



Commonwealth of Massachusetts
Office of the State Auditor
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Making government work better

Official Audit Report-Issued October 30, 2012

Southeastern Massachusetts Convention and Visitors Bureau

For the period July 1, 2010 through June 30, 2011



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INTRODUCTION AND SUMMARY OF FINDINGS AND RECOMMENDATIONS

The Massachusetts Office of Travel and Tourism (MOTT) is organized under Chapter 23A, Section 13B, of the Massachusetts General Laws and operates within the Massachusetts Office of Business Development, under the Commonwealth's Executive Office of Housing and Economic Development. MOTT provides financial assistance to those public or nonprofit agencies that promote or provide services for tourism, convention, travel, and recreation in the Commonwealth.

The Southeastern Massachusetts Convention and Visitors Bureau (SMCVB) was originally incorporated in 1967 as the Tourist Council of Bristol County (TCBC). According to its Articles of Organization, the TCBC was established primarily to promote tourism and recreational activities within Bristol County. In 2005, the TCBC changed its name to the Southeastern Massachusetts Convention and Visitors Bureau, Inc. During fiscal year 2011, the SMCVB was one of 16 Regional Tourism Councils that received grant funding (a total of \$62,431) from MOTT.

Our audit of the SMCVB was initiated as a result of a Chapter 647 report filed by MOTT with the Office of the State Auditor (OSA). Chapter 647 requires that the OSA determine the internal control weaknesses that contributed to or caused an unaccounted-for variance, loss, shortage, or theft of funds or property; make recommendations that address the correction of the condition found; determine the amount of funds involved; identify the internal control policies and procedures that need modification; and report the matter to appropriate management and law enforcement officials. The Chapter 647 report filed by MOTT indicated that SMCVB did not provide an adequate accounting of grant funds with MOTT and alleged that a contractor may have embezzled SMCVB funds.

Highlight of Audit Findings

- The SMCVB did not comply with two requirements of the fiscal year 2011 grant it received from MOTT. First, although it was required to match the funding provided by MOTT under this grant dollar-for-dollar with non-public funds, it matched only \$11,928 of the \$62,431 it received under this grant and did not return the unmatched funds totaling \$50,503 to the Commonwealth as required by the grant agreement. In addition, contrary to the grant agreement, the SMCVB did not have a comprehensive, independent audit conducted of the expenditure of funds it received under this grant.
- The SMCVB has not established adequate internal controls over all aspects of its operations. These inadequate internal controls contributed to a theft of \$11,500 between February 28,

2011 and May 30, 2011 by a contractor employed by the SMCVB to perform bookkeeping services.

- The SMCVB has not established a comprehensive conflict-of-interest policy for its board members. In fact, during our audit period, the SMCVB entered into a Purchase and Sale Agreement with a realtor to sell one of its properties who is also a member of its Board of Directors, creating a potential conflict-of-interest situation.

Recommendations of the State Auditor

The SMCVB should:

- Comply with the provisions of the grant agreement by returning the \$50,503 in unmatched Commonwealth funds to MOTT and have a comprehensive, independent audit conducted of the expenditure of the funds it received under this grant.
- Review its management and internal control procedures over financial and administrative operations to prevent similar future occurrences of thefts of funds.
- Establish an effective system of internal controls over all aspects of its operations and governance activities that includes written policies, procedures, and guidelines.
- Adopt a comprehensive and effective conflict-of-interest policy for board members and ensure that all future potential conflict-of-interest transactions are fully disclosed in board minutes and votes.

OVERVIEW OF AUDITED AGENCY

The Southeastern Massachusetts Convention and Visitors Bureau (SMCVB), whose main office is located in New Bedford, was originally incorporated in 1967 as the Tourist Council of Bristol County (TCBC). According to its Articles of Organization, the TCBC was established primarily to promote tourism and recreational activities within the 20 cities and towns of Bristol County. In 2005, the TCBC changed its name to the Southeastern Massachusetts Convention and Visitors Bureau, Inc. During fiscal year 2011, the SMCVB had two part-time employees and was one of 16 Regional Tourism Councils that received grant funding from the Massachusetts Office of Travel and Tourism (MOTT).

During the period covered by our audit, the SMCVB was governed by a 12-member Board of Directors and received revenues totaling \$1,033,770 and \$241,658 for fiscal years 2009 and 2010, respectively, and expenses totaling \$1,214,306 and \$437,938 for fiscal years 2009 and 2010, respectively.¹ The SMCVB's revenue comes from various sources, including: the Massachusetts State Lottery Commission, advertising, memberships, vending sales, and other sources.

¹ Audited fiscal year 2011 revenue and expense information was not available.

AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws and Chapter 647 of the Acts of 1989, we have conducted a performance audit of the Southeastern Massachusetts Convention and Visitors Bureau (SMCVB) for the period July 1, 2010 through June 30, 2011. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit of the SMCVB was initiated as a result of a Chapter 647 report filed by the Massachusetts Office of Travel and Tourism (MOTT) with the Office of the State Auditor (OSA). Chapter 647 requires the OSA to determine the internal control weaknesses that contributed to or caused an unaccounted-for variance, loss, shortage, or theft of funds or property; make recommendations that address the correction of the condition found; determine the amount of funds involved; identify the internal control policies and procedures that need modification; and report the matter to appropriate management and law enforcement officials. The Chapter 647 report filed by MOTT indicated that the SMCVB did not provide an adequate accounting of grant funds with MOTT and alleged that a contractor may have embezzled SMCVB funds.

The objectives of our audit were to (1) assess the adequacy of the internal controls the SMCVB had established over certain aspects its operations, (2) review the circumstances regarding the alleged theft of funds at the SMCVB and determine the internal control weaknesses that contributed to the theft, and (3) determine whether the SMCVB adequately administered the fiscal year 2011 grant funds it received from MOTT.

To accomplish our objectives, we:

- Met with officials at MOTT to obtain an understanding of its fiscal year 2011 Tourism Grant Program for Regional Tourism Councils (RTCs) such as the SMCVB and the circumstances surrounding MOTT's filing of the Chapter 647 report.
- Analyzed the internal controls that the SMCVB had established over various aspects of its operations, including the administration of grant funds, checking accounts, board activities,

and operational activities to determine the causes that contributed to the theft of SMCVB funds.

- Reviewed and analyzed all of the SMCVB's receipts and disbursements for the fiscal year ended June 30, 2011.

At the conclusion of our audit, a draft copy of our report was provided to SMCVB and MOTT officials for their review and comment. These agencies chose not to provide written comments to our draft report; however, SMCVB officials told us that they concurred with our audit findings and recommendations. Further, any verbal comments made by these officials relative to the issues presented in this report were considered in the drafting of the final report.

AUDIT FINDINGS

1. THE SMCVB DID NOT COMPLY WITH TWO OF THE REQUIREMENTS OF ITS GRANT AGREEMENT WITH MOTT AND INAPPROPRIATELY RETAINED \$50,503

During fiscal year 2011, the Southeastern Massachusetts Convention and Visitors Bureau (SMCVB) received a \$62,431 grant from the Massachusetts Office of Travel and Tourism (MOTT) for the purpose of promoting its tourism activities. However, we found that the SMCVB failed to comply with two of the conditions of this grant agreement. First, the grant required any Regional Tourism Council (RTC) that received this grant, such as SMCVB, to match, dollar-for-dollar, the funding it received under this grant with non-governmental funds and to return any unmatched funding to the Commonwealth. Specifically, the grant agreement states, in part:

At the end of the contract year, RTC must verify that RTC's direct operating budget includes non-governmental revenues earned during the fiscal year of the contract that are equal to or greater than the maximum obligation of this contract and that non-governmental funds equal to the contract obligation are expended on travel marketing programs. If the RTC does not meet the matching obligation during the grant period, the RTC must return to the Commonwealth that portion of the Commonwealth funds not matched.

However, we found that the SMCVB raised only \$11,928 of the \$62,431 in matching funds that it was required to raise under this grant and did not return to the Commonwealth all of the unmatched funds which totaled \$50,503, contrary to the grant agreement.

Regarding this matter, SMCVB officials stated that during fiscal year 2011, due to decreased revenues, it was forced to close two of its visitor centers located in Mansfield and Swansea. These officials added that any non-state revenue that it would have received in these visitor centers could have been used as matching funding under this grant. On September 15, 2011, the Executive Director of SMCVB sent a letter to the Executive Director of MOTT requesting additional time to comply with the fund-matching requirement of this grant; however, MOTT denied this request.

Another condition of this grant requires the SMCVB to have an independent audit conducted of its expenditure of state funds received under the grant and to provide MOTT with a copy of this audit. Specifically, the grant agreement states, in part:

A comprehensive, independent audit of the RTC's expenditure of state funds received under this contract must be submitted to MOTT no later than November 30, 2011. The audit must be conducted by a Certified Public Accountant, licensed in good standing by the Massachusetts Board of Public Accountancy. The audit must verify that the RTC expended all the grant funds and the interest income in accordance with the contract requirements as well as Chapter 23A, Section 14 and that the RTC complied with all contract provisions including matching funds

However, SMCVB officials told us that an independent audit of this grant for fiscal year 2011 was not conducted due to a lack of funding. As a result, MOTT cannot be assured that the funds it provided to the SMCVB for the fiscal year ended June 30, 2011 under this grant were expended for their intended purposes.

Recommendation

The SMCVB should remit to the Commonwealth the \$50,503 in funds that it did not match under its fiscal year 2011 grant agreement with MOTT. Further, the SMCVB should have an independent audit conducted of the state funds it received under this grant and provide a copy of the results of this audit to MOTT. In the future, the SMCVB should take measures to ensure that it fully complies with all of the terms and conditions of any grants it receives from the Commonwealth.

2. DEFICIENCIES IN THE SMCVB'S INTERNAL CONTROLS RESULTED IN A THEFT OF \$11,500

We found that the internal controls the SMCVB had established over certain aspects of its operations were inadequate and contributed to a theft of \$11,500 in funds during the period February 28, 2011 through May 30, 2011 by a consultant hired by SMCVB to perform bookkeeping services.

According to Generally Accepted Accounting Principles (GAAP), entities such as SMCVB should establish and implement an adequate internal control system within the organization to ensure that goals and objectives are met; resources are used in compliance with laws, regulations, and policies and procedures; and assets are safeguarded against waste, loss, and misuse. In addition, 815 Code of Massachusetts Regulations 2.00, issued by the Office of the State Comptroller, requires grantees that receive state-funded grants, such as the SMCVB, to implement internal controls, as follows:

Even if not specified in a grant, grantees are expected to implement effective internal and accounting controls to ensure a system for safeguarding all grant funds, property

and assets for the life of the grant and ensure that these are used solely for authorized grant purposes.

In discussions with SMCVB officials, we were informed of the following events regarding this theft of funds:

- On or around May 3, 2011, the SMCVB was contacted by a company that had also employed the SMCVB bookkeeping contractor in question to inform them that the individual was terminated for theft.
- On or around May 23, 2011, the SMCVB conducted its own internal review and determined that checks amounting to \$5,300 had been fraudulently prepared and endorsed by the contractor.
- On June 14, 2011, the SMCVB entered into an agreement with the contractor allowing her to continue to perform bookkeeping services in order to repay the theft of funds amounting to \$5,300. The agreement stipulated that charges would be brought forth for grand larceny and forgery should the contractor fail to comply.
- On August 1, 2011, the contractor's bookkeeping services were terminated by the SMCVB Board of Directors prior to her fulfilling the agreement to perform the bookkeeping services for full restitution. The SMCVB stated that \$760 of the \$5,300 in services by the bookkeeper was recouped in restitution services.
- A subsequent review conducted by the SMCVB in the fall of 2011 identified additional fraudulently prepared and endorsed checks by the contractor during the period February 28, 2011 to May 30, 2011 amounting to \$6,200, bringing the total amount of misappropriated funds to \$11,500 (\$5,300 + \$6,200), which consisted of 33 checks.
- The SMCVB filed a claim for this loss with its insurer, amounting to \$10,000, the maximum coverage allowed under its bonding contract.
- The SMCVB did not notify any law enforcement agencies of the theft. The SMCVB Operations Manager explained that the SMCVB legal representative advised that it would be best to go through the insurance company and have the insurance company seek damages and report the defalcation to law enforcement officials.

The specific internal control deficiencies we identified that contributed to this theft included the following:

- The SMCVB had not developed and documented any written policies, procedures, or guidelines over its operations. Without documented written policies, procedures, and guidelines, there is inadequate assurance that the SMCVB will (a) achieve its objectives efficiently, effectively, and in compliance with applicable laws, rules, and regulations; (b) maintain consistency in operations; and (c) safeguard its assets from loss, theft, or misuse.

- The SMCVB employed the services of the bookkeeper as an independent contractor to perform accounting functions that included the recording of receipts and disbursements, financial reporting, and payment of invoices. We were informed that the bookkeeper had been employed with the SMCVB since 2000; however, the SMCVB had not executed a formal written contract for these services. Without a written contract signed by both parties, there is inadequate assurance that all rights and obligations of each party had been clearly defined and that all required services had been performed in accordance with agreed-upon terms.
- The SMCVB did not properly safeguard and limit access to its inventory of unused bank checks. The responsibility of safeguarding unused checks should be assigned to a specific individual of the organization who does not have disbursement preparation or disbursement approval responsibilities, and unused/blank checks should be stored and maintained in a manner that restricts their availability, such as in a lock box, and that offers protection against unauthorized use. Our audit determined that the responsibility for the possession and safekeeping of unused checks was not assigned to a designated employee and that access to unused checks was not restricted and safeguarded against unauthorized use. As a result, the bookkeeper had unrestricted access to the inventory of unused checks, contributing to the theft of funds.
- The SMCVB did not reconcile its monthly bank statements to its accounting records in a timely manner. Specifically, our audit identified that during our audit period the SMCVB delayed completing its monthly reconciliations of bank statements by as much as five months. Completing monthly bank reconciliations is an important part of internal control because it verifies the amount of funds in the checking account and provides assurance that irregularities such as thefts are uncovered in a timely manner. Consequently, by not performing timely bank reconciliations, SMCVB assets were not timely verified and therefore were susceptible to misappropriation.

SMCVB officials did not comment on why the agency had not developed internal controls over these activities.

Recommendation

The SMCVB should establish an effective system of internal controls, including formal written policies and procedures, over all aspects of its operations. These policies and procedures should be approved by the SMCVB Board of Directors and, at a minimum, should address the internal control deficiencies noted above by developing written contracts, properly safeguarding and limiting access to unused bank checks, and performing timely bank reconciliations. Lastly, the SMCVB should consider reporting the theft of funds to the appropriate law enforcement agencies.

3. POTENTIAL CONFLICT-OF-INTEREST SITUATION INVOLVING AN SMCVB BOARD MEMBER

During our audit, the SMCVB entered into a Purchase and Sale Agreement with a member of its Board of Directors, who is also a realtor, for the sale of one of its properties. Although the SMCVB has a written conflict-of-interest policy for its employees, it does not have a comprehensive conflict-of-interest policy for its board members that addresses these types of situations. Because the realtor for this transaction was also a member of the SMCVB's board, an "arms-length" relationship does not exist to ensure the integrity of the sale of SMCVB property.

The Office of the Attorney General's Guide for Board Members of Charitable Organizations, Section VI, Beware of Conflicts of Interest, suggests that board members should be cautious of entering into a business relationship with any organization that a board member oversees. The Guidelines for Board Members state, in part:

You, or a business you control or benefit from financially, may be considering whether or not to engage in a transaction with the organization on whose board you are sitting. A situation of this type presents a potential conflict between your own financial interests and your duty as a board member to be absolutely loyal to the organization. It also may look questionable to the public.

Because of these problems, a board member or related entity should be cautious about entering into a business relationship with the organization the board member is overseeing, and the board should be very cautious about allowing the organization to enter into such a relationship. Such a transaction should not occur unless the board determines it is clearly in the best interest of the charity. Prior to the board vote, the board member should fully disclose his or her financial interest to the entire board, and the board member should not vote on any aspect of the arrangement or be present when it is being discussed or voted upon.

Even though the SMCVB is not a charitable organization, the Office of the State Auditor believes that the aforementioned guidelines represent prudent business practices that the SMCVB should adopt relative to the actions of its Board of Directors.

On December 1, 2011, a Purchase and Sale Agreement in the amount of \$150,000 was signed between the SMCVB and E.J. Pontiff Real Estate for the sale of an SMCVB property located at 70 North Second Street, New Bedford. The agreement also provided for a broker's fee of 5% paid to the realtor for services rendered. During our audit, we reviewed the documentation relative to this transaction and noticed that the realtor was also a member of the SMCVB's

board. Because the realtor for this transaction is also a member of the SMCVB's board, an "arms-length" relationship does not exist to ensure the integrity of the sale of SMCVB property.

The SMCVB's Articles of Organization do contain a Conflict-of-Interest provision, but this provision only addresses board member affiliations with grant seekers of the organization and does not address other conflict-of-interest situations such as this sale. Based on our review of the SMCVB's board minutes, the other board members were aware of the nature of this transaction, including the board member's involvement. Nevertheless, the SMCVB should have a comprehensive conflict-of-interest policy for its board members to ensure that all potential conflict-of-interest situations are properly conducted and disclosed.

Recommendation

The Board of Directors of the SMCVB should use the Attorney General's Guide for Board Members of Charitable Organizations as a guide and develop a comprehensive conflict-of-interest policy for its board to ensure that all potential conflict-of-interest situations are fully disclosed in board minutes and votes and that the board's determination is clearly in the best interest of the organization.