

O L A

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Explore Minnesota Tourism

Fiscal Years 2005, 2006, and 2007



November 1, 2007

07-28

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

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FINANCIAL AUDIT DIVISION

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OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Representative Rick Hansen, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. John Edman, Director
Explore Minnesota Tourism

Members of the Minnesota Tourism Council

We conducted an audit of Explore Minnesota Tourism for fiscal years 2005, 2006, and 2007. Our audit scope included a review of tourism promotional revenues and other receipts, payroll, administrative, and grant expenditures and a determination of whether the agency met its required appropriation match. Our objectives focused on a review of the Explore Minnesota Tourism's internal controls over these financial activities and its compliance with applicable legal provisions. In addition, our office conducted a separate statewide audit of professional/technical services at several agencies, including Explore Minnesota Tourism. We report the results from that work in Chapter 3.

The enclosed Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions for each area are contained in the individual chapters of this report.

We thank the staff from Explore Minnesota Tourism for their cooperation during this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: July 31, 2007

Report Signed On: October 22, 2007

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Cecile Ferkul, CPA, CISA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Tim Rekow, CPA	Auditor-In-Charge
Tracy Gebhard	Auditor
Tenzin Tsering	Auditor

Exit Conference

We discussed the results of the audit with the following staff of Explore Minnesota Tourism at an exit conference on October 10, 2007:

John Edman	Director
Char Vaughan	Senior Manager – Operations
Colleen Tollefson	Senior Manager – Industry Relations

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Report Summary

Conclusion:

Financial controls at Explore Minnesota Tourism were generally adequate, and the office complied with most of the legal requirements we tested. However, our report contains six findings related to inadequate controls or noncompliance.

Findings:

- The director of Explore Minnesota Tourism is not required to file an economic interest statement like appointed commissioners or directors of similar agencies in state government. ([Finding 1, page 10](#))
- Explore Minnesota Tourism did not effectively safeguard receipts and did not comply with statutory prompt deposit requirements. ([Finding 2, page 10](#))
- Explore Minnesota Tourism staff had incompatible access to the accounting system, and too many staff from another state department had unnecessary access to the office's personnel and payroll information. ([Finding 3, page 15](#))
- Explore Minnesota Tourism did not apply contract retainage requirements to two large professional/technical contracts. ([Finding 4, page 17](#))
- Explore Minnesota Tourism inappropriately reimbursed grantees for expenses that were not promptly submitted, and Film Jobs Production Program grants were not promptly processed. ([Findings 5 and 6, page 21](#))

Audit Scope:

Period Audited:

Fiscal Years 2005, 2006, and 2007

Activities Audited:

- Statutory Appropriation Match
- Promotions and Other Receipts
- Payroll and Administrative Expenditures
- Grants
- Film Jobs Production Program

Agency Background:

Effective July 1, 2004, the Legislature created Explore Minnesota Tourism as an executive branch office to promote and facilitate increased tourist travel to and within Minnesota. The office was previously a division of the Department of Employment and Economic Development. Besides its General Fund appropriations of \$11.4 million, Explore Minnesota Tourism collected receipts of \$1.1 million and incurred expenditures of \$10.5 million for fiscal year 2007.

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Chapter 1. Introduction

Agency Overview

The Legislature created Explore Minnesota Tourism¹ as an office in the executive branch, effective July 1, 2004, to promote tourism for Minnesota. The agency was previously a division of the Department of Employment and Economic Development. *Minnesota Statutes* 2006, chapter 116U outlines the authority and responsibilities for Explore Minnesota Tourism. An Explore Minnesota Tourism council consisting of 28 governor-appointed members is represented by diverse sectors of the tourism industry. John Edman is the director of Explore Minnesota Tourism.

The mission of Explore Minnesota Tourism is to promote and facilitate increased tourist travel to and within Minnesota. The mission is accomplished by promoting nonresident travel to Minnesota, stimulating instate travel by Minnesota residents, and sustaining and growing Minnesota's travel-related sales. The office leverages its resources by generating an annual appropriation match exceeding \$5 million from cash and in-kind partnerships with tourism organizations and private sector businesses.

Explore Minnesota Tourism has four core functions to fulfill its mission and achieve its objectives:

- **Advertising and Marketing** – uses a variety of marketing strategies directed to potential travelers involving print media, television and radio, direct and electronic mail, and partnership marketing.
- **Operations and Consumer Services** – manages tourism contact centers that handle phone, fax, internet, and personal customer inquiries to provide information to travelers and potential travelers.
- **Industry Relations** – facilitates communication between Explore Minnesota Tourism and the state's tourism industry, resulting in partnerships, special events, and community-based marketing assistance.
- **Communications** – develops publications and electronic communications essential to the office's marketing efforts, and media relations programs which generate coverage of Minnesota travel opportunities and the state's tourism industry.

¹*Laws of Minnesota* 2004, chapter 171, section 5.

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Table 1-1 shows Explore Minnesota Tourism's financial activities for fiscal years 2005, 2006, and 2007.

Table 1-1
Sources and Uses of Funds
Fiscal Years 2005, 2006, and 2007

	2005	2006	2007
Sources:			
General Fund Appropriations ¹	\$ 8,990,325	\$ 8,701,000	\$11,401,000
Receipts ²	1,061,295	1,443,006	1,124,411
Transfers-In ²	717,641	0	0
Balance Forward-In	0	1,925,985	1,734,980
Total Sources	<u>\$10,769,261</u>	<u>\$12,069,991</u>	<u>\$14,260,391</u>
Uses:			
Payroll	\$ 2,839,836	\$ 3,076,761	\$ 3,178,635
Professional/Technical Services	3,665,766	4,269,719	4,620,599
Other Administrative Costs	1,471,920	1,901,418	2,070,118
Grants	865,754	1,004,687	659,991
Total Uses	<u>\$ 8,843,276</u>	<u>\$10,252,585</u>	<u>\$10,529,343</u>
Balance Forward-Out	\$ 1,925,985	\$ 1,734,980	\$ 0
Unexpended Balance³	<u>\$ 0</u>	<u>\$ 82,426</u>	<u>\$ 3,731,048</u>

¹The General Fund appropriation for fiscal year 2005 was originally made to the Department of Employment and Economic Development and transferred to Explore Minnesota Tourism. The General Fund appropriation to Explore Minnesota Tourism for fiscal year 2007 included a \$1 million marketing incentive and a \$1.7 million grant appropriation for the Film Jobs Production Program that is managed by the Minnesota Film and TV Board through an interagency agreement.

²All revenue earned by Explore Minnesota Tourism is deposited into a special revenue fund in the state treasury. The money in this fund does not cancel and is available until expended for tourism marketing activities. The fiscal year 2005 transfers-in was the office's special revenue fund transferred in from previous accounts when the office was part of the Department of Employment and Economic Development.

³The unexpended balance includes encumbered obligations as of July 31, 2007. Special revenue accounts for tourism marketing activities that are available until expended have not yet been balanced forward into fiscal year 2008.

Source: Minnesota Accounting and Procurement System for fiscal years 2005, 2006, and 2007, as of July 31, 2007.

Audit Approach

The Office of the Legislative Auditor selected Explore Minnesota Tourism for audit based on an annual risk assessment of state agencies and programs. We used various criteria to determine the entities for selection, including the size and type of each agency's financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources.

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the office's internal controls relevant to the audit objectives. We used the

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guidance contained in *Internal Control-Integrated Framework*,² published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls. The standards also require that we plan the audit to provide reasonable assurance that the office complied with financial-related legal provisions that are significant to the audit. In determining Explore Minnesota Tourism's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of Explore Minnesota Tourism's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined documents supporting the agency's internal controls and compliance with laws, regulations, contracts, and grant provisions.

²The Treadway Commission and its Committee of Sponsoring Organizations were established in the mid-1980s by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity.

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Chapter 2. Receipts and Appropriation Match

Chapter Conclusions

Explore Minnesota Tourism attained the appropriation match required by state laws. The office's controls ensured that it fairly measured and valued financial match commitments gained through partnerships with tourism organizations and private sector companies.

The Explore Minnesota Tourism director was not required to file an economic interest statement similar to other public officials.

Explore Minnesota Tourism's controls provided reasonable assurance that receipts were properly earned based on authorized rates and services provided and accurately recorded in the accounting system. However, the office did not effectively safeguard receipts.

For the items tested, the office complied with agency policies and management authorization for those revenues; however, it did not promptly deposit receipts as required by Minnesota Statute.

Audit Objectives

Our audit of Explore Minnesota Tourism receipts and state appropriation match focused on the following questions:

- Did Explore Minnesota Tourism attain its legally required appropriation match³ and have internal controls providing reasonable assurance that the matching financial commitments were fairly measured and valued?
- Did the office's internal controls provide reasonable assurance that receipts were adequately safeguarded, properly earned based on authorized rates and services provided, and accurately recorded in the accounting systems?
- For the transactions tested, did the office comply with financial-related statutory requirements, office policies and procedures, and management's authorization?

Background

³*Laws of Minnesota* 2003, chapter 128, article 10, section 2, subd. 5 required a \$3.5 million match from nonstate resources. *Laws of Minnesota* 2005, 1st special session, chapter 1, article 3, section 6 required a \$4 million nonstate resource match for fiscal years 2006 and 2007. The 2005 law provided up to an additional \$1 million appropriation for fiscal year 2007 for matches in excess of \$4 million.

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Appropriation Match

State appropriations to Explore Minnesota Tourism had a matching requirement to encourage private sector involvement in promoting tourism. The 2003 Legislature funded the office with a fiscal year 2005 appropriation⁴ for \$3.5 million that was contingent upon receiving matching contributions of \$3.5 million from nonstate sources.⁵ Up to one-half of the match could be in-kind contributions. In 2005, the Legislature increased the match requirement to \$4 million for fiscal years 2006 and 2007.⁶ The law continued to allow up to one-half of the match to be in-kind contributions. The law further provided up to an additional \$1 million marketing incentive for fiscal year 2007 for every dollar generated in the previous year in excess of \$4 million up to \$5 million. The marketing incentive further motivated the office, tourism organizations, and businesses to generate greater tourism spending from nonstate sources. On October 2, 2006, the state Department of Finance made the additional \$1 million available for Explore Minnesota Tourism promotional spending.

Match funds came from several sources, including the following:

- Corporate partnerships provided the majority of the match based on marketing agreements. Their contributions consisted mainly of promotional expenses such as free Explore Minnesota Tourism advertising on print, television, radio, website, or other media. Contributions were also provided by airlines, hotels, and restaurants that sponsored certain travel groups and writers that promoted Minnesota as a travel destination.
- Explore Minnesota Tourism required grant recipients to provide a match to the grant money they received. The office included the grantee's matching share in the measurement of Explore Minnesota Tourism's match necessary to earn its appropriation. Similarly, the office included the grant recipient's match on legislatively appropriated grants, such as scenic byways and the Minnesota Film and TV Board.
- Finally, match funds include receipts that Explore Minnesota Tourism collects from brochure and website advertising, publications, promotional events, and the Explore Minnesota Store at the Mall of America, among other things.

The contributions from these sources came in the form of cash as well as in-kind contributions. Laws allowed half of Explore Minnesota Tourism's match requirement to be in-kind contributions. Cash match contributions included expenditures directly made by corporate partners that directly supported Explore Minnesota Tourism, in addition to the receipts the office collected. In-kind match included nonmonetary contributions of goods, commodities, or services instead of money. The office required corporate partners to submit documentation supporting the valuation of each cash and in-kind contributions on a case-by-case basis. We examined the office's process to review the reasonableness and accumulate these contributions to justify

⁴*Laws of Minnesota* 2003, chapter 128, article 10, section 2, subd. 5.

⁵Nonstate resources include revenues collected from sales of Explore Minnesota Tourism products and events, cash and in-kind match provided by grant recipients, and in-kind contributions from corporate partners.

⁶*Laws of Minnesota* 2005, 1st special session, chapter 1, article 3, section 6.

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achievement of their match requirement. Table 2-1 shows that Explore Minnesota Tourism obtained cash and in-kind match in excess of the required level for fiscal years 2005 to 2007.

<u>Match Type</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Cash	\$2,641,867	\$2,084,721	\$2,002,095
In-Kind	<u>2,832,985</u>	<u>3,353,211</u>	<u>3,330,983</u>
Total	<u>\$5,474,852</u>	<u>\$5,437,932</u>	<u>\$5,333,078</u>
Required Level	\$3,500,000	\$4,000,000	\$5,000,000

Source: Explore Minnesota Tourism financial records for fiscal years 2005, 2006, and 2007, as of July 31, 2007.

Receipts

Included in Table 2-1 cash contributions, the Explore Minnesota Tourism office collected receipts approximating \$1 million annually from selling reports, publications, related publicity or promotional material, and advertising. Receipts are mainly generated from tourism promotions, brochures, space and sales commissions at the Mall of America, and seminar and workshop fees. Promotional receipts are the largest source that annually averaged about \$930,000 for fiscal years 2005, 2006, and 2007. Promotional receipts consist of such things as Minnesota Explorer Newspaper advertising, Minnesota Travel Guide advertising, ExploreMinnesota.com advertising commissions, and mailing list data sales. The office deposits receipts in a special revenue account in the state treasury, which is available for operations.

Table 2-2 details the Explore Minnesota Tourism receipts for fiscal years 2005, 2006, and 2007.

<u>Source</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Tourism Promotional Revenue	\$ 920,209	\$1,034,632	\$ 846,870
Website Advertising	65,304	73,342	225,990
Mall of America Brochures and Sales	52,278	55,032	51,551
Federal Grants	<u>23,504</u>	<u>280,000</u>	<u>0</u>
Total Revenues	<u>\$1,061,295</u>	<u>\$1,443,006</u>	<u>\$1,124,411</u>

Source: Minnesota Accounting and Procurement System for fiscal years 2005, 2006, and 2007, as of July 31, 2007.

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Current Findings and Recommendations

1. Statutes did not require the director of Explore Minnesota Tourism to file an economic interest statement, as required of other public officials.

Statutes did not require the Explore Minnesota Tourism director to file an economic interest statement⁷ with the Campaign Finance and Public Disclosure Board, as required for similar public officials in state government. The Legislature created the Explore Minnesota Tourism as an executive branch office effective July 1, 2004; however, it did not amend the statute that specifies the public officials who must file. As a result, the director is not subject to this requirement. When the Office of Tourism was part of the Department of Employment and Economic Development, the director was required to and did file economic interest statements.

*Minnesota Statutes*⁸ require periodic disclosure by public officials, board members, and candidates for elective office of their personal financial interests to provide for openness or “transparency” in government. Important information about the official’s employment, compensation, and securities and real property held provide the public with open access to personal financial information. This openness deters any decisions that may be influenced by personal financial interests.

The director’s role in promotions and private sector partnerships justify the need for personal disclosure under this filing. Tourism is a \$10 billion industry in Minnesota, and the Explore Minnesota Tourism director’s role is influential in promoting the competitive and diverse aspects of tourism. The office’s role in developing partnerships with tourism industry private-sector sponsors through cash and in-kind contributions increases the potential for conflicts of interest. Without a requirement for an economic interest disclosure, any personal financial relationships are not openly available.

Recommendation

- *Explore Minnesota Tourism should work with the Legislature to amend the statute requiring its director to file an economic interest statement with the Campaign Finance and Public Disclosure Board.*

2. Explore Minnesota Tourism did not effectively safeguard receipts and did not comply with prompt deposit requirements.

The office had three weaknesses with processing receipts: no central record identifying receipts collected, no separation of key financial duties, and delays in depositing. Several employees collected receipts and routed them to an employee who accumulated and recorded the receipts without an independent comparison to the actual amount deposited. In addition, receipts were not promptly deposited in the bank, which created risks from holding those receipts onsite until

⁷*Minnesota Statutes* 2006 10A.09 identifies economic interest statements filing requirements for public officials.

⁸*Minnesota Statutes* 2006 10A.09.

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deposited. Improved controls over receipts are necessary to protect the office from shortages or theft.

Explore Minnesota Tourism did not have a central record to immediately log receipts upon arrival. Several staff collected receipts in the mail for their assigned areas and forwarded them with a supporting memo for deposit. The office had no central receipts log to identify and track collections upon arrival in the mail to ensure proper and timely deposit. Without a central log, receipts could be lost or misplaced without detection.

The office did not separate key financial duties for processing receipts. One central employee prepared the bank deposit, entered the deposits into the state's accounting system, and delivered the deposits to the bank. Another employee independently totaled the receipts and prepared an adding machine tape; however, this person did not verify the calculated total to the actual deposit in the bank or state's accounting system. State policies⁹ for recording and depositing receipts specify that one employee should not both prepare the deposit for the bank and enter the receipts into the state's accounting system. Allowing the same person to prepare the deposit and enter the deposit into the state's accounting system without effective mitigating controls increased the risk of deposit shortages. The office should have the independent employee verify the totaled receipts to the amount actually deposited and recorded in the accounting system.

The office did not promptly deposit receipts for 8 of 27 deposits tested. *Minnesota Statutes*¹⁰ require daily deposit of receipts accumulating to \$250 or more. Staff received cash and checks in its central Saint Paul office, in addition to offices located in Brainerd, Duluth, Mankato, and Thief River Falls where they deposit receipts at a regional bank. Based on the date the sender used on their check, there were significant delays before deposit; some checks had dates showing they were held over 30 business days before deposit. For example, staff received a check dated October 29, 2004, for \$29,134 that they forwarded to accounting on November 10, 2004, but did not deposit into the bank until November 15, 2004. In another example, staff received two checks, totaling \$6,600, dated in late June 2005 that they routed for deposit on July 8, 2005, but were not deposited until July 15, 2005. These delays were unnecessary and posed an increased risk for the office.

Recommendations

- *Explore Minnesota Tourism should limit the number of staff that handle receipts and develop a central record that immediately logs receipts upon arrival.*
- *The office should separate key financial duties to verify amounts deposited.*
- *The office should ensure that receipts of \$250 or more are deposited daily, pursuant to Minnesota Statutes.*

⁹Minnesota Departments of Finance and Administration - Operating Policy and Procedure No. 0602-03: Recording and Depositing Receipts.

¹⁰*Minnesota Statutes* 2006, 16A.275.

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Chapter 3. Payroll and Administrative Expenditures

Chapter Conclusions

Explore Minnesota Tourism’s internal controls provided reasonable assurance that it accurately compensated employees for work performed, maintained accurate leave records, and properly recorded payroll expenditures in the accounting and personnel systems. However, the office allowed several staff from another state department excessive and unnecessary access to the office’s human resources information.

Explore Minnesota Tourism’s internal controls provided reasonable assurance that it properly procured goods and services, accurately paid for goods received and for services rendered, and properly recorded administrative expenditures in the accounting system. However, the office provided staff with incompatible access to the purchasing, receiving, and disbursing functions in the accounting system.

For the items tested, the office complied with finance-related legal provisions, bargaining unit contracts, state policies and procedures, and management’s authorization for those transactions. However, the office did not apply retainage requirements for professional/technical promotional services, as specified in the contract and required by Minnesota Statute.

Audit Objectives

Our review of payroll and administrative expenditures focused on the following questions:

- Did Explore Minnesota Tourism’s internal controls provide reasonable assurance that it accurately compensated employees for work performed, accurately maintained leave records, and properly recorded payroll expenditures in the accounting and personnel systems?
- Did the office’s internal controls provide reasonable assurance that it properly procured goods and services, accurately paid for goods received and for services rendered, and properly recorded administrative expenditures in the accounting system?
- For the items tested, did the office comply with finance-related legal provisions, employee bargaining unit contracts and plans, state policies and procedures, and management’s authorization for those transactions?

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Background

Explore Minnesota Tourism incurs a variety of payroll and administrative expenditures for its operations. Table 3-1 shows office expenditures by type for fiscal years 2005, 2006, and 2007.

Table 3-1
Expenditures by Type
Fiscal Years 2005, 2006, and 2007

Type of Expenditures:	2005	2006	2007
Payroll – Full Time	\$2,317,241	\$2,585,777	\$2,677,572
Payroll – Part Time	462,282	447,874	489,285
Payroll – Other	60,314	43,110	11,779
Professional/Technical Services	3,665,766	4,269,719	4,620,599
Advertising and Printing	554,598	573,810	497,456
Communications	462,385	493,018	500,320
Rent ¹	71,172	267,522	290,965
Other	383,764	567,068	781,376
Total Expenditures	<u>\$7,977,522</u>	<u>\$9,247,898</u>	<u>\$9,869,352</u>

¹An additional \$172,000 of rent was incurred by the office in fiscal year 2005 but was paid by the Department of Employment and Economic Development and netted against the appropriation transfer when the office was created.

Source: Minnesota Accounting and Procurement System for fiscal years 2005, 2006, and 2007, as of July 31, 2007.

Payroll Expenditures

Explore Minnesota Tourism employs personnel at their central location in Saint Paul and at various regional office and Travel Information Centers throughout greater Minnesota. From 2005 to 2007, the office employed from 53 to 65 employees, including part-time staff who were mostly employed at the Tourism Information Centers. Office employees are represented by various bargaining units, including American Federation of State, County, and Municipal Employees, Middle Management Association, and Minnesota Association of Professional Employees. In addition, a few office employees are part of the state's unrepresented Managerial Plan.

Payroll is a significant operating expenditure for Explore Minnesota Tourism. As shown in Table 3-1, the office expended approximately \$9 million for payroll from fiscal years 2005 through 2007. A majority of payroll expenditures are for full-time staff (83 percent) and part-time staff (15 percent). Overtime costs and other miscellaneous benefits (2 percent) represent the remainder of the payroll expense.

The office uses the state's personnel/payroll systems. It entered into an interagency agreement with the Department of Employment and Economic Development to process human resources transactions. The office processed its own bi-weekly payroll transactions.

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Administrative Expenditures

Explore Minnesota Tourism incurred various administrative expenditures for rent, travel, professional and technical services, advertising, and communications, among other things. Nonpayroll administrative expenditures totaled approximately \$18 million for fiscal years 2005, 2006, and 2007.

The largest administrative cost of the office was for professional/technical services. From fiscal years 2005 to 2007, approximately \$11.3 million was paid to two promotional companies for professional/technical services. Explore Minnesota Tourism used one promotions company for fiscal years 2005 and 2006 and a second company for fiscal year 2007. These companies provided services involving developing an annual advertising plan, creating and producing advertising, placing ads in various media outlets, and providing research, public relations, and promotions as needed. The office solicited proposals from advertising agencies and prepared professional/technical contracts, as required by *Minnesota Statutes*.¹¹

Concurrently with this audit of Explore Minnesota Tourism, we conducted a centralized audit of the state's processes for administering professional/technical services contracts. The scope of that audit included a review of professional/technical contracts administered by several state agencies, including Explore Minnesota Tourism, for the period from July 1, 2005, through June 30, 2006. In addition to the professional/technical services contract's findings and recommendations addressed in this report, we will issue a separate report to the Department of Administration at a later date that will identify the most significant problems we found in the agencies we reviewed.

Current Findings and Recommendations

3. Explore Minnesota Tourism has unnecessary and incompatible access to update payroll/personnel and expenditure transactions in the state's financial systems.

The office's human resources and expenditure transactions entered into the state's computerized accounting systems are unnecessarily exposed to risk of errors or fraud. Nineteen staff from another state department had excessive or unnecessary access to update or view personnel information about Explore Minnesota Tourism employees. In addition, the office provided five of its staff with incompatible access to update purchasing, receiving, and disbursing functions in the accounting system. State computer security policies¹² indicate that security access to financial systems needs to be restricted to the minimum level of access necessary to perform job responsibilities.

Explore Minnesota Tourism had too many staff from another department that could access its human resources information. The office entered into an interagency agreement with the Department of Employment and Economic Development for assistance to update personnel transactions in the state's system. The office's system security report showed that 19 department

¹¹*Minnesota Statutes* 2006, 16C.

¹²Departments of Finance and Administration Operating Policy and Procedure 1101-07 and SEMA4 Security Operating Policy and Procedure HR045.

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staff can either view or update Explore Minnesota Tourism payroll and human resources data. Eight of these staff neither have personnel responsibilities nor work in the human resources office at the Department of Employment and Economic Development. In addition, two of these staff were granted incompatible access to payroll and personnel functions even though Explore Minnesota Tourism does its own payroll processing. Access to the office's personnel data should be restricted to what is needed to fulfill responsibilities under the interagency agreement. The office should monitor access so that sensitive payroll and human resources data cannot be unintentionally or maliciously viewed or changed.

The office provided five of its employees with incompatible access to update purchasing, receiving, and disbursing functions in the state's accounting system. This level of access allowed these employees to exclusively handle a transaction from procurement through disbursement without an independent review of their work. If the office is unable to separate incompatible functions due to staffing constraints, it should document detective controls that mitigate the risk. Detective controls should identify the steps involved in performing the control, the reports used as a basis for others to review or authorize transactions, the frequency of the report or transaction review, and how to report any errors detected.

Recommendations

- *Explore Minnesota Tourism should work with the Department of Employment and Economic Development to eliminate unnecessary and incompatible access to update and view office personnel data. The office should periodically review access rights granted to staff of the other department to ensure those employees need access to fulfill responsibilities under the interagency agreement.*
- *The office should eliminate incompatible staff access to its purchasing, receiving, and disbursement functions in the accounting system or establish effective detective controls if incompatible access cannot be eliminated.*

4. Explore Minnesota Tourism did not withhold a portion of the amount paid for two large professional/technical contracts.

Explore Minnesota Tourism failed to comply with the statutory retainage¹³ requirement for two large contracts (\$3.9 million and \$3.55 million) with a company for advertising and promotions services. The office included the required retainage clause in its contracts, but did not withhold any portion of the amount paid pending satisfactory completion of the work. The contractor individually invoiced for work to develop, produce, and place advertisements in various media outlets. The office indicated they paid these invoices after verifying the quality and placement of the advertisements. However, in October 2006, the office recovered \$20,646 for work cancelled or not completed under the fiscal year 2006 contract. Withholding a portion of the contract to ensure satisfactory completion of services is important to create financial leverage or recourse

¹³[Minnesota Statute](#) 2006, 16C.08, subd. 5.

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against the contractor. If the office believes that it is satisfied with the work product as each payment is made, it should seek a waiver from the statutory retainage requirement from the Department of Administration.

Recommendation

- *Explore Minnesota Tourism should comply with the retainage requirements contained in its professional/technical contracts and in Minnesota Statutes, or seek a waiver from withholding a portion of the contract if financial leverage or recourse is unnecessary.*

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Chapter 4. Grants and Film Jobs Production Program

Chapter Conclusions

Explore Minnesota Tourism’s internal controls provided reasonable assurance that it properly awarded, sufficiently matched, adequately monitored, and accurately reported grants in the accounting records. However, the office reimbursed grantees for expenses submitted after the deadline. In addition, the Minnesota Film and TV Board staff did not process timely payments for the Film Jobs Production Program. For the grants tested, the office complied with management’s authorization and finance-related legal provisions.

Audit Objectives

Our review of grants and the Film Jobs Production Program focused on the following questions:

- Did the office’s internal controls provide reasonable assurance that grants were properly awarded, sufficiently matched, adequately monitored, and accurately reported in the accounting records?
- For the grants tested, did the office comply with finance-related legal provisions required in appropriation laws¹⁴ and *Minnesota Statutes*,¹⁵ office policies and procedures, and management’s authorization?

Background

Explore Minnesota Tourism entered into grant agreements to form partnerships with nonprofit tourism organizations. In addition, the office received funding for specific grant projects and the Film Jobs Production Program through legislative appropriations. The office recorded grant expenditures totaling \$2.5 million for fiscal years 2005, 2006, and 2007, as shown by type in Table 4-1.

¹⁴*Laws of Minnesota* 2003, chapter 128, article 10, section 2, subd. 5; *Laws of Minnesota* 2005, 1st special session, chapter 1, article 3, section 6; and *Laws of Minnesota* 2006, chapter 282, section 6.

¹⁵*Minnesota Statute* 2006, 116U.26 Film Jobs Production Program.

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Table 4-1
Grant Expenditures by Type
Fiscal Years 2005 to 2007

<u>Grant Type</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Partnership Grants	\$690,754	\$ 694,687	\$231,243 ¹
Minnesota Film and TV Board	175,000	250,000	225,000
- Administrative Grant			
Minnesota Film and TV Board	0	0	203,748
- Film Jobs Production Program Grants ²			
Great River Shakespeare Festival Grant	<u>0</u>	<u>60,000</u>	<u>0</u>
Total	<u>\$865,754</u>	<u>\$1,004,687</u>	<u>\$659,991</u>

¹Additional partnership grant obligations for fiscal year 2007 were entered in the accounting system but were not yet expended as of July 31, 2007.

²Laws of Minnesota 2006, chapter 292, sec. 6 provided a \$1.7 million appropriation for Film Jobs Production Program grants to fund a percentage of costs incurred through June 30, 2007. However, due to delays in reporting those costs, the Minnesota Film and TV Board had only reimbursed \$203,748 as of July 31, 2007. Of the \$1.5 million remaining encumbrance in the accounting system, the Minnesota Film and TV Board has about \$800,000 of grant obligations pending. The remaining encumbrance of approximately \$700,000 will cancel and revert back to the General Fund.

Source: Minnesota Accounting and Procurement System for fiscal years 2005, 2006, and 2007, as of July 31, 2007.

Partnership Grants

Explore Minnesota Tourism provides on-going grants through its Tourism Organizational Partnership Program. The grants form partnerships with nonprofit tourism organizations to attract conventions and nonresident travelers to the state. Partnership grants provide reimbursement up to \$12,000 for 40 percent of the marketing costs for advertising, trade shows, sports shows, tours, or international sales. The office requires organizations to match at least 60 percent of the cost.

Appropriated Grants

In addition to the partnership grants, the office administered specific grants funded through legislative appropriations. For example, Explore Minnesota Tourism received appropriations of \$175,000, \$250,000, and \$250,000, for fiscal years 2005, 2006, and 2007, respectively, that it paid to the Minnesota Film and TV Board for administrative and operating expenses. In addition, the office received a one-time appropriation of \$60,000 to provide a grant for the Great River Shakespeare Festival held by the city of Winona.

Film Jobs Production Program Grants

Explore Minnesota Tourism received a \$1.7 million appropriation to fund the Film Production Jobs Program.¹⁶ The office entered into an interagency agreement with the Minnesota Film and

¹⁶*Laws of Minnesota* 2006, chapter 282, sec. 6 provided a \$1.7 million grant to the Minnesota Film and TV Board for reimbursement of up to 15 percent of film production costs incurred pursuant to *Minnesota Statutes* 2006, 116U.26. The appropriation was available until June 30, 2007.

Explore Minnesota Tourism

TV Board to administer the program. The program, commonly referred to as “Snowbate,” was created to pay producers of feature films, television programs, documentaries, music videos, and commercials that directly create new jobs in Minnesota. The grant reimbursed up to 15 percent of film production costs incurred, of which no more than 5 percent could be expended for administration. The office reimbursed producers \$203,748 of the \$1.7 million appropriation as of July 31, 2007, for expenditures the producers incurred through June 30, 2007. Minnesota Film and TV Board records show an additional \$800,000 of reimbursements pending as of July 31, 2007.

Current Findings and Recommendations

5. Explore Minnesota Tourism reimbursed grantees for expenses submitted after the deadline.

Explore Minnesota Tourism reimbursed grantees for expenses that were submitted to the office after the deadline¹⁷ specified in their grant agreement. For three of fifteen grants tested, the grantee submitted itemized invoices for expenses ranging from two months to nine months after the due date. For example, \$6,200 of a \$10,000 grant was due August 31, 2006, but invoices were not submitted to the office until December 21, 2006, nearly four months late. In another example, the expenses were incurred after the grant ended. A March 2006 grant for \$2,325 required invoices by June 30, 2006, but they were submitted over nine months late on April 10, 2007. In fact, the actual expenses for this grant were incurred in February 2007, eight months after the grant period expired. The office did not exercise its authority to deny reimbursement or cancel the grant when it did not receive expense documentation by the date specified in the grant agreement. At a minimum, the office should have amended this grant agreement.

Recommendation

- *Explore Minnesota Tourism should enforce its established grant deadlines or consider disincentives for those that do not promptly submit grant expenses for reimbursement. The office should amend grant agreements if management allows costs after original grant end date.*

6. The Minnesota Film and TV Board did not communicate deadlines and had extensive documentation requirements that slowed payment of Film Jobs Production Program grants.

Explore Minnesota Tourism did not ensure that the Minnesota Film and TV Board communicated deadlines to Film Jobs Production Program grant recipients. In addition, the board required film producers to submit documentation to support all costs, even minor and inconsequential expenses of less than \$25. Without deadlines and reasonable documentation requirements, the program’s payment processing was slow and cumbersome.

¹⁷Explore Minnesota Tourism grant contracts specify that invoices are due within 90 days of project end date. Attached to each grant agreement is a schedule specifically identifying the date that invoices are due.

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Explore Minnesota Tourism received a \$1.7 million appropriation for the grants to producers for film production costs incurred through June 30, 2007. However, under its administrative arrangement with the Minnesota Film and TV Board, it had only expended \$203,748 of the appropriated amount as of July 31, 2007. It had approximately \$800,000 of pending grant commitments, but the actual liability is difficult to determine since film producers have not yet submitted the required documentation to the board.

Several factors contributed to delays in disbursing the grant money; the board had a limited number of administrative staff, film producers had not submitted the required reimbursement documentation, and producers had not been given a specific deadline. Furthermore, in order to enforce the administrative limit and eligible types of costs specifically allowed in *Minnesota Statutes*,¹⁸ the Minnesota Film and TV Board required film producers to provide extensive documentation to justify allowable film production costs. In order to expedite timeliness, the board should establish a filing deadline and consider a reasonable minimum dollar threshold for required documentation.

Since the appropriation funding was only made available until June 30, 2007, the delayed administrative demands have created problems for the board. Besides the risk that controls may fail while attempting to more quickly process reimbursements, the board's administrative resources for fiscal year 2008 are being consumed to process these grants for the prior fiscal year.

Recommendation

- *Explore Minnesota Tourism should work with the Minnesota Film and TV Board to establish reimbursement deadlines and to review its practices and documentation demands required for expense reimbursements for the Film Jobs Production Program.*

¹⁸*Minnesota Statutes* 2006, 116U.26.

Explore Minnesota Tourism

Status of Prior Audit Issues

As of July 31, 2007

Legislative Audit Report 02-64, issued in October 2002, examined grant programs at the Department of Trade and Economic Development.¹⁹ The report contained one audit finding involving the Office of Tourism grants. The finding identified that the Office of Tourism did not prepare written agreements for certain component organizational partnership grants; instead, purchase orders were used. The report recommended that the office formalize written grant agreements with those partners. The office resolved this finding.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

¹⁹The Legislature merged the Department of Trade and Economic Development with the Department of Economic Security in July 2003 to form the Department of Employment and Economic Development.

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October 16, 2007

James Nobles
Legislative Auditor
Office of the Legislative Auditor
Centennial Building, Room 140
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles.

This letter is in response to the draft audit of Explore Minnesota Tourism for the fiscal years 2005, 2006, and 2007.

We greatly appreciate your agency's review of our operations to help us assure proper controls and compliance with applicable laws. We have reviewed the draft audit with senior staff and are pleased to offer the following response to the recommendations and findings, including names of the person responsible and dates anticipated for completion:

Audit Finding: Statutes did not require the director of Explore Minnesota Tourism to file an economic interested statement.

Response: This was an oversight when Explore Minnesota Tourism was created as a separate agency. On September 9, 2007, we submitted a Preliminary Proposal to the Governor's Office to correct this oversight. We will pursue this Legislative Technical Correction during the 2008 Legislative Session. Responsibility: John F. Edman, Director.

Audit Finding: Explore Minnesota Tourism should limit the number of staff that handle receipts and develop a central record that immediately logs receipts upon arrival. The Office should separate key financial duties to verify amounts deposited. The office should ensure that receipts of \$250 or more are deposited daily.

Response: Explore Minnesota Tourism immediately addressed these concerns when we first became aware of these matters during the audit process this summer. A policy has been developed and is now in place with detailed procedures to address the recommendations noted above. The policy includes internal controls concerning the separation of duties and adherence to existing statistics and applicable policies and procedures established by the Department of Finance. Responsibility: Char Vaughan, Operations Manager.

Audit Finding: Explore Minnesota Tourism should work with the Department of Employment and Economic Development to eliminate unnecessary and incompatible access to update and view office personnel data. The office should periodically review access rights granted to staff of the other department to ensure those employees need access to fulfill responsibilities under the interagency agreement. The office should also eliminate incompatible staff access to its purchasing, receiving, and disbursement functions in the accounting system or establish office detective controls if incompatible access cannot be eliminated.

Response: Explore Minnesota Tourism has already taken steps necessary to eliminate unnecessary and incompatible staff access both internally and within the Department of Employment and Economic Development. The situation has been addressed and no longer exists. Staff access will be reviewed on a regular basis to ensure future compliance. Responsibility: Char Vaughan, Operations Manager.

Audit Finding: Explore Minnesota Tourism should comply with the retainage requirements contained in its promotional contracts in Minnesota Statutes, or seek a waiver from withholding a portion of the contract if financial leverage or recourse is unnecessary.

Response: Explore Minnesota Tourism will continue the current practice and enforce this requirement by applying the 10% retainage to the final payment. As we enter into new contracts or exercise the option to renew existing contracts, each agreement will be reviewed to determine the best way to ensure adherence to this statute – i.e. 10% holdback on every payment or the final payment. Responsibility: Agency Authorized Representative for the contract

Audit Finding: Explore Minnesota Tourism should enforce its established grant deadlines or consider disincentives for those that do not promptly submit grant expenses for reimbursement. The office should amend grant agreements if management allows costs after original grant and date.

Response: Explore Minnesota Tourism has revised our 30/60/90 day notification process for grant projects and enforces the 90 day deadline for invoicing or cancellation of funds. Grant amendments are required in advance of the contract end date. A line will be added on the grant invoice forms to put in the end date of the contract for cross referencing with the date work is accomplished to avoid any future payments after expiration without an amendment. Responsibility: Colleen Tollefson, Industry Relations Manager

Audit Finding: Explore Minnesota should work with the Minnesota Film and TV Board to establish reimbursement deadlines and to review its practices and documentation demands required for expense reimbursements for the Film Jobs Production Program.

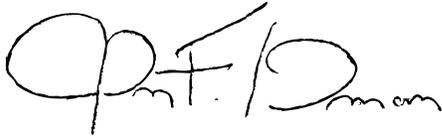
Response: The 2007 Guidelines and reimbursement forms for the Film Jobs Production Fund have been revised to include 90 day deadlines. A number of revisions have been made in the documentation requirements for expense reimbursement to streamline the process, such as requiring the producer to document Minnesota residency and retain those records, rather than having the Film Board review each person's documentation. Affidavits from producers and the potential for spot checks have been added to reduce some of the Film Board review of materials. Responsibility: Colleen Tollefson, Industry Relations Manager

Letter to James Nobles
October 16, 2007
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Once again, thank you for your review of our agency's operations and controls. We firmly believe this audit, response, and process will allow us to better implement the jobs and responsibilities set forth by the legislature and expectations of the public.

If you have any questions, or need any further clarification, please don't hesitate to let me know.

Yours truly,

A handwritten signature in black ink, appearing to read "John F. Edman". The signature is written in a cursive, somewhat stylized font.

John F. Edman, Director
Explore Minnesota Tourism