



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY**



**DEPARTMENT OF TOURIST DEVELOPMENT**

**Financial and Compliance Audit Report**

October 2015

---

**Justin P. Wilson, Comptroller**



**Division of State Audit  
Financial and Compliance Section**

**Deborah V. Loveless, CPA, CGFM, CGMA**  
Director

**Edward Burr, CPA, CGFM**  
Assistant Director

**Robyn R. Probus, CPA, CFE, CGFM, CGMA**  
Audit Manager

**Hellens Cruz-Sanchez, CPA, CFE, CGMA**  
In-Charge Auditor

**Tyler Trout, CPA**  
**Mark White**  
Staff Auditors

**Amy Brack**  
Editor

**Amanda Adams**  
Assistant Editor

---

**Comptroller of the Treasury, Division of State Audit**  
Suite 1500, James K. Polk State Office Building  
505 Deaderick Street  
Nashville, TN 37243-1402  
(615) 401-7897

**Reports are available at**  
[www.comptroller.tn.gov/sa/AuditReportCategories.asp](http://www.comptroller.tn.gov/sa/AuditReportCategories.asp).

**Mission Statement**  
The mission of the Comptroller's Office is to improve the quality of life  
for all Tennesseans by making government work better.

**Comptroller Website**  
[www.comptroller.tn.gov](http://www.comptroller.tn.gov)



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT

SUITE 1500, JAMES K. POLK STATE OFFICE BUILDING  
505 DEADERICK STREET  
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897  
FAX (615) 532-2765

October 13, 2015

The Honorable Bill Haslam, Governor  
Members of the General Assembly  
The Honorable Kevin Triplett, Commissioner

Ladies and Gentlemen:

Transmitted herewith is the audit of the Department of Tourist Development for the period January 1, 2013, through December 31, 2014.

The review of internal control and compliance with laws and regulations resulted in no audit findings.

Sincerely,

A handwritten signature in black ink that reads "Deborah V. Loveless".

Deborah V. Loveless, CPA  
Director

15/053

**Audit Report**  
**Department of Tourist Development**  
**For the Period January 1, 2013, Through December 31, 2014**

---

**TABLE OF CONTENTS**

---

	<u>Page</u>
<b>Audit Highlights</b>	1
<b>Introduction</b>	2
Post-Audit Authority	2
Background	2
<b>Audit Scope</b>	2
<b>Objectives, Methodologies, and Conclusions</b>	3
Payroll and Personnel	3
Revenues	4
Travel	4
Payment Cards	5
Contracts	6
Regional Grants and Other Marketing Programs	7
<b>Observation and Comment</b>	8
Conflicting Guidance	8

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

## Department of Tourist Development

For the Period January 1, 2013, Through December 31, 2014

---

### Audit Scope

We have audited the Department of Tourist Development for the period January 1, 2013, through December 31, 2014. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of payroll and personnel; revenues; travel; payment cards; contracts; and regional grants and other marketing programs. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Audit Findings

The audit report contains no findings.

### Observation and Comment

Certain provisions of the department's rules and regulations concerning grants made to regional tourist promotion organizations are either unclear or in direct conflict with Section 4-3-2207, *Tennessee Code Annotated* (page 8).

**Audit Report**  
**Department of Tourist Development**  
**For the Period January 1, 2013, Through December 31, 2014**

---

**INTRODUCTION**

---

**Post-Audit Authority**

This audit of the Department of Tourist Development was conducted pursuant to Section 8-4-109, *Tennessee Code Annotated*, which authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

**Background**

The Department of Tourist Development, with an annual budget in excess of \$20 million, has 180 authorized positions, including 28 positions in the Administration and Marketing Divisions and 152 positions in the 15 welcome centers across the state.

The department's mission is to create and promote the desire to travel to and within Tennessee; to develop programs to encourage and support the growth of the state's tourism industry; and to manage a system of welcome centers that provides visitors with a positive impression of Tennessee and encourages them to extend their stay, all of which contributes to the state's economic growth, thereby enriching the quality of life for every Tennessean. In order to fulfill this mission, the department has three areas of operations: marketing, administration, and welcome centers.

---

**AUDIT SCOPE**

---

We have audited the Department of Tourist Development for the period January 1, 2013, through December 31, 2014. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of payroll and personnel; revenues; travel; payment cards; contracts; and regional grants and other marketing programs. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

---

## OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

---

### Payroll and Personnel

The objectives of our review of the payroll and personnel controls and procedures were to determine whether

- payroll disbursements were made for work performed by employees of the department;
- payroll transactions were properly approved, adequately supported, and agreed to personnel records;
- newly hired employees or employees who changed positions during the audit period were qualified for their positions; and
- the initial wage was correct for newly hired employees.

We interviewed key personnel and reviewed supporting documentation to gain an understanding of the department's procedures and controls over payroll and personnel. We tested a nonstatistical sample<sup>1</sup> of payroll transactions, totaling \$31,162, from a population of \$15,121,146 for the period January 1, 2013, through December 31, 2014, to determine whether payroll disbursements were made for work performed by employees of the department, properly approved, adequately supported, and agreed to personnel records. We also tested a nonstatistical sample<sup>2</sup> of 9 newly hired or promoted employees from a population of 57 for the period January 1, 2013, through December 31, 2014, to determine whether personnel files contained documentation indicating the employees met the job qualifications. For newly hired employees, we also recalculated the employees' initial pay to determine if the initial wage was correct.

Based on our interviews, review of supporting documentation, and testwork performed, we determined that

- payroll disbursements were made for work performed by employees of the department;
- payroll transactions were properly approved, adequately supported, and agreed to personnel records;

---

<sup>1</sup> For our sample design, we used nonstatistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objectives. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provides sufficient appropriate audit evidence to support the conclusions in our report. This sample was selected in such a manner as to permit the results to be projected to the population from which the sample was drawn.

<sup>2</sup> See footnote 1.

- documentation indicated that newly hired employees or employees who changed positions during the audit period were qualified for their positions; and
- the initial wage was correct for newly hired employees.

---

## **Revenues**

The objectives of our review of the controls and procedures over revenues were to determine whether cash receipts were correctly recorded in the accounting records, adequately supported, and correctly calculated per the service contract, where applicable; and cash receipts were deposited timely in accordance with the state's Department of Finance and Administration policies.

We interviewed key personnel and reviewed supporting documentation, including applicable service contracts, to gain an understanding of the department's procedures and controls over revenues. We tested a nonstatistical sample<sup>3</sup> of cash receipts, totaling \$1,145,272, from a population of \$14,784,894 for the period January 1, 2013, through December 31, 2014, to determine whether cash receipts were properly recorded, supported, calculated per the service contract, and deposited in compliance with Department of Finance and Administration policies.

Based on our interviews, review of supporting documentation, and testwork performed, we determined that

- cash receipts were correctly recorded in the accounting records, adequately supported, and correctly calculated per the contract, where applicable, except for one contract receipt, which contained an inaccurate adjustment for a previous overpayment by the department, resulting in a refund due to the vendor of \$1,190; and
- cash receipts were deposited timely in accordance with the Department of Finance and Administration policies, except for one deposit of \$315, which was deposited two business days late by Department of Finance and Administration's Centralized Accounting staff.

---

## **Travel**

The objective of our review of the travel controls and procedures was to determine whether payments for travel were made in accordance with Comprehensive Travel Regulations issued by the Department of Finance and Administration.

We interviewed key personnel and reviewed supporting documentation to gain an understanding

---

<sup>3</sup> See footnote 1.

of the department's procedures and controls over travel. We also tested a nonstatistical sample<sup>4</sup> of travel claims paid, totaling \$2,232, from a population of \$466,897 during the period January 1, 2013, through December 31, 2014, to determine whether travel claims were adequately supported and complied with regulations.

Based on our reviews, interviews, and testwork performed, we determined that payments for travel were made in accordance with the Comprehensive Travel Regulations.

---

## Payment Cards

The objectives of our review of the payment card controls and procedures were to determine whether

- cardholders were properly approved;
- purchases made using payment cards were adequately supported;
- payment card purchases appeared reasonable and necessary to conduct state business;
- payment card purchases complied with the Department of General Services' purchasing policies and procedures; and
- payment card transaction logs were properly approved and reconciled to the statements and receipts.

We interviewed key personnel and reviewed supporting documentation to gain an understanding of the department's procedures and controls over payment cards. We obtained a list of all cardholders and reviewed documentation to determine if signed and approved cardholder agreements and training documentation were on file for all payment cards activated during the audit period. We tested a nonstatistical sample<sup>5</sup> of payment card purchases, totaling \$3,514, from a population of \$421,873 for the period January 1, 2013, through December 31, 2014, for adequate documentation and compliance with the Department of General Services' purchasing policies and procedures. We also reviewed each of the transaction logs prepared during a nonstatistical sample<sup>6</sup> of three months for the period January 1, 2013, through December 31, 2014, resulting in a total of 44 logs reviewed, for proper approvals and reconciliations to the statements and receipts. In addition, we grouped and summarized payment card purchases by description to scan for purchases not in compliance with policies and procedures.

Based on our interviews, review of supporting documentation, and testwork performed, we determined that

- documentation indicated that cardholders were properly approved, except a signed approver agreement could not be located for one cardholder;

---

<sup>4</sup> See footnote 1.

<sup>5</sup> See footnote 1.

<sup>6</sup> See footnote 1.

- purchases were adequately supported;
- purchases appeared reasonable and necessary to conduct state business;
- purchases complied with the Department of General Services' purchasing policies and procedures; and
- payment card transaction logs were properly approved and reconciled to the statements and receipts, except for the recording of four transactions on the logs, which did not properly reconcile to either the statements or receipts.

---

## **Contracts**

The objectives of our review of the procedures and controls over contracts were to determine whether

- contracts were awarded in compliance with the Department of General Services' contracting policies and procedures;
- contract payments were adequately supported, properly approved, and correctly recorded; and
- contract payments complied with contract terms.

We reviewed applicable laws and regulations, interviewed key personnel, and reviewed supporting documentation to gain an understanding of the department's procedures and controls over contracts. We tested a nonstatistical sample<sup>7</sup> of 6 contracts from a population of 15 awarded for the period January 1, 2013, through December 31, 2014, to determine if the contracts were awarded in compliance with applicable policies. We also tested a nonstatistical sample<sup>8</sup> of contract expenditures, totaling \$181,990, from a population of \$24,625,971 for the period January 1, 2013, through December 31, 2014, to determine if contract expenditures were adequately supported, properly approved, and correctly recorded, and to determine if contract payments complied with contract terms.

Based on our interviews, review of supporting documentation, and testwork performed, we determined that

- contracts were awarded in compliance with the Department of General Services' contracting policies and procedures;
- contract payments were adequately supported, properly approved, and correctly recorded; and
- contract payments complied with contract terms.

---

<sup>7</sup> See footnote 1.

<sup>8</sup> See footnote 1.

---

## Regional Grants and Other Marketing Programs

The objectives of our review of the department's regional grants and other marketing programs were to determine whether the department complied with Section 4-3-2207, *Tennessee Code Annotated*, for regional grants and the department's program rules and agreements for other marketing programs.

We interviewed key personnel and reviewed program guidelines to gain an understanding of the department's procedures and controls over regional grants and the other marketing programs. We reviewed supporting documentation for each of the nine regional grants awarded during the period January 1, 2013, through December 31, 2014, for compliance with Section 4-3-2207, *Tennessee Code Annotated*, including whether required reports of grantees' activities were obtained, grantees' matching portions complied with the law, required approvals were obtained, and grant expenditures did not exceed authorized amounts. We also tested a nonstatistical sample<sup>9</sup> of partnership marketing awards, totaling \$459,775, from a population of \$1,089,616 for the period January 1, 2013, through December 31, 2014, to determine whether the department complied with the rules and agreements of the program, including whether the organization was eligible to participate in the program; the project was an eligible project; all necessary documents were submitted by the organization prior to granting the award and authorizing the project reimbursement; recipients' matching requirements were met; and expenditures did not exceed authorized amounts. In addition, we reviewed documentation for a nonstatistical sample<sup>10</sup> of the awards made for the Big 5 and Million Dollar Match programs, totaling \$850,000, from a population of \$2,250,000 for the period January 1, 2013, through December 31, 2014, to determine whether the department complied with the rules of the program, including whether the organization was eligible to participate in the program, all necessary documents were submitted by the organization prior to project reimbursement, recipients' matching requirements were met, and expenditures did not exceed authorized amounts.

Based on interviews, review of supporting documentation, and testwork performed, we determined that the department complied with Section 4-3-2207, *Tennessee Code Annotated*, for regional grants and the department's program rules and agreements for other marketing programs, except for two awards that did not contain adequate documentation to support the expenditure amount by the department or the recipients' matching requirements, resulting in a total overaward of \$434 by the department.

---

<sup>9</sup> See footnote 1.

<sup>10</sup> See footnote 1.

---

## OBSERVATION AND COMMENT

---

### Conflicting Guidance

Section 4-3-2207, *Tennessee Code Annotated*, provides direction to the Department of Tourist Development for administering regional grants to chartered, nonprofit tourist promotion organizations. Chapter 1670-5-1 of the department's rules and regulations, which also provides direction for administering these grants, is in direct conflict with the law in key areas. In addition, the intent of a certain provision of the law and the rules is unclear.

According to Section 4-3-2207(b), *Tennessee Code Annotated*, the state may grant nonprofit tourist promotion organizations two dollars in state matching funds for each dollar they spend promoting tourism, up to \$35,000 annually. However, Rule 1670-5-1-.03(6) of the department's rules and regulations states the department may grant these organizations dollar-for-dollar matching funds, up to \$25,000 annually. During the audit period, the department granted \$31,800 in dollar-for-dollar matching funds. The department should resolve the conflicts in the maximum dollar limits and matching requirements.

In addition, Section 4-3-2207(f), *Tennessee Code Annotated*, states that matching funds are subject to approval of the Governor, and Rule 1670-5-1-.04(6) states that the matching funds application will be approved by the Governor before payment. Matching funds are authorized by the Governor during the budget process; therefore, the department is in compliance with the law. However, the applications are not forwarded to the Governor for approval before payment. The department should resolve this discrepancy in the regulations.

Lastly, Section 4-3-2207(b), *Tennessee Code Annotated*, states that "each organization . . . shall prepare an annual audit report of its activities through June 30 of each year, and submit a copy of such report to . . . the commission of tourist development. Financial records of each participating organization shall be subject to audit by the comptroller of the treasury." Rule 1670-5-1-03, Requirements and Audit, states:

The applying Organization shall be required to furnish the Department of Tourist Development with an annual report of its activities conducted by an independent public accountant for the fiscal year July 1-June 30 of each year. . . . Additionally, the applying Organization shall be audited annually by the Office of the Comptroller of the Treasury, State of Tennessee.

Although the law states that an audit report must be submitted, it also states that the organization shall prepare the report, which would indicate that it is not an audit but rather an annual report, as indicated by the rules; however, the rules state that the annual report of its activities shall be conducted by an independent accountant. The department should clarify whether an audit or annual report of the organization's financial activities is required. In addition, the rules should be changed to state that the organization is subject to audit as stated in the law.