



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Explore Minnesota Tourism

Internal Controls and Compliance Audit

July 2010 through June 2013

November 21, 2013

Report 13-31

FINANCIAL AUDIT DIVISION

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

November 21, 2013

Senator Roger Reinert, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. John Edman, Director
Explore Minnesota Tourism

This report presents the results of our internal controls and compliance audit of Explore Minnesota Tourism for the period July 1, 2010, through June 30, 2013.

We discussed the results of the audit with Explore Minnesota Tourism's staff on November 14, 2013. This audit was conducted by Brad White, CPA, CISA, CFE (Audit Manager) and Reidar Gullicksrud, CPA, (Auditor-in-Charge), assisted by auditors Joseph McMahon, CPA, and Valentina Stone.

We received the full cooperation of staff from Explore Minnesota Tourism while performing this audit.

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

Explore Minnesota Tourism's internal controls were generally adequate to ensure that it attained the required private sector appropriation match; safeguarded its financial resources; accurately paid employees, vendors, and grantees as authorized; complied with finance-related legal requirements; and created reliable financial data. For the items tested, Explore Minnesota Tourism generally complied with finance-related legal provisions. However, the office had some internal control weaknesses and instances of noncompliance.

The office resolved four of six previous audit findings but did not fully resolve two prior findings related to receipts and security access to financial systems.

Findings

- Explore Minnesota Tourism did not assess and document financial and compliance risks to ensure that it had designed and implemented effective internal controls. ([Finding 1, page 9](#))
- Prior Audit Finding Not Resolved: Explore Minnesota Tourism did not effectively safeguard and promptly deposit receipts. ([Finding 2, page 10](#))
- Prior Finding Partially Resolved: Explore Minnesota Tourism did not mitigate the risk created by allowing incompatible employee access to the state's accounting system, and it did not monitor certain access staff from another agency had under an interagency agreement. ([Finding 3, page 11](#))
- Explore Minnesota Tourism did not obtain required grant evaluation data from some grantees, and it did not use evaluation data it did receive to measure success of various types of grants. ([Finding 4, page 12](#))

Audit Objectives and Scope

Objectives

- Internal controls
- Legal compliance

Period Audited

July 1, 2010, through June 30, 2013

Audited Areas

- | | |
|--|----------------------|
| • Receipts and appropriation match | • Payroll and travel |
| • Security access to financial systems | • Grants |
| • Professional-technical contracts | • Other expenditures |

Explore Minnesota Tourism

Overview

The Legislature created the office of Explore Minnesota Tourism (the office) in the executive branch to promote tourism for Minnesota.¹ State statutes outline the office's authority and responsibilities.² An Explore Minnesota Tourism council, consisting of 28 governor-appointed members, represents 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 office works to accomplish its mission by promoting nonresident travel to Minnesota, stimulating in-state travel by Minnesota residents, and sustaining and growing Minnesota's travel-related sales. The office is organized into the following areas:

- **Marketing and Communications.** The office uses a variety of marketing strategies directed to potential travelers involving print and electronic media, television and radio, direct and electronic mail, and partnership marketing.
- **Operations and Technology.** The office manages tourism contact centers that handle phone, fax, internet, and personal customer inquiries to provide information to travelers and potential travelers.
- **Industry Relations and Travel Information.** The office manages ten travel information centers around the state and facilitates communication with the state's tourism industry, resulting in partnerships, special events, and community-based marketing assistance.

The office received General Fund appropriations of \$10.7 million for fiscal year 2011,³ and \$8.7 million per year for fiscal years 2012 and 2013.⁴ To develop maximum private sector involvement in tourism, the Legislature required the office to leverage \$1 of each year's appropriation (up to \$500,000) with \$3 of private sector match. The Legislature required at least half of the private sector match be cash (either given to the office or directly paid by the private sector entity) and allowed up to one-half to be in-kind match. Examples of in-kind match the office received were free radio and television ads, volunteer time, and discounted advertising rates. *Minnesota Statutes* authorize the office to spend

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

² *Minnesota Statutes* 2013, chapter 116U.

³ *Laws of Minnesota* 2009, chapter 78, article 1, section 5.

⁴ *Laws of Minnesota* 2011, 1st special session, chapter 10, article 1, section 18.

revenue generated from the sale of publications, promotional materials, and advertising.⁵ The office's largest expenditures were for marketing and promotional services and payroll costs. *Minnesota Statutes* allow the office to incur promotional expenses in the same manner as a private firm or corporation.⁶ In addition, the office administered the following grants:

- **Organizational Partnership and Scenic Byway Grants.** These competitive grants are intended to provide resources for a variety of advertising and marketing projects to promote Minnesota tourism.
- **Minnesota Film and TV Board (Administrative Grants).** The Legislature appropriated \$325,000 to Explore Minnesota Tourism for annual grants to the Minnesota Film and TV Board, a nonprofit 501(c)3 public/private partnership.⁷ The board's mission is to create jobs and economic growth by promoting and supporting the state's film production industry. The purpose of the grants was to help fund the cost of the board's operations. For fiscal years 2014 and 2015, the Legislature provided annual appropriations for the board to the Department of Employment and Economic Development.⁸
- **Minnesota Film and TV Board (Films Production Job Program Grants).** During fiscal years 2011 and 2012, Explore Minnesota Tourism continued to administer film jobs production grants⁹ to the Minnesota Film and TV Board with the \$536,894 remaining from a \$1,225,000 appropriation for fiscal year 2010.¹⁰ The 2010 appropriation was available until expended. Governor Pawlenty vetoed the appropriation for fiscal year 2011. The Legislature transferred the program's administrative oversight to the Department of Administration in 2012 and then to the Department of Employment and Economic Development in 2013.¹¹

Table 1 summarizes Explore Minnesota Tourism's appropriations, receipts, and expenditures for fiscal years 2011, 2012, and 2013.

⁵ *Minnesota Statutes* 2013, 116U.45 and 116U.50.

⁶ *Minnesota Statutes* 2013, 116U.35.

⁷ *Laws of Minnesota* 2011, 1st Special Session, Ch. 10, Art. 1, Sec 18 (c).

⁸ *Laws of Minnesota* 2013, Ch. 85, Art. 1, Sec. 3, Subd. 2(i).

⁹ *Minnesota Statutes* 2011, section 116U.26.

¹⁰ *Laws of Minnesota* 2009, Ch. 78, Art. 1, Sec. 5 (d).

¹¹ *Laws of Minnesota*, 2012, Ch. 264, Art. 5, Sec. 3; and *Laws of Minnesota* 2013, Ch. 85, Art. 3, Sec. 16.

Table 1
Appropriations, Receipts, and Expenditures
Fiscal Years 2011 through 2013

	<u>2011</u>	<u>2012</u>	<u>2013</u>
<u>Appropriations and Receipts:</u>			
Appropriations ¹	\$10,717,000	\$ 8,729,000	\$ 8,729,000
Receipts	<u>1,446,785</u>	<u>1,490,787</u>	<u>1,557,625</u>
Total	<u>\$12,163,785</u>	<u>\$10,219,787</u>	<u>\$10,286,625</u>
<u>Expenditures:</u>			
Professional-Technical Services ²	\$ 3,769,658	\$ 4,226,048	\$ 5,679,542
Payroll	3,371,500	3,073,763	3,165,279
Other ³	2,461,778	1,422,584	1,429,870
Grants:			
Organizational Partnership and Scenic Byway Grants	170,751	501,413	280,146
Minnesota Film and TV Board:			
Operating Grant ⁴	292,500	321,370	273,487
Film Productions Jobs Grant ⁵	<u>377,178</u>	<u>141,119</u>	<u>0</u>
Total Expenditures	<u>\$10,443,365</u>	<u>\$ 9,686,297</u>	<u>\$10,828,324</u>

¹ Unexpended appropriations from the General Fund do not cancel and are placed in a special account to use for marketing activities. The office carried forward about \$354,000 in the account from fiscal year 2012 into fiscal year 2013.

² The increase in professional-technical services was due to additional promotional activities and, beginning in fiscal year 2012, included certain advertising costs that were previously shown in other expenditures for fiscal year 2011.

³ Other expenditures included rent, communications, supplies, printing and advertising, and in-state, out-state, and international travel costs.

⁴ As of June 30, 2013, Explore Minnesota Tourism had an unexpended balance of \$87,643 remaining in the fiscal year 2013 operating grant appropriation for the to the Minnesota Film and TV Board. The office disbursed this money to the Minnesota Film and TV Board in fiscal year 2014.

⁵ Since July 1, 2012, Explore Minnesota Tourism has had an unexpended balance of \$18,597 remaining in the fiscal year 2010 appropriation for the Film Production Jobs Program. The office is working to transfer administrative responsibility for this money to the Department of Employment and Economic Development.

Source: State of Minnesota's accounting system.

Scope, Objective, and Methodology

Our audit of Explore Minnesota Tourism included receipts and appropriation match, promotional and other professional-technical contracts, employee payroll and travel, grants, and other administrative expenditures for the period of July 1, 2010, through June 30, 2013. The objective of our audit was to answer the following questions:

- Did Explore Minnesota Tourism’s internal controls provide reasonable assurance that it attained its required appropriation match by fairly measuring and valuing cash and in-kind contributions and ensured the completeness and safeguarding of receipts it collected?
- Did Explore Minnesota Tourism’s internal controls provide reasonable assurance that it produced reliable financial information, accurately compensated employees, paid vendors for goods received and services rendered, and paid grantees based on grant agreements authorized by management?
- For the items tested, did Explore Minnesota Tourism comply with material financial-related legal provisions in statutes, laws, rules, and state/agency policies and procedures?
- Did Explore Minnesota Tourism resolve prior audit findings?

To answer these questions, we gained an understanding of the office’s financial policies and procedures. We considered the risk of errors in the accounting records and potential noncompliance with relevant legal requirements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined samples of financial transactions and reviewed supporting documentation to test whether the office’s controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions.

In addition, we reviewed internal controls and assessed legal requirements unique to Explore Minnesota Tourism’s finances, including the office’s following responsibilities:

- Identification and valuation of cash and in-kind matching contributions from public-private partnerships;
- Procurement and monitoring of promotional and advertising contracts;
- Oversight of the Minnesota Film and TV Board’s use of grant money;¹² and
- Reimbursement to employees for out-state and international travel.

¹² In July 2013, we received concerns about how the Minnesota Film and TV Board had used its grant money and whether the board had been effective in attracting jobs to the state. While our audit examined Explore Minnesota Tourism’s administrative oversight of the grants to the board, we did not address the effectiveness of the Minnesota Film and TV Board’s actions to promote and support the state’s film production industry. Those concerns would be more appropriately addressed through a review by OLA’s Program Evaluation Division.

We conducted the 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 used various criteria to evaluate internal control and compliance. We used, as our criteria to evaluate agency controls, the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.¹³ We used state and federal laws, regulations, and contracts, as well as policies and procedures established by the departments of Management and Budget and Administration and the office's internal policies and procedures as evaluation criteria over compliance.

Conclusion

Explore Minnesota Tourism's internal controls were generally adequate to ensure that it attained the required private sector appropriation match; safeguarded its financial resources; accurately paid employees, vendors, and grantees as authorized; complied with finance-related legal requirements; and created reliable financial data. For the items tested, Explore Minnesota Tourism generally complied with finance-related legal provisions. However, the office had some internal control weaknesses and instances of noncompliance.

The office resolved four of six prior findings but did not resolve two prior findings related to receipts and security access to financial systems.¹⁴

The following *Findings and Recommendations* provide further explanation about the exceptions noted above.

¹³ The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 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. The resulting *Internal Control-Integrated Framework* is the accepted accounting and auditing standard for internal control design and assessment.

¹⁴ Office of the Legislative Auditor's Financial Audit Division, Report 07-28, *Explore Minnesota Tourism*, issued November 1, 2007.

Findings and Recommendations

Explore Minnesota Tourism did not assess and document financial and compliance risks to ensure that it had designed and implemented effective internal controls.

Finding 1

Explore Minnesota Tourism did not prepare a comprehensive assessment of its significant business risks or associated internal controls. In addition, the office did not document activities to monitor the effectiveness of its internal controls over its significant financial cycles. The office had many control activities in place and had performed some monitoring activities for critical financial operations. However, without a comprehensive approach to the design of its internal controls over financial operations and compliance with finance-related legal requirements, there is an increased likelihood of error, irregularities, and noncompliance occurring without detection.

A comprehensive assessment of risks and associated controls can help the office identify, eliminate, or mitigate certain high-risk internal control and compliance situations including, but not limited to, the following:

- Segregating or mitigating incompatible accounting duties;
- Safeguarding money received at its Saint Paul and regional offices;
- Safeguarding not public data on photocopies of checks retained in office files;
- Determining compliance with statutory requirements for private sector matching funds;
- Monitoring spending not subject to typical state limitations, such as for certain types of travel costs;
- Monitoring the potential for employees to earn personal benefit from state-related travel by, for example, employees earning credit card rewards, points, or other benefits when they use personal credit cards to pay for international travel costs; and
- Ensuring grantees' compliance with the terms and conditions of grant agreements.

Minnesota Statutes and the state's policy on internal controls require that each agency head identify, analyze, and manage business risks that impact the entity's ability to maintain its financial strength and the overall quality of government

services.¹⁵ The policy further requires follow-up procedures that, at a minimum, should include ways to monitor controls and report significant weaknesses to management in order to prompt corrective action.

Recommendation

- *Explore Minnesota Tourism should document and periodically review its financial and compliance risks, internal control activities, and monitoring functions for its key business processes.*

Finding 2

Prior Audit Finding Not Resolved: Explore Minnesota Tourism did not effectively safeguard and promptly deposit receipts.

The office continued to have internal control weaknesses over receipts, as identified in our last audit.¹⁶ Explore Minnesota Tourism did not log receipts upon arrival in its central office, which received the majority of collections. An office employee at the front desk opened the mail and forwarded the receipts to the various program staff without making an initial record of the receipts. Program staff then routed the receipts to financial staff along with a supporting memo for deposit. By not preparing a record of all incoming receipts before distribution to program staff, and subsequently comparing that record to amounts actually deposited and recorded in the accounting system, the office is unable to detect missing or stolen receipts.

In addition, the office did not promptly deposit receipts for 4 of 14 deposits tested. *Minnesota Statutes* require daily deposit of receipts accumulating to \$1,000 or more.¹⁷ In addition to delayed deposits in its central Saint Paul office, regional offices had significant delays in depositing receipts at local state depository banks. Based on the dates on the checks, some could have been held as long as 30 business days before being deposited. For example, staff received 18 checks, totaling \$25,200, dated between September 21, 2012 and October 22, 2012, all of which were deposited on November 2, 2012. By not promptly depositing these receipts, the office increased the risk that they could be lost or stolen.

Recommendations

- *Explore Minnesota Tourism should promptly log receipts upon arrival and ensure that it deposits daily receipts that accumulate to \$1,000 or more daily, as required by state statute.*

¹⁵ *Minnesota Statutes* 2013, 16A.057, and Department of Management and Budget Policy 0102-01, *Internal Controls*.

¹⁶ Office of the Legislative Auditor, Financial Audit Division Report 07-28, Finding 2.

¹⁷ *Minnesota Statutes* 2013, 16A.275.

- *Explore Minnesota Tourism should assign an independent employee the responsibility to compare the receipts log to the amounts deposited and recorded in the state's accounting system.*

Prior Finding Partially Resolved: Explore Minnesota Tourism did not mitigate the risk created by allowing incompatible employee access to the state's accounting system, and it did not monitor certain access staff from another agency had under an interagency agreement.

Finding 3

In our prior audit, we reported that Explore Minnesota Tourism allowed some employees to have incompatible access to the state's accounting system and also had 19 staff from the Department of Employment and Economic Development that could access its personnel data, even though the job duties of eight of those employees did not relate to the office.¹⁸ The current audit continued to find that incompatible access was not mitigated and, even though the office reduced the number of Department of Employment and Economic Development staff that could access its personnel data, it did not implement periodic monitoring procedures.

Explore Minnesota Tourism had not developed, documented, or implemented internal controls to mitigate the risks created by allowing 18 employees to have combinations of security roles in the state's accounting system that the Department of Management and Budget identified as being incompatible. State policy requires agencies to have internal controls to mitigate the risks when the agency cannot segregate incompatible duties.¹⁹ In January 2013, despite not having controls in place to mitigate the risks, the department certified to the Department of Management and Budget that it had those internal controls in place.

In addition, the office did not monitor access provided by the Department of Employment and Economic Development (through an interagency agreement) to the employees who updated Explore Minnesota Tourism's personnel data. Without a periodic review, the office could not assess whether the department had limited individual employee access to only what was necessary for the individual to perform their job functions and responsibilities related to the office's human resources transactions. State policy requires that departments limit access to the state's accounting and human resources systems to those employees needing the access to perform their jobs.²⁰

¹⁸ Office of the Legislative Auditor, Financial Audit Division [Report 07-28](#), Finding 3.

¹⁹ Department of Management and Budget Policy 1101-07, *Security and Access*.

²⁰ Department of Management and Budget Policy 1101-07, *Security and Access*.

Recommendations

- *Explore Minnesota Tourism should eliminate incompatible access to the accounting system. If it is not possible due to a limited number of staff, it should develop and document internal controls to mitigate the risk created by incompatible access provided to its employees.*
- *The office should periodically monitor the access of employees from the Department of Employment and Economic Development that can update Explore Minnesota Tourism personnel data.*

Finding 4

Explore Minnesota Tourism did not obtain required grant evaluation data from some grantees, and it did not use evaluation data it did receive to measure success of various types of grants.

For 3 out of 10 grants we tested, grantees did not evaluate and measure the outcomes achieved by the grant, as required by the grant agreement and the office's grant guidelines. A grantee could, for example, measure the outcome of an advertisement by the number of subsequent inquiries they received or report the number of people stopping at the grantee's booth during a trade show. In addition, the office could not show us how it used the information grantees did provide to more effectively target successful grants. The office provided about \$300,000 each fiscal year (\$935,138 during fiscal years 2011 through 2013) for grantees to use for advertising, trade shows, tours, marketing, community awareness, and Web site enhancements that could increase tourism. Without evaluating the grant outcomes, the office diminishes its ability to ensure that these grants effectively promoted Minnesota tourism.

Recommendations

- *Explore Minnesota Tourism should enforce the grantees' compliance with grant agreements' requirement to report outcomes achieved through the grant.*
 - *Explore Minnesota Tourism should use evaluation data to assess the effectiveness of individual grants and grant programs to enhance promotion of tourism in Minnesota.*
-



November 18, 2013

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

Dear Mr. Nobles:

Thank you for your recent audit of the internal controls and compliance of Explore Minnesota for the period July 1, 2010 to June 30, 2013. The following is a written response to the findings and recommendations you provided.

I have reviewed the draft audit with senior staff in order to assure proper controls and compliance with applicable laws. We discussed your findings and wish to offer the following response to address issues raised. Remedies are identified below, including the names and dates for persons responsible for completion of tasks.

Finding #1:

Explore Minnesota Tourism did not assess and document financial and compliance risks to ensure that it had designed and implemented effective internal controls.

EMT Response:

We agree with the recommendations to increase efforts to document financial and compliance risk. Explore Minnesota will update our risk assessment and develop an internal controls policy by the end of January 2014 and address the items you raised in the audit. We further will commit to reviewing our risk assessment and internal controls on an annual basis to assure we have proper controls in place for key business processes. Responsibility: John F. Edman, Director.

Finding #2:

Prior audit finding not resolved: Explore Minnesota Tourism did not effectively safeguard and promptly deposit receipts.

EMT Response:

Explore Minnesota addressed the prior audit finding regarding deposits by training additional staff to provide backup. The number of instances of deposits being held was significantly reduced, but there continued to be occasional occurrences of this due to staff absences, and a training issue in one regional office location. We acknowledge that we did not have a process to log deposit receipts before routing to program staff. Explore Minnesota will address this finding by communicating with staff and promptly logging receipts upon arrival. We have also taken steps to more immediately deposit receipts and eliminate incompatible duties in receipts processing. These processes will be identified, communicated, and in place by January 1, 2014. Responsibility: Peggy Nasby, Operations Manager.

Finding #3:

Prior finding partially resolved: Explore Minnesota did not mitigate the risk created by allowing incompatible employee access to the state's accounting system, and it did not monitor certain access staff from another agency had under an interagency agreement.

EMT Response:

We have attempted to resolve some of the incompatible access issues identified in the previous audit. In the now not-so-recent transition to the SWIFT accounting system, we were unclear on the incompatible access points of a small agency such as ours. Explore Minnesota has already taken steps to clean up some of the separation of duty issues now brought to our attention and will complete this process by January 31, 2014.

Regarding the issue of another agency's staff access to Explore Minnesota personal records, much of this was addressed by the Department of Employment and Economic Development after our last audit. We will commit to working with DEED staff on an annual basis to ensure employee access is limited to only what is necessary for the performance of their job.

Responsibility: John F. Edman, Director.

Finding #4:

Explore Minnesota Tourism did not obtain required grant evaluation data from some grantees and it did not use evaluation data it did receive to measure success of various types of grants.

EMT Response:

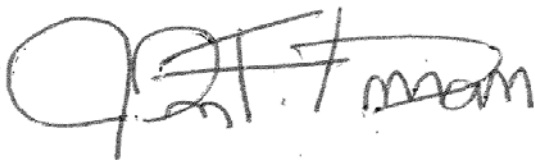
As part of our grant guidelines, evaluation data is required of all grant recipients. Explore Minnesota will work with regional staff and the grantees to be certain all required documentation is provided. We will further commit to review this data and evaluation to assure that statewide branding, awareness and promotion goals are met. This process will be ongoing through the current and future annual grant programs.

Responsibility: Colleen Tollefson, Industry Relations Manager.

In conclusion, we hope this response addresses the issues you raised about the operations and controls of Explore Minnesota for the period of this audit. We take these concerns very seriously and will do all we can to better ensure the public's trust and do our job for the citizens of the state.

Thank you once again for your efforts and professional approach of your staff during the course of this audit. 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 stylized with a large initial "J" and "E".

John F. Edman, Director
Explore Minnesota Tourism