year 2010 for program managers to approve invoices under a certain dollar amount without additional signoff from the CTO director in order to expedite the processing of invoices. These policies will be implemented with the approval of the OEDIT Controller and will be distributed to all CTO staff.

# Conflict of Interest Policies

The Tourism Board is required to comply with the code of ethics and standards of conduct contained in Article 18 of Title 24 of the Colorado Revised Statutes. These statutes address public officials' and employees' duties to act impartially and avoid real or perceived conflicts of interest.

Board members that are members of the General Assembly are also required to comply with Article XXIX (Amendment 41) in the Colorado Constitution. This Amendment, passed by Colorado voters in 2006, generally prohibits members of the General Assembly and state employees from accepting gifts with a total value of more than $50 per calendar year.

Additionally, the tourism Board has adopted policies related to Board members' disclosure of conflicts of interest. In general, the Board requires that members disclose conflicts of interest to the Board and abstain from voting on decisions before the Board where conflicts of interest exist. An example of a possible conflict of interest could be a Board member's participation in selecting the winning bidder for a state contract in which the Board member is the owner of a company that submitted a bid.

We found two problems related to conflicts of interests. First we found that the Board's policies do not require tourism industry professionals who provide assistance to the Tourism Office and Board to disclose conflicts of interest. Specifically, the Tourism Board has established a number of committees to guide its marketing and advertising activities. These committees also evaluate contract and grant proposals and make recommendations to the Tourism Board for awarding grants and contracts. The chair of each committee is a Board member who is responsible, with the assistance of Tourism Office staff, for selecting other Tourism Office staff and tourism industry professionals to participate on the respective committees, all of whom are voting members. Because the tourism industry professionals are involved with Colorado tourism, there is a risk that conflicts between public duty and private interest could arise. As discussed previously, committee members evaluate grant applications and contractor proposals and make recommendations to the Board on awarding grants and contracts. Tourism industry professionals who are committee members and whose organizations meet the Tourism Office's grant and contract requirements are eligible to apply for grants or submit proposals for contracts. Therefore, the Tourism Board should consider including requirements in its policies for industry professionals who participate in committees to disclose conflicts of interest and ensure these individuals are aware of these requirements. Committee members should also refrain from participating in making recommendations when a conflict exists.

Second, we found that the Board has not developed policies related to Board members' accepting gifts while conducting state business and reporting the value of gifts received to the Board. Tourism Board members operate in a unique environment in which promotional merchandise, for example, is distributed by industry representatives at meetings and conferences. While Board members, except for members of the General Assembly, are exempt from the gift ban under Article XXIX, it is important for the Board to develop gift acceptance policies for its own members. We found that two Board members received a total of about $182 in gifts from a single contractor for Calendar Years 2007 and 2008 combined.

Adopting the measures discussed will help to ensure that conflicts of interest are minimized.

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## Recommendation No. 4:

The Colorado Tourism Board should strengthen its policies to ensure tourism industry professionals who participate in committees disclose conflicts of interest and do not participate in making recommendations when a conflict exists. Additionally, the Board should develop a gift acceptance policy and establish a process for Board members to report annually to the Board the value of gifts received from the tourism industry.

## Colorado Tourism Board Response:

Partially Agree. Implementation Date: August 2009.

The Colorado Tourism Office Board of Directors will consider adopting a conflict of interest policy to be applied to the members of committees and subcommittees, including committees that review and recommend grant applicants and vendors. The Colorado Tourism Office Board of Directors will also discuss the development of a policy to address any potential conflict of interest with respect to gifts as it applies to the official activities of the Colorado Tourism Office Board.

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