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ECONOMIC DEVELOPMENT

Division of Tourism

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CITIZENS SUMMARY

Findings in the audit of the Department of Economic Development, Division of Tourism

Conflicts of Interest

The Tourism Commission has not established a conflict of interest policy for its members, and three commission members took part in funding decisions benefiting entities with which they were associated. While a member of the Commission, the Lieutenant Governor took part in approving funding for Tour of Missouri, Inc. Although it was not disclosed on his 2008 or 2009 Personal Financial Disclosure Statements filed with the Missouri Ethics Commission, the Lieutenant Governor was Chairman of this non-profit entity at the time. Also, the current Chairman and a former member of the Commission participated in discussions and program funding decisions which benefited local tourism agencies they represented.

Fund Management

The Commission and the division budgeted to spend more than available in fiscal years 2010 and 2011. The division paid $4 million of fiscal year 2010 expenditures out of its fiscal year 2011 appropriation and expects to pay $4 million of its fiscal year 2011 expenditures from its fiscal year 2012 appropriation. Planning to spend more than you expect to have available in a year does not make financial sense, especially when additional budget cuts could occur.

Transparency of Expenditures

Rather than paying some vendors directly, the division paid its advertising agency a total of $2.2 million in fiscal years 2009 and 2010 which was passed through to other vendors, reducing the transparency of who actually received the funds. Of this $2.2 million, $1.54 million was passed through to Tour of Missouri, Inc.; $480,645 was passed through to subcontractors for website services; and $141,340 was passed through to vendors for conferences, research and other services. The advertising agency had no involvement in most of these services, so it is unclear why it was used to pass monies through to these other vendors. The division also paid the advertising agency an additional $586,056 for website development services, which were not within the scope of the original bid, without soliciting bids or showing the rates were competitively established.

Oversight

The Commission needs to improve its oversight of division budgeting and expenditure activities. Division budgets were not approved or adjusted promptly, and the division unnecessarily paid $66,000 in administrative fees to its advertising agency because the fees were based on the original fiscal year 2010 marketing budget. The budget lacks detail for payroll expenditures, making it difficult for the Commission to exercise appropriate oversight.

In fiscal year 2009, the division paid $709,794 to Tour of Missouri, Inc., $114,209 to its advertising agency for marketing at the Major League Baseball All-Star Game, and $50,000 to a second-tier subcontractor for marketing various athletic events without specific Commission approval. In addition, the division exceeded the fiscal year 2009 budgeted amount for office furniture by $22,167 and exceeded the budgeted amount for travel by $5,400 in fiscal year 2009 and $12,700 in fiscal year 2010.

Division contracts do not allow for adequate oversight of funds, and the division has not enforced contract terms. In a 2-year period, the division paid over $3.21 million to Tour of Missouri, Inc. without defining what costs were allowable, requiring a list or documentation of actual expenses, or providing for penalties if Tour of Missouri, Inc. did not follow the contract terms. Also, the division has not required its advertising agency to provide annual reports or weekly status reports as is mandated by its contract.

Performance Measurement

The Commission and division have not established formal performance goals and do not fully utilize performance data to measure whether or not chosen strategies are effective. The Commission and division made funding decisions related to its advertising agency, the Cooperative Marketing Program, Tour of Missouri, and Welcome Centers without conducting analyses or studies or measuring how these endeavors helped meet division goals. Having defined goals and measuring progress toward meeting them could help the Commission determine how best to use the division's resources.

Payment of Flight Costs of the Governor's Office

The division paid a total of over $3,000 in fiscal years 2009 and 2010 for travel relating to the Governor's Office. In one instance, there was not adequate documentation of the purpose of the flight or who was aboard. We determined the division paid $842 for a flight to St. Louis to promote the 2009 Major League Baseball All-Star game which included no division officials; $1,130 for a flight related to the 50th Anniversary of Silver Dollar City which included no division officials; and $1,100 for a flight to Branson to honor soldiers which appeared to include the Division Director. It appears these flights were primarily related to functions of the Governor's Office rather than tourism, and, therefore, should be paid out of the Governor's Office appropriations so as not to distort the operating costs of the division and the Governor's Office or interfere with the General Assembly's appropriation process.

In the areas audited, the overall performance of this entity was **Fair**.*

American Recovery and Reinvestment Act 2009 (Federal Stimulus)

During the fiscal year ended June 30, 2010, the division used $3.1 million from the Federal Budget Stabilization-Medicaid Reimbursement Fund to fund general operations.

***The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

Excellent: The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.

Good: The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.

Fair: The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.

Poor: The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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Department of Economic Development
Division of Tourism
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THOMAS A. SCHWEICH
Missouri State Auditor

HARRY J. OTTO, CPA
DEPUTY STATE AUDITOR

Honorable Jeremiah W. (Jay) Nixon, Governor
and
Tourism Commission
and
David Kerr, Director
Department of Economic Development
and
Kathleen Steele Danner, Director
Division of Tourism
Jefferson City, Missouri

To avoid the appearance of a conflict of interest, the State Auditor has recused himself from participation in this audit and has directed the Deputy State Auditor to oversee procedures performed by the State Auditor's professional audit staff. We have audited certain operations of the Department of Economic Development, Division of Tourism, in fulfillment of our duties under Chapter 29, RSMo. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2010 and 2009. The objectives of our audit were to:

1. Evaluate the division's internal controls over significant management and financial functions.

2. Evaluate the division's compliance with certain legal provisions.

3. Evaluate the economy and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the division, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the division's management and was not subjected to the procedures applied in our audit of the division.

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures.

The accompanying Management Advisory Report presents our findings arising from our audit of the Department of Economic Development, Division of Tourism.

Harry J. Otto, CPA
Deputy State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Douglas Porting, CPA, CFE
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In-Charge Auditor:	Amanda Locke, M.Acct.
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1. Conflicts of Interest

The Tourism Commission has not established a conflict of interest policy for its members. Several instances were noted where commission members took part in funding decisions that benefited entities with which they were associated.

Tour of Missouri

While serving as the Chairman of the Tourism Commission, the Lieutenant Governor also served simultaneously as the Chairman of the Board for Tour of Missouri, Inc., the non-profit entity receiving funding from the Division of Tourism to administer the Tour of Missouri bicycle race in September 2008 and 2009.

The commission minutes do not indicate whether the Lieutenant Governor notified the commission and the division about his role with Tour of Missouri, Inc., and the possibility of a conflict of interest. Based on our review, at least some of the commission members did not appear to be aware of the Lieutenant Governor's role with the non-profit. The Tour of Missouri, Inc. business filings at the Secretary of State's office did not disclose the Lieutenant Governor's role until August 2009. The Lieutenant Governor also did not disclose his role with the non-profit entity per the 'Personal Financial Disclosure Statement' filed with the Missouri Ethics Commission for calendar years 2008 and 2009. This statement requires the disclosure of any non-profit entity in which the individual served as officer, director, employee, or trustee, whether or not there is a financial interest in the non-profit entity.

The Lieutenant Governor, in his role as the Chairman of the Tourism Commission, took part in discussions regarding the funding of the Tour of Missouri and did not abstain from voting to approve commission budgets, which included direct line items for the Tour of Missouri of $1 million and $1.5 million in fiscal years 2009 and 2010, respectively. The Lieutenant Governor was replaced as the Chairman of the commission in November 2009 and business filings with the Secretary of State's Office as of October 2010 show the Lieutenant Governor is no longer an officer with Tour of Missouri, Inc.

Cooperative Marketing Program and First-time Marketing Events Program

Two commission members[1] did not recuse themselves from budget decisions related to the Cooperative Marketing Program and the First-time Marketing Events Program[2] despite representing local tourism agencies which received funding from these programs. The commission approved budgets that included statewide totals of $8.2 million for the Cooperative

[1] Marcia Bennett-Hazelrigg and James Divincen.

[2] Events marketed for the first-time, such as the Pony Express Sesquicentennial in Buchanan County, holiday lights at the Lake of the Ozarks, the return of the Kansas City Chiefs Training Camp to St. Joseph, etc.

Marketing Program and $175,000 for the First-time Marketing Events Program during fiscal years 2009 and 2010. We also identified similar situations in fiscal year 2011. Since division staff allocate budgeted Cooperative Marketing Program funds to local agencies, the commission members did not directly approve division funding for their local agencies' projects. However, one of the members in question served as the Chair of the commission's Budget Committee and the other served on the Budget Committee which makes budget recommendations to the commission as a whole.

The local tourism agencies of the commission members in question received Cooperative Marketing Program funds totaling $687,649 for the periods in which the members served in fiscal years 2009 and 2010. One organization received First-time Marketing Events Program funds totaling $45,000 for the 2 years ended June 30, 2010, according to division documentation. The other agency did not receive direct funds from the division for the First-time Marketing Events Program, but division documentation indicates the agency benefited from $16,102 in funded events during fiscal year 2009 (the period which the member served).

Conflict of interest policy

The commission has not established a conflict of interest policy for commission members.

We identified the commission had not (1) required commission members to disclose all actual and potential conflicts of interest or situations which could present the appearance of a conflict of interest in writing to the commission or the division; (2) established policies for how to handle actual conflicts of interest or the appearance of conflicts of interest; and (3) required commission members to recuse themselves from decision making or actions relevant to the parties involved in the potential conflict.

State law allows up to five members of the commission to be engaged in the tourism industry. While this arrangement allows the commission to benefit from such members' experience in the industry, it also provides opportunity for conflicts of interest when making funding decisions. Without a policy requiring the full disclosure of actual conflicts of interest or situations which could present the appearance of a conflict of interest, transactions may not be performed in a transparent, objective, or ethical manner.

Recommendation

The commission establish a conflict of interest policy that requires commissioners to disclose, in writing, relationships or situations which could result in an actual or appearance of conflict of interest. The policy should identify how to handle conflict of interest situations. In addition, commissioners should abstain from voting on matters when an actual or appearance of conflict of interest has been identified.

Auditee's Response

The Commission Chairman and the division provided the following written response:

We agree that a conflict of interest policy should be established and maintained for commission members.

2. Fund Management

The commission and the division budgeted expenditures in excess of funds available for fiscal years 2010 and 2011, and paid approximately $4 million of fiscal year 2010 expenditures out of the division's fiscal year 2011 appropriation of $13.42 million. The division is also expected to pay approximately $4 million in fiscal year 2011 expenditures from fiscal year 2012 appropriations.

The General Assembly appropriates and authorizes the transfer of monies from the General Revenue Fund to the Division of Tourism Supplemental Revenue Fund, which retains access to remaining cash balances at year end. Due to recent economic pressures, state budget cuts and withholdings have reduced the funds available to the division. Prior to fiscal year 2010 the fund had a sufficient balance to enable the payment of prior year expenditures from expected current year funds available. However, in fiscal years 2010 and 2011, the division budgeted expenditures which exceeded funds available.

		Fiscal Year	
	2009	2010	2011
Beginning cash balance	$ 5.69	4.49	0.00
Actual cash receipts	20.96	13.27	13.05
Total cash available	26.65	17.76	13.05
Prior year expenses paid in current year	4.37	4.56	3.96
Current year expenses paid in current year	17.79	13.20	9.02
Current year expenses paid in following year	4.56	3.96	4.00[1]
Total obligations	26.72	21.72	16.98
Amount of current year funds (over)/under obligated	(.07)	(3.96)	(3.93)[1]

[1] Estimated from division data

Source: division data, presented in millions

According to an Office of Administration Accounting official, while state law does not specifically disallow the practice of consistently creating excessive liabilities, the practice is not recommended. Significantly obligating funds in excess of appropriated amounts does not appear to align with the intent of the appropriation process established by the General

Assembly. By continuing to obligate significant expenditures to future periods, division officials are potentially limiting the division's ability to operate in the event further budget cuts reduce future appropriations.

Recommendation

The commission and the division should establish policies and procedures to ensure the division's budget is aligned with the total funds appropriated and available for the current fiscal year.

Auditee's Response

The Commission Chairman and the division provided the following written response:

The division was directed by the Office of Administration, Division of Budget and Planning to change from an accrual to a cash basis of accounting in fiscal year 2011. Division staff was told the recommendation was made to be consistent with other state agencies. At the commission meeting on October 1, 2009, the commission voted in favor of making this change.

Although the commission and division management staff changed from an accrual basis to a cash basis of accounting, we continue to monitor expenditures using both methods. We are reimbursing expenditures that have been previously approved, but not reimbursed. Both methods of accounting are used because the approval and reimbursement cycle may cross fiscal years. Division staff tracks costs that are applied to the line items in any approved budget year to make certain that expenditures do not exceed the budgeted amounts from July 1 – June 30 of that fiscal year. Staff monitors expenditures before processing the reimbursement of advertising and/or marketing vendors. The spending activity is charged to the available amount correlating to the applicable approved budgets. Expenditures may be accounted for in one year's cash basis budget and in the previous year's accrual basis budget; however expenditures for any budget year do not exceed the budgeted amount.

3. Transparency of Expenditures

The division paid approximately $2.2 million in fiscal years 2009 and 2010 to its contracted advertising agency which was subsequently passed through to other vendors for services, rather than paying the vendors directly. Passing large payments through a contractor results in reduced transparency of division expenditures. In addition, this pass-through process obscures the identity of the ultimate recipient of the payments and the need for competitive procurement.

The specific transactions noted include the following:

Tour of Missouri

The division paid $1.54 million in fiscal year 2010 to the non-profit entity responsible for the Tour of Missouri bicycle race. However, instead of contracting and directly paying the non-profit entity for the division's sponsorship of the race, the division paid the funds to its advertising agency and instructed the agency to pay the non-profit entity. The advertising agency provided no additional administrative support or oversight of the funds. An Office of Administration, Division of Purchasing and Materials Management (DPMM) official said the contract with the advertising agency allowed for these types of expenditures to be paid through the contract. However, the use of the funds did not appear consistent with the purpose of the advertising agency contract and did not allow for appropriate transparency or accountability of the expenditure.

Website development, management, and maintenance

The division paid $480,645 to the advertising agency in fiscal years 2009 and 2010 which was passed through to subcontractors for website development, management, and maintenance services without bidding for the services. An additional $586,056 was paid directly to the advertising agency for website development services without being bid. While the original advertising agency contract was bid, these additional services were not included in the scope of that bid and there was no documentation supporting the billing rates were competitively established. The manner in which these expenditures were processed reduced the overall transparency of the transactions and allowed the division to bypass the Office of Administration's procurement process.

In addition, website services do not appear to be an allowable cost per the contract with the division's advertising agency. The contract states "the contractor shall not be required to perform internet site development, management, or hosting of the VisitMO website." We obtained documented discussions from officials at the DPMM notifying division officials that some of these website costs did not appear allowable through the advertising agency contract. However, according to DPMM officials, the division subsequently entered into the agreements without notifying the DPMM, or ensuring appropriate measures were taken to comply with the contract terms.

Other expenditures

The division paid at least $141,340 for conferences, research, and other services through their advertising agency for fiscal years 2009 and 2010. The advertising agency was not involved in the decision making process or the administration of these services, but simply passed funds through to vendors at the direction of the division. The division indicated a DPMM official said the contract with the advertising agency allowed for these types of expenditures to be paid through the contract. However, the use of the funds did not appear consistent with the purpose of the advertising agency contract and did not allow for appropriate transparency or accountability of the expenditures.

Recommendation

The division establish procedures to ensure future expenditures are conducted in an open, transparent, and accountable manner. In addition, the division should ensure purchases are competitively bid and authorized in accordance with Office of Administration guidelines.

Auditee's Response

The Commission Chairman and the division provided the following written response:

The advertising contract includes language that allows the division to direct the advertising agency of record to perform additional duties:

2.5.2 "Other Additional Programs – If required by the state agency, the contractor shall perform other additional programs as part of the total advertising campaign effort of the state agency. Examples of such additional programs may include, but not necessarily be limited to promotions of the Civil War in Missouri, State Parks, Governor's Conference on Tourism, and any other promotions or programs that might arise. The state agency shall specify the type of and requirements of any other additional programs at the time of identification of the need for the additional program.

2.5.3 The contractor shall understand and agree that there shall be no additional fee for the performance of any additional programs. "

We agree that all division expenditures should be conducted in an open, transparent, and accountable manner. The division accepts the recommendation and has already implemented procedures to ensure that competitive bids are authorized in accordance with Office of Administration guidelines. Division staff has been reorganized with new management assignments and responsibilities establishing a more cohesive management team with open book and transparent budgeting and expenditures in all departments. In addition, successful bidding procedures have been followed including contracts for research, advertising, strategic planning, search engine optimization/search engine marketing, and (still in the RFP process as of this writing) web development.

4. Oversight

The commission's oversight of division activities should be improved. In addition, the division has not fully ensured compliance with contractual requirements or ensured contracts provide the division adequate oversight of the allocated funds.

4.1 Oversight by the Tourism Commission

The commission has not established procedures to ensure adequate oversight of division budgeting and expenditure activities. Section 620.455, RSMo has charged the commission with determining all matters related to policy and the administration of tourism promotion.

Budget

The commission's oversight of the division's budget needs improvement. Division budgets are not approved or adjusted in a timely manner. For example, in April 2009, the commission met and approved a fiscal year 2010 budget of $23.7 million. In July 2009, the commission meeting minutes identify the commission became aware of appropriation reductions that reduced the division's budget to $20.6 million; however, the commission did not approve the reduced budget until October 2009. The final budget approved by the commission in November 2009 totaled $19 million. However, additional reductions in funding of approximately $1 million occurred and were acknowledged by the commission's Budget Committee without any action taken by the commission to reduce the budget or to formally direct which budget line items should be reduced.

In addition, the commission's lack of oversight allowed various payments to be made without formal approval from the commission.

- The division paid $709,794 to the non-profit entity responsible for the Tour of Missouri without approval by the commission in fiscal year 2009. In June 2008, the commission approved the fiscal year 2009 budget, which included a generic budget line item for the Governor's Reserve. In August 2008, division records indicate the Governor's office released these funds and directed them to be used for the Tour of Missouri. However, the commission did not specifically approve these funds be used for the Tour of Missouri.

- The division paid $114,209 to its advertising agency in fiscal year 2009 for marketing at the Major League Baseball All-Star Game in St. Louis. The Governor had requested division funds be used for marketing of the All-Star Game and the commission was aware of this request. However, the commission did not specifically approve funding for this transaction.

- The division paid $50,000 to a subcontractor of the division's advertising agency for marketing various athletic events. However, the commission did not vote to approve funds for this transaction.

- The division paid $27,167 in fiscal year 2009 for office furniture and other equipment at Welcome Centers; however, the commission did not approve funds for these transactions. The commission had only approved $5,000 in the budget for Office Equipment.

- The division paid approximately $5,400 in fiscal year 2009 and $12,700 in fiscal year 2010 in excess of the amount budgeted to vendors responsible for domestic and international travel. The commission had approved specific budgets for these vendors.

Periodic reviews of expenditures and timely approval of the division's budget would help ensure all transactions are accounted for properly, adequately supported, and for reasonable and appropriate uses.

Advertising agency administrative fee

The delays in the commission's approval of the fiscal year 2010 budget, discussed above, resulted in unnecessary administrative fees being paid to the division's advertising agency. The advertising agency contract stipulates the administrative fee be paid based on the initial marketing budget, using fee thresholds specified in the contract. Although the division and the commission were made aware of significant withholdings in July 2009, the commission failed to adopt the adjusted budget until October 2009. As a result, the division's administrative fee to the advertising agency was set at $159,900 per month rather than $148,900 per month that would have been due had the division's revised budget been approved on a timely basis. Although the advertising agency eventually agreed to reduce the fee to $148,900 in January 2010, the division paid a total of $66,000 in unnecessary administrative fees as a result of the delay in approving the annual budget.

Payroll expenditures

The budget approved by the commission does not include sufficient detail to monitor the allocation of payroll expenditures. A payroll expenditure amount is approved in total without any breakdown by program or purpose. For fiscal year 2010, the total approved was approximately $1.4 million, with an additional $200,000 for part-time contractors. Our review noted the following examples where additional oversight of the payroll budget would be beneficial:

- The division paid personnel costs totaling at least $87,000 for an individual to perform coordination duties for the Tour of Missouri. Commission minutes from November 2009 indicate not all members of the commission were aware these costs were being incurred. Since the commission had separately approved funding to a non-profit entity to administer the Tour of Missouri, some commissioners believed the division's support of the race was limited to the payment made to the non-profit entity. A review of payroll costs by the commission could have identified the additional personnel costs.

- The division paid personnel costs for Welcome Center staff totaling $1,152,883l (or 41 percent of the division's personnel costs) in fiscal years 2009 and 2010, of which $968,671 related to state employees and $184,212 related to contracted personnel. However, the budget approved by the commission does not include any mention of the Welcome Centers.

Having more detailed information regarding the allocation of personnel costs will allow the commission to have a better understanding of where and how personnel dollars are being expended and allow the commission to make more informed decisions.

4.2 Contractual oversight by the division

The division has not fully ensured compliance with contractual requirements. In addition, certain contracts did not provide the division adequate oversight of the allocated funds.

Tour of Missouri

The division did not receive financial reports in accordance with the contracts with the non-profit entity responsible for the Tour of Missouri in fiscal years 2009 and 2010. During those years, the division paid a total of $3.21 million[3] to fund the race and did not ensure the contract allowed for adequate oversight of the funds. The contract did not:

- Require division funds be paid on a reimbursement basis. Large payments were made in advance without requiring documentation of expenditures.
- Require a line-by-line budget be established prior to payment of funds to the non-profit.
- Stipulate the types of costs that were considered allowable or unallowable.
- Require a detailed list of actual expenditures by budget line item be provided on a regular basis.
- Include any repercussions in the event the non-profit entity did not comply with contract terms.

At the direction of the Governor, the Office of Administration contracted for a third-party review of the expenses of the fiscal year 2009 race. The review identified various concerns, including some similar to those listed above regarding the contract and documentation as well as the lack of a fiscal policy and procedure manual. Without the above stipulations in the contract, the division is unable to determine if state funds were expended properly and appropriately.

Advertising agency

The division does not ensure compliance with contractual requirements related to the division's advertising agency.

- The contract requires the advertising agency provide the division an annual report that includes, but is not necessarily limited to: (1) budget and media breakdown by market, type, and campaign, (2) documentation measuring the results of current projects, (3) an assessment of the year's programs, and (4) an evaluation of potential future opportunities. A division official said a formal report has not been required or received from the advertising agency for fiscal years

[3] The division made payments of $1 million, and $709,794 during fiscal year 2009 to the Tour of Missouri, Inc., and three payments of $500,000 each during fiscal year 2010 to Tour of Missouri, Inc. via the advertising agency. The Missouri Wine and Grape Board also paid $40,000 to the division for the Tour of Missouri, who then paid the Tour of Missouri, Inc. through the advertising agency during fiscal year 2010.

2009 or 2010. This official said the division has informally received the information satisfactory to meet these requirements. However, the division could not provide formal documentation from the advertising agency to support how these requirements were met.

- The contract requires the advertising agency provide weekly status reports of the accomplishments achieved, projects completed, and status of future projects. However, the division has not received weekly status reports. A division official said the division informally agreed to receive monthly status reports from the division's advertising agency; however, the contract terms were not adjusted nor was there any formal agreement maintained to support this change.

Contract monitoring and documentation of compliance with contractual requirements are necessary to ensure division funds are used for necessary, reasonable, and appropriate purposes, and to ensure the contractor complied with contract terms.

Recommendations

4.1 The commission establish procedures to improve oversight of the division's operations. These procedures should ensure the division's budget is approved in a timely manner, all changes in allocated funding are reflected in the budget, and additional detail is presented regarding the allocation and purpose of personal service expenditures.

4.2 The division establish procedures and require documentation to allow adequate monitoring and oversight of contract requirements and expenditures, and ensure monitoring efforts are adequately documented.

Auditee's Response

The Commission Chairman and the division provided the following written response:

The division accepts the recommendation and has already implemented procedures to provide timely and detailed divisional expenditures and to ensure that all contracts are based on the status of contract deliverables.

5. Performance Measurement

The commission and the division have not fully established performance goals and measures to guide the direction of the division. In addition, the commission and the division have not fully integrated performance data into its resource allocation process for tourism investments.

5.1 Performance goals

The commission has not established formal performance goals or measures to guide the direction of the division. Division officials said the division established a 5-year strategic plan for fiscal years 2008 to 2012 which included performance measures. However, the commission did not formally approve these measures for fiscal years 2009 or 2010 and there is limited evidence the commission considered performance goals or measures in the funding decision process.

The performance measures included in the Annual Report prepared by the division do not include specific targets or goals. Without pre-established targets, the division is less able to measure the effectiveness of the strategies in place or identify deficiencies. For example, if an agency's goal is to simply increase overnight stays, any incremental increase could be considered a success, but by setting a realistic, specific goal, the division and commission can more easily determine the effectiveness of strategies.

Establishing and measuring performance goals on a periodic basis can assist in determining whether pre-determined targets are achieved or if deficiencies exist. A system of monitoring and measuring performance also increases accountability by assisting decision makers in the resource allocation process.

5.2 Performance evaluation

The commission and the division do not appear to fully utilize performance data to evaluate the effectiveness of individual programs. As a result, the effectiveness of individual programs is not adequately considered during the resource allocation process. Our review of the commission minutes for fiscal years 2009 and 2010 did not show performance data was used to evaluate specific strategies. Our review of available performance data, including return on investment data, identified issues with the following programs:

Advertising agency

The commission and the division did not establish specific performance goals or measures for the funding allocated to the division's advertising agency. The division paid $19.4 million to the advertising agency for services provided or subcontracted for fiscal years 2009 and 2010, according to division records.

Division officials said annual statewide economic impact studies conducted by a third party provide input on the contractor's performance. Division officials said they consider the contractor's performance to have met the division's needs and also noted the contractor won awards for their campaign. However, without pre-established goals for the advertising agency, it is difficult to measure how effective the performance was or to hold the contractor accountable in the event the performance does not meet desired expectations.

Cooperative marketing program

The commission and the division have not established overall performance measures or targets for the Cooperative Marketing Program or used performance results data as a basis for funding, or denying funding, for specific projects. In addition, each local non-profit entity awarded funding for increasing tourism to local tourist destinations is not held accountable for its performance estimates. Some projects provided information regarding the return on investment while other funded projects did not. As a result, evaluating cooperative marketing projects against one another is difficult, and the division cannot be assured the most effective projects are selected. The division paid a total of $7.94 million for cooperative marketing projects in fiscal years 2009 and 2010, according to division records.

Tour of Missouri

The commission and the division did not establish performance goals or measures for the funding allocated to the Tour of Missouri. In addition, the commission and the division did not determine the economic impact to the state or the return on investment generated from the Tour of Missouri prior to funding the Tour of Missouri in fiscal years 2009 and 2010 or denying funding for the Tour of Missouri in fiscal year 2011. Although the non-profit entity in charge of promoting the race had obtained an economic benefit study, division officials said they did not rely on the study and did not perform an independent economic impact analysis. According to a division news release, the Tour of Missouri was not funded in 2011 because the division's other priorities produced a higher return on investment. However, it does not appear the division had adequate documentation to support how the economic impact from the Tour of Missouri compared to other tourism projects. The division paid a total of $3.3 million to fund the Tour of Missouri in fiscal years 2009 and 2010.

Welcome Centers

The commission and the division are unable to fully support funding decisions for the Welcome Centers. While state law[4] requires the division to maintain travel offices at major entry points in the state, the division's level of financial support for the centers is at the commission's discretion. The division paid $704,000 and $641,000 for its seven Welcome Centers in fiscal years 2009 and 2010, respectively, according to division records. The fiscal year 2011 budget approved by the commission does not specify the Welcome Center budget, but costs are expected to be consistent with prior years.

The division's economic impact data identified the division's return on investment from the Welcome Centers was substantially less than other division programs. However, no significant cuts to Welcome Center funds were made during fiscal years 2009 through 2011.

Integrating performance data in the resource allocation process requires management to be more accountable for their decisions. Linking the budget and strategic planning processes is a key component in ensuring

[4] Section 620.465, RSMo

accountability because it allows management to evaluate performance and allocate limited department resources in the most effective manner.

Recommendations

The commission and the division:

5.1 Establish formal performance goals and measures to guide the division's overall direction and periodically monitor the results against the pre-established goals.

5.2 Establish procedures to use performance data in the resource allocation process for individual tourism programs.

Auditee's Response

The Commission Chairman and the division provided the following written response:

The division agrees that performance goals and measures are helpful to guide direction, to monitor results, and to determine resource allocation decisions. As such, the division develops statistical and analytical information and conducts special research on Missouri's visitor industry that helps aid state marketing and product development efforts, industry planning and tourism policy-making. Its research publications further enable and empower stakeholders to make informed decisions in support of our tourism economy.

In the fall of 2010, division staff participated in a series of strategic planning sessions to review the current position of the tourism industry in Missouri and to set the direction for the tourism marketing outreach efforts going forward. Current and former commission members were involved in those sessions. The annual marketing plan that outlines how the division will execute these goals was presented to the Missouri General Assembly during the annual joint presentation to the members of the appropriate committees and the members of the commission on February 14, 2011.

Further, the division has established a 3-year strategic plan (2011-2013), which outlines measurable goals and objectives for the division. The strategic plan addresses challenges and assets both internally and externally that impact the success of the division. The plan serves as a road map and barometer, measuring the activities of the division and providing metered benchmarks for performance.

The fiscal year 2011 overall budget for the division is $13,422,576. Of that, the division is expending $10,199,853, or 78.3 percent on marketing the state, and using $2,820,046 or 21.7 percent for operating expenses, including staffing the seven welcome centers at key entry points to the state. Division staff work for new and creative, research supported marketing efforts that allow us to take full advantage of Missouri's natural beauty, *four-season outdoor opportunities, world-class meeting and convention sites and a myriad of sports, entertainment and family friendly options.*

Auditor's Comment

Our review of the 3-year strategic plan referenced in the division's above response shows the plan does contain goals and objectives, but does not clearly indicate how those goals and objectives can, or will be, measured. For example, one of the stated goals is to 'enhance the effectiveness' of the division, without designating a measurable criteria or how the goal will be measured.

6. Payment of Flight Costs of the Governor's Office

In fiscal years 2010 and 2009, the division paid flight costs totaling $3,072 relating to travel of the Governor's office, thus circumventing the appropriation process established by the General Assembly. For one flight, totaling $842, the division did not receive documentation supporting the purpose of the flight or who was on the flight. We determined the flight was for travel to St. Louis to promote the 2009 Major League Baseball All-Star game and included no division officials. A second flight, totaling $1,130, related to the 50th Anniversary of Silver Dollar City, a private entity in Branson, and no division officials were on the flight. Documentation for a third flight, totaling $1,100, shows it was to Branson and included the Division Director. However, the trip did not appear to be related to tourism, but was for honoring soldiers.

While some of these flights may have related to tourism, it appears the primary purposes of these flights were for functions associated with the Governor's office. It does not appear appropriate for state agencies to bear the cost of such flights that provide no clear benefit to the applicable agencies. These funding practices distort the actual costs of operating the division and the Governor's office.

Recommendation

The division work with the Governor's office to discontinue the practice of using division appropriations to pay flight costs of the Governor's office.

Auditee's Response

The Commission Chairman and the division provided the following written response:

The Office of Administration, Division of Budget and Planning determines the allocation of expenses incurred by the Governor's office by providing services to state departments. The Division of Budget and Planning informed the division of its share of those expenses. Travel expenses benefitting state departments and their constituents are allocated to the departments. The division believes the costs are an appropriate expense.

Department of Economic Development
Division of Tourism
Organization and Statistical Information

The Missouri Tourism Commission is responsible for determining all matters relating to policy and the administration of tourism promotion, according to state law.[5] The Department of Economic Development, Division of Tourism is the administrative arm of the commission.

The division is responsible for the promotion of tourism in Missouri. The division's primary goal is to draw new and repeat visitors year-after-year, thus increasing tourism expenditures in the state. State law[6] grants the division the following powers: (1) developing a program for the promotion of tourism in Missouri, (2) cooperating with entities in encouraging educational tourism and developing programs, (3) publishing tourist promotional material such as brochures and booklets, (4) promoting tourism in Missouri through articles, advertisements, or promotional exhibits, (5) establishing and maintaining travel offices at major entries of the state, (6) accepting funds for the promotion of tourism in Missouri, and (7) other duties necessary in carrying out the purposes of the division.

The division is administered by a director who is appointed by the commission. Kathleen Steele Danner has served as director of the division since November 2009 (she also previously served as Interim Director and Deputy Director of the Department of Economic Development). Previously, Robert Smith served as Interim Director for the division from March 2008 to November 2009, following the departure of the prior director, Blaine Luetkemeyer. At June 30, 2010, the division had 33 full time employees, 29 of whom were under the State Merit System. At June 30, 2009, the division had 33 full time employees and 16 part-time employees.

The commission consists of ten members appointed for four-year terms without compensation. The members consist of (1) the Lieutenant Governor, (2) two members of the Senate of different political parties appointed by the President Pro Tem of the Senate, (3) two members of the House of Representatives of different political parties appointed by the Speaker of the House of Representatives, and (4) five other persons appointed by the Governor, including persons engaged in the tourism industry.

[5] Section 620.455, RSMo
[6] Section 620.465, RSMo

The members of the commission as of June 30, 2010 were:

Appointed Members	Term Expires
Marcia Bennett-Hazelrigg, Chairman	January 2011
Scott Hovis, Vice Chairman	January 2013
Lieutenant Governor Peter Kinder	No Term*
Senator Jack Goodman	No Term**
Senator Ryan McKenna	No Term**
Representative Maynard Wallace	No Term**
Representative Regina Walsh	No Term**
John Joslyn	January 2014
Kelly Swanson	January 2011
Eric Rhone	January 2012

* Lieutenant Governor is automatically a member of the commission.
** Appointed by the Speaker of the House or the President Pro Tem of the Senate at the beginning of each new session.

American Recovery and Reinvestment Act 2009 (Federal Stimulus)

The division spent American Recovery and Reinvestment Act of 2009 monies of $3.1 million during the year ended June 30, 2010. These monies were appropriated to the Division of Tourism Supplemental Revenue Fund from the Federal Budget Stabilization - Medicaid Reimbursement Fund and were used to fund the general operations of the division.

A summary of the division's financial activity is presented in the following appendixes.

Appendix A

Department of Economic Development
Division of Tourism
Comparative Statements of Receipts, Disbursements, and Changes in Cash and Investments
2 Years Ended June 30, 2010

	Year Ended June 30,			
	2010		2009	
	Division of Tourism Supplemental Revenue Fund	Tourism Marketing Fund	Division of Tourism Supplemental Revenue Fund	Tourism Marketing Fund
RECEIPTS				
Appropriated transfers in	$ 13,220,720	0	20,963,621	0
Other payments	43	11,389	170	6,573
Miscellaneous	41,895	0	740	0
Total Receipts	13,262,658	11,389	20,964,531	6,573
DISBURSEMENTS				
Personal service	1,260,264	0	1,343,804	0
Employee fringe benefits	858,169	42	745,012	71
Travel, in-state	34,857	0	48,193	0
Travel, out-of-state	15,273	0	22,965	0
Fuel and utilities	170	0	19,835	0
Supplies	117,426	0	122,959	0
Professional development	24,143	0	41,189	0
Communication service and supplies	32,202	0	30,880	0
Professional services	10,648,405	15,000	14,319,504	15,000
Housekeeping and janitorial services	5,359	0	9,838	0
Maintenance and repair services	6,036	0	9,119	0
Computer equipment	5,367	0	11,951	0
Motorized equipment	1,022	0	21,065	0
Office equipment	1,615	0	27,167	0
Other equipment	1,284	0	3,914	0
Real property rentals and leases	153,616	0	113,852	0
Miscellaneous expenses	2,484	0	25,951	0
Program distributions	4,589,127	0	5,239,269	0
Total Disbursements	17,756,819	15,042	22,156,467	15,071
RECEIPTS OVER (UNDER) DISBURSEMENTS	(4,494,161)	(3,653)	(1,191,936)	(8,498)
CASH AND INVESTMENTS, JULY 1	4,494,161	4,450	5,686,097	12,948
CASH AND INVESTMENTS, JUNE 30	$ 0	797	4,494,161	4,450

Appendix B

Department of Economic Development
Division of Tourism
Comparative Statement of Appropriations and Expenditures
2 Years Ended June 30, 2010

	Year Ended June 30,					
	2010			2009		
	Appropriation Authority	Expenditures	Lapsed Balances	Appropriation Authority	Expenditures	Lapsed Balances
DIVISION OF TOURISM SUPPLEMENTAL REVENUE FUND						
Personal Service	$ 1,614,386	1,260,264	354,122	1,614,386	1,343,804	270,582
IT Consolidation - Expense and Equipment	55,704	10,929	44,775	55,704	19,730	35,974
Leasing	13,251	13,115	136	44,378	13,967	30,411
Expense and Equipment	21,530,580	14,489,615	7,040,846	21,552,580	18,948,620	2,603,960
DED State Owned	126,822	124,716	2,106	84,575	82,754	1,821
Tour of Missouri	1,000,000	1,000,000	0	1,000,000	1,000,000	0
Unemployment Benefits	3,804	11	3,793	3,804	2,580	1,224
Total Division of Tourism Supplemental Revenue Fund	24,344,547	16,898,650	7,445,778	24,355,427	21,411,455	2,943,972
TOURISM MARKETING FUND						
Expense and Equipment	15,000	15,000	0	15,000	15,000	0
Total Tourism Marketing Fund	15,000	15,000	0	15,000	15,000	0
Total All Funds	$ 24,359,547	16,913,650	7,445,778	24,370,427	21,426,455	2,943,972

The lapsed balances include the following restrictions made at the Governor's request:

	Year Ended June 30,	
	2010	2009
Personal Service	$ 129,151	0
Expense and Equipment	1,604,278	2,603,959
Total Division of Tourism Supplemental Revenue Fund	$ 1,733,429	2,603,959

Appendix C

Department of Economic Development
Division of Tourism
Comparative Statement of Expenditures (From Appropriations)
5 Years Ended June 30, 2010

	Year Ended June 30,				
	2010	2009	2008	2007	2006
Salaries and wages	$ 1,260,264	1,343,804	1,377,283	1,384,756	1,328,655
Travel, in-state	34,857	48,193	44,971	48,477	34,114
Travel, out-of-state	15,273	22,965	32,854	41,189	27,703
Fuel and utilities	170	19,835	21,613	21,549	22,422
Supplies	117,426	122,959	169,754	255,466	198,511
Professional development	24,143	41,189	48,324	40,684	43,816
Communication services and supplies	32,202	30,880	33,106	29,599	28,710
Services:					
Professional Services	10,663,405	14,334,504	13,537,722	8,933,901	8,509,711
Janitorial	5,359	9,838	11,679	19,658	17,854
Maintenance and repair	6,036	9,119	8,574	11,538	7,179
Equipment:					
Computer	5,367	11,951	15,734	24,969	0
Motorized	1,022	21,065		17,419	0
Office	1,615	27,167	65,769	7,939	20,255
Other	1,284	3,914	5,709	2,492	8,272
Real property rentals and leases	153,616	113,852	104,013	86,175	11,638
Miscellaneous expenses	2,484	25,951	37,363	29,415	24,967
Rebillable expenses	0	0	5,000	0	0
Program distributions	4,589,127	5,239,269	3,893,839	3,539,656	3,292,738
Total Expenditures	$ 16,913,650	21,426,455	19,413,307	14,494,882	13,576,545