



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

ONE ASHBURTON PLACE, ROOM 1819
BOSTON, MASSACHUSETTS 02108

A. JOSEPH DeNUCCI
AUDITOR

TEL. (617) 727-6200

NO. 2007-0140-3C

**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES RELATING TO
THE MASSACHUSETTS OFFICE OF
TRAVEL AND TOURISM
JULY 1, 2004 TO JUNE 30, 2006**

**OFFICIAL AUDIT
REPORT
JUNE 30, 2008**

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The Massachusetts Office of Travel and Tourism (MOTT) is organized under Chapter 23A, Section 13B, of the Massachusetts General Laws and operates within the Department of Business Development (DBD), formerly known as the Department of Business and Technology (DBT), within the state's Executive Office of Housing and Economic Development. MOTT serves as the principal agency for promoting the recreational, cultural, historic, and scenic resources of the Commonwealth to increase its desirability as a location for tourism, convention, travel, and recreation-related activities by providing informational, marketing, and technical assistance to public and private nonprofit entities organized for similar purposes. According to MOTT's website, in calendar year 2006 more than 20 million people visited Massachusetts and spent approximately \$14.2 billion, making tourism one of the largest industries in the Commonwealth, and the tourism industry generated approximately \$887.2 million in state tax revenues and supported approximately 125,800 jobs.

The scope of our audit included a review of certain activities of MOTT and DBT during fiscal years 2005 and 2006 relative to the administration of contracts, grants/legislative earmarks, and administrative expenses. Our audit was conducted in accordance with Generally Accepted Government Auditing Standards. Our audit objectives included an assessment of the system of internal controls MOTT had established relative to its administration of grants/legislative earmarks, contracts, and agency expenses, and a determination of whether MOTT was awarding its contracts, administering its grants/legislative earmarks, and expending agency funds in accordance with regulatory and contractual requirements and applicable laws, rules, regulations.

Although DBT was the agency that actually entered into contracts with each grant/earmark recipient, MOTT was responsible for the administration of these funds. Based on our audit work, we determined that improvements could be made in the internal controls that MOTT had established relative to its administration of legislative earmarks as they relate to the monitoring of earmarked funds to ensure that earmarked funds are used for the purposes specified by the Legislature.

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According to state regulations and policies established by the Office of the State Comptroller (OSC), agencies such as MOTT that administer grants/earmarked funds are required to take measures to ensure that these funds are expended for their intended purposes. We found, however, that during the period covered by our audit, MOTT had not established adequate controls to ensure that earmarked funds totaling approximately \$21.5 million that it provided to 143 recipients were expended for their intended purposes. Specifically, although we found that DBT entered into formal written contracts with the recipients of earmarked funds that required them to submit various

documents relative to how their funds were expended, MOTT did not routinely ensure that these documents were provided, and there was inadequate evidence to substantiate that MOTT staff routinely reviewed these documents or conducted on-site reviews to ensure that earmarked funds were expended for their intended purposes.

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In February 2008, the Commonwealth of Massachusetts, Office of the Inspector General (OIG) issued a report on contracts between the Massachusetts Office of Travel and Tourism and Massachusetts International Marketing Partnership, Inc. (MIMP) for the 2005-2007 period. The OIG found that all funds expended by MIMP were accounted for properly. In addition, the report found no evidence or impropriety in the awarding of contracts or in the expenditure of funds by MIMP.

INTRODUCTION

Background

The Massachusetts Office of Travel and Tourism (MOTT) is organized under Chapter 23A, Section 13B, of the Massachusetts General Laws and operates within the Department of Business Development (DBD), formerly known as the Department of Business and Technology (DBT), within the state's Executive Office of Housing and Economic Development. DBD is the agency that oversees MOTT as well as the Massachusetts Office of Business Development, the State Office of Minority and Women Business Assistance, and the Massachusetts Office of International Trade and Investment. DBD serves as fiscal agent for these agencies and handles their fiscal, administrative, personnel, and payroll functions and maintains their records. MOTT serves as the principal agency for promoting the recreational, cultural, historic and scenic resources of the Commonwealth to increase its desirability as a location for tourism, convention, travel, and recreation-related activities by providing informational, marketing and technical assistance to public and private nonprofit entities organized for similar purposes. According to MOTT's website, in calendar year 2006 more than 20 million people visited Massachusetts and spent approximately \$14.2 billion, making tourism one of the largest industries in the Commonwealth, and the tourism industry generated approximately \$887.2 million in state tax revenues and supported approximately 125,800 jobs.

MOTT receives its funding from several sources. First, Chapter 10, Section 35J, of the General Laws established a fund known as the Massachusetts Tourism Fund (Tourism Fund), into which 35% of the hotel tax revenues received by the Commonwealth is deposited. Tourism Fund revenue is then distributed, subject to appropriation by the Legislature, to the following state agencies: MOTT (40%), the Massachusetts Convention Center Authority (38%), the Massachusetts International Trade Council (3%), and 13 Regional Tourism Councils (RTCs) (19%). RTCs are independent, not-for-profit, membership-based organizations that promote or provide services for tourism, convention, travel, and recreation in the Commonwealth within their specific region. MOTT is responsible for providing funding and monitoring the funds expended by RTCs, and each RTC is required to file an annual report with MOTT that documents how the funds were used. MOTT also receives funds from two trusts: the Annual Governor's Tourism Conference Trust (Governor's Trust) and the Commonwealth of Massachusetts Domestic Marketing Related Program

Trust (Domestic Marketing Trust). Funds from the Governor's Trust are used to pay for an annual tourism conference sponsored by MOTT. The Domestic Marketing Trust accepts funds from any person or non-governmental entity, and MOTT uses these funds primarily to produce a guidebook on tourism in Massachusetts. The table below summarizes the funding received by MOTT during our audit period.

MOTT Revenue and Expenses- Fiscal Years 2005 and 2006*

	Revenues	
	Fiscal Year 2005	Fiscal Year 2006
Appropriations:		
Appropriated	\$24,817,849	\$29,604,168
Domestic Marketing Fund	522,046	585,200
Governor's Tourism Fund	<u>101,898</u>	<u>84,640</u>
Total	<u>\$25,441,793</u>	<u>\$30,274,008</u>
	Expenses	
	Fiscal Year 2005	Fiscal Year 2006
Employee Compensation	\$1,159,937	\$881,341
Travel and Training	28,842	21,062
Insurance	14,318	11,792
Office Expenses	878,318	638,493
Rental	145,633.	133,612
Advertising	5,068,410	5,580,396
Services	58,600	35,029
IT Equipment	474	1,974
Information Technology	-	254,248
Leases	15,328	8,099
Trust Funds	623,944	669,640
Miscellaneous	31,228	4,668
RTCs	6,929,211	8,000,000
Earmarks	8,817,644	12,692,154
Trust Funds	<u>623,944</u>	<u>671,660</u>
Total	<u>\$24,395,831</u>	<u>\$29,604,168</u>

* As can be seen from the above table, during our audit period MOTT's revenues were greater than its expenses. MOTT returned all unexpended funds to the Tourism Fund.

As noted in the preceding table, a significant portion (an average of over 38% during our audit period) of the funding that MOTT received was restricted or earmarked by the Legislature for specific purposes. Agencies that receive these earmarked funds are typically public, quasi-public, or private nonprofit entities established for a public purpose. Once the Legislature appropriates earmarked funds, the Commonwealth's Executive Office for Administration and Finance (EOAF) forwards the funds to the Executive Office of Housing & Economic Development, which in turn allots the funds through DBD to MOTT.

The 815 Code of Massachusetts Regulations (CMR) 2.05(a), promulgated by the Office of the State Comptroller (OSC), requires all grantees, including those administering earmarked funds, to execute a Standard Contract Form issued by OSC with each recipient. Further, EOAF, OSC, and the state's Operational Services Division (OSD) have jointly issued Commonwealth Terms and Conditions (General Contract Conditions), with which all contracted providers, including those agencies who receive grants and legislative earmarks, must comply. Under these General Contract Conditions, recipients agree to provide various information, including a narrative description of how the funds will be utilized, a line-item budget to document how the funds will be expended, invoicing information, payment information, and a copy of the specific line-item legislative language authorizing the earmark. Additional information may be also required by the state agency administering the grants/earmarks depending upon the type of grant and any special circumstances that may exist. For example, MOTT requires its recipients of grants/earmarks to provide the following additional information: (1) if the grant requires 100% matching funds, a listing of the source of these funds, (2) a copy of independently audited financial statements for the three most recent years, and (3) any additional information that may be pertinent to either the recipient organization or the project being funded. During fiscal year 2006, DBT executed contracts with 76 entities that were provided a total of \$12,692,154 in earmarked funds. These earmarks ranged from a low of \$10,000 to a high of \$4 million. Although DBT is the agency that enters into contracts with grantees and recipients of earmarked funds, it has delegated many of the responsibilities of administering these earmarks to MOTT.

Audit Scope, Objectives, and Methodology

The scope of our audit included a review of certain activities of MOTT and DBT during fiscal years 2005 and 2006 relative to their administration of contracts, grants/earmarks, and certain MOTT

administrative expenses. Our audit objectives included an assessment of the system of internal controls MOTT had established relative to its administration of grants/earmarks, the awarding of contracts and agency expenses, and a determination of whether MOTT was awarding its contracts, administering its grants/legislative earmarks, and expending agency funds in accordance with regulatory and contractual requirements and applicable laws, rules, regulations. We conducted our special-scope 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 that provides 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.

In order to meet our objectives, we first reviewed all applicable laws, rules, and regulations as well as MOTT and DBT internal policy statements. We conducted meetings with various officials from DBT, MOTT, and OSC and reviewed various agency records, including contracts and related documents, documents relative to agency administrative expenses, and documents relative to earmarked funds administered by MOTT. Our audit was limited in scope and only included a review of DBT/MOTT's activities in the areas under review. We did not conduct audit work at the entities that were the recipients of earmarked funds.

AUDIT RESULTS

INTERNAL CONTROLS OVER THE MONITORING OF EARMARKED GRANTS NEED TO BE STRENGTHENED

According to state regulations and policies established by the Office of the State Comptroller (OSC), agencies such as the Massachusetts Office of Travel and Tourism (MOTT) that administer grants/earmarked funds are required to take measures to ensure that these funds are expended for their intended purposes. We found, however, that during the period covered by our audit, MOTT had not established adequate controls to ensure that the approximately \$21.5 million in earmarked funds that it provided to 143 recipients were expended for their intended purposes. Specifically, we found that although MOTT's oversight agency, the Department of Business and Technology (DBT) entered into formal written contracts with the recipients of earmarked funds that required them to submit various documents relative to how their funds were expended, MOTT did not routinely ensure that these documents were provided, and there was inadequate evidence to substantiate that MOTT staff routinely reviewed these documents to ensure that earmarked funds were expended for their intended purposes.

OSC has promulgated 815 Code of Massachusetts Regulations (CMR) 2.00 relative to state agencies' responsibilities in the administration of grants and subsidies, including funds earmarked for a specific purpose by the Legislature. These regulations, along with various policies issued by OSC, require departments and agencies to take measures to ensure that earmarked funds are expended for their intended purposes and to enter into standard contracts with each recipient of these funds. In order to meet these requirements, MOTT established a Contract/Budget Officer position on its staff to administer its distribution and oversight of earmarked funds. Although DBT was the agency that actually entered into contracts with each recipient, MOTT is responsible for preparing the recipient's contract and requesting the recipient to submit information pertinent to the earmarked project. This information includes a description of the scope of the project, a total operating budget that identifies each source and use of operating and capital funds, a narrative description of how the funds will be used, a line-item budget to support its usage, and a copy of audited financial statements for the three most recent years. In addition, MOTT establishes project milestone dates for financial and performance reports and includes these as "deliverables" in the attachments to each grantee's contract. Once DBT enters into contracts with each recipient of earmarked funds, MOTT's Contract/Budget Officer is

responsible for monitoring the expenditure of earmarked funds for compliance with the contract deliverables and payments and to ensure that the earmarked funds are used for their intended purposes.

As noted in the Background section of this report, during fiscal years 2005 and 2006, MOTT provided earmarked funds totaling approximately \$8.8 million and \$12.7 million to 67 and 76 recipients, respectively. During our audit, we reviewed the documentation being maintained by MOTT relative to the earmarked funds it provided to these recipients and determined that DBT executed the required Standard Contract Form with each of the recipients as required by 815 CMR 2.05. However, MOTT officials stated that the agency does not have any formal written policies and procedures relative to monitoring recipients' use of these funds. Rather, these officials indicated that MOTT staff performs a "desk audit" on all earmarked fund information. According to DBT's Chief Financial Officer, a desk audit consists of a staff member's reviewing the deliverables provided by each recipient of earmarked funds to determine whether the recipient submitted all the required deliverables on time and in a format that allows MOTT to determine whether the earmarked funds were expended as intended.

During our audit, we selected and reviewed the files of 10 of the 76 fiscal year 2006 earmarks administered by MOTT. These 10 earmarks totaled \$5,985,000 and accounted for approximately 47% of the total earmarks administered by MOTT during this fiscal year, as indicated in the following table:

Earmark Recipient	Amount
Route 9/Lakeway, Business District (Town of Shrewsbury)	\$250,000
International Trade Assistance Center, City of Fall River	185,000
Highlands Center for the Performing Arts at Cape Cod National Seashore	150,000
Merrimac Valley Economic Development Council	100,000
City of Lawrence	350,000
Greater Boston Convention and Visitors Bureau	300,000
Town of Amesbury	100,000
Buzzards Bay Village Association	100,000
Mass. Sports and Entertainment Partnership	450,000
Massachusetts International Marketing Partnership Inc.	<u>4,000,000</u>
Total	<u>\$5,985,000</u>

We compared the contents of these files to the information that each recipient was contractually required to submit as a condition of receiving earmarked funds. Based on our review, we determined that none of the 10 recipients in our sample provided all of the documentation to MOTT as required under their contracts with DBT within the specified time period. The following table shows a summary of the deficiencies we noted in the files we reviewed:

Requirement	Number of Recipients That Did Not Comply
A copy of audited financial statements for the three most recent fiscal years	7
A final progress report	7
A final payment report	5
An operating budget that shows that the grant did not replace or supplant funding otherwise available	4
A total operating budget that identifies each source and use of operating and capital funds	3
Interim financial and progress reports	2

In addition, we also found problems with MOTT's desk audit process. Specifically, in seven of the 10 files where a recipient failed to provide a deliverable, there was no documentation such as notes, memorandums, letters, or other evidence that indicated that any effort was made by MOTT staff to contact the recipient to obtain the missing data. Further, MOTT staff did not record the problem or any actions they may have taken relative to the problem in the recipient's file and did not document the fact that the file had been subject to a desk audit. Also, MOTT did not summarize the results of its desk audits, and MOTT staff did not ever visit a grantee firm to review the original data and verify the accuracy of the information that had been submitted by the grantee to MOTT. According to MOTT officials, given a lack of staff resources, it was an agency policy not to make visits to grantees. These officials also stated that although desk reviews were conducted, there was no requirement that agency staff document the results of their desk reviews.

In summary, MOTT's internal controls relative to its administration of earmarked funds exhibited the following weaknesses:

- There were no formal, written policies and procedures in place to ensure that the monitoring of earmarked funds was conducted in a consistent and effective manner. Further, there were no formal procedures that required the monitoring activities of agency staff to be documented in each recipient's file. This is contrary to 815 CMR 2.04(e), which requires

state agencies to maintain complete records of a grant or grant program, including grant applications or other disbursement documents, contractual documents, and grant reports.

- MOTT staff did not conduct site visits to ensure that the information being provided by recipients is complete and accurate.
- There were no formal requirements for MOTT or DBT to specifically report to the Legislature or any other interested parties on the results of the success or failure on each entity's use of earmarked funds.

As a result of the problems we identified in MOTT's monitoring activities, there is inadequate assurance that the earmarked funds it was administering were being expended for their intended purposes.

During fiscal years 2005 and 2006, the Legislature earmarked a substantial amount of funding (\$6 million) through MOTT to the Massachusetts International Marketing Partnership Inc. (MIMP).¹ As a result we did additional work assessing contract monitoring activities for this earmark. In addition to the problems identified above, we also identified some issues relative to the timeliness and receipt of documentation initially provided by MIMP to MOTT.

The OSC has issued a policy memorandum relative to grants and earmarks that states, in part:

Departments should not make final payment to the grantee until all reports, unexpended program income and other deliveries required under the grant agreement have been submitted to the department in acceptable form, but in no event later than 45 days following the end of fiscal year, unless the department has legislative authority to carry over the funds into the next fiscal year for payment (i.e., extension of disbursement authorized by the administration until September 15th, prior appropriation continued, or a continuing account). Departments may include language in a grant for a hold back of a percentage of grant payments (referred to as "retainage") from each grant payment or at the end of a grant to ensure grant performance.

According to MOTT officials, some of the information that was provided by MIMP to DBT needed clarification and resulted in subsequent requests before obtaining satisfactory documentation. During our audit, we noted that DBT staff, which assumed direct responsibility for the administration of MIMP-earmarked funds, made several attempts and successfully obtained from MIMP accurate and complete information. On one occasion disbursement of

¹ It should be noted that subsequent to the completion of our audit and prior to the issuance of this report, the Massachusetts Office of the Inspector General issued a report on the contracts between MOTT and MIMP. (See page 14, Subsequent Events.)

funds to MIMP was delayed until it provided the required information. Examples of some issues identified with the data submitted by MIMP are discussed below:

MIMP Budgets

During fiscal years 2005 and 2006, MIMP submitted budgets to DBT on its proposed use of its earmarked funds. DBT staff stated that agency staff reviewed these two budgets and noted some significant changes, for which DBT wanted an explanation. For example, MIMP's fiscal year 2005 budget included approximately \$30,000 for the development of a tourism-related website. In its fiscal year 2006 budget, the line item for the development of this website increased by over 10 times its original budgeted amount to \$394,397, and, based on the financial statements that MIMP provided to DBT for fiscal year 2006, MIMP spent a total of \$869,474 for software, computer equipment, and the development of this website. MOTT requested an explanation for this increase and requested that MIMP submit a copy of the contract, scope of services, and budget for the entity that had developed the website for MIMP.

In a July 19, 2006 email sent from MIMP's President to DBT's Executive Director, MIMP's President explained the increased costs relative to the development of the website, as follows:

We have had to rebuild the international website that was abandoned by MOTT, as well as repurchase a URL (usamass.com) which was released by MOTT. The site is now more relevant, will be launched in multiple languages, and will convey a stronger, clearer message to international visitors. Technology remains an integral part of our original proposal and marketing plan. It will continue to expand as consumers around the world turn to the internet.

MIMP Fiscal Year 2005 and 2006 Financial Data

DBT's fiscal years 2005 and 2006 contracts with MIMP required it to submit preliminary and final audited financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP) to DBT on or before certain specified dates. DBT officials stated that these financial statements were essential in helping DBT determine whether the earmarked funds received by MIMP were being expended for their intended purposes.

MIMP was to submit its final fiscal year 2005 financial statement to DBT by March 30, 2006. The first financial statement showed only two expense line items: one was \$8,381,237 for "program expenses" and the other was \$361,897 for "management and general expenses" with no specific details as to how the earmarked funds were expended. The first statement indicated

that MIMP had expended all of its fiscal year 2005 earmark funds, whereas the second financial statement, which provided more detail on the nature of MIMP's expenses, showed a balance of approximately \$1.3 million in unexpended earmarked funds. DBT requested MIMP to submit revised financial statements with clarification on its fiscal year 2005 earmark expenditures and an explanation of the balance in earmarked funds in the second financial statements. MIMP provided DBT with financial information that it accepted.

According to DBT officials, MIMP submitted fiscal year 2006 preliminary and final financial statements that were late, incomplete, inaccurate, and not in a form acceptable to DBT. As was the case for the prior year, MIMP submitted financial data that was accepted by DBT.

MIMP Fiscal Year 2005 and Fiscal Year 2006 Performance Data

In July 2005, DBT informed MIMP that the effectiveness of MIMP's marketing efforts would be the basis for evaluating MIMP's performance under its fiscal years 2005 and 2006 contracts. At this time, DBT also informed MIMP that it would be required to provide detailed information about its marketing efforts so that DBT could calculate a return on investment (ROI) on MIMP's expenditure of earmarked funds. On April 30, 2006, MIMP submitted a combined fiscal years 2005 and 2006 performance report and subsequently submitted a revised performance report for fiscal years 2005 and 2006 on May 18, 2006.

After DBT officials requested more comprehensive data, MIMP provided a revised performance report that was accepted by DBT.

Recommendation

DBT/MOTT should implement the following measures to improve its internal controls over the administration of legislative earmarks:

- Establish formal written policies and procedures relative to the review/analysis of information provided by recipients, including the requirement to document all monitoring activities undertaken by DBT/MOTT relative to the information provided by recipients.
- Consider conducting random periodic site visits to recipients to verify the accuracy of the information being provided by recipients and assess their progress toward achieving their programmatic objectives.

- Consider withholding, in accordance with OSC policies, final payments to any recipient that does not provide, in acceptable form, all required budgetary information.

Auditee's Response

In response to our draft audit report, MOTT officials provided comments, which are excerpted below:

The Department of Business and Technology (DBT)/MOTT has followed procedures/guidelines as developed by the Office of the Comptroller. These procedures/guidelines were announced to CFOs in November, 2006. However, DBT had established procedures well before that date but were in agreement with what the Comptroller's Office had set as standards. ... Please note that the Internal Control Plan developed by DBT that was submitted to the site auditors does include sections regarding contract processing. While there is no specific language that delineates earmarks from other contracts, both types of contracts are monitored with similar scrutiny with regard to documentation and performance. Also, please note that the Comptroller's Guidelines were issued subsequent to the period of the OSA review of MOTT activities. These guidelines are more for setting standards for grants rather than for legislative earmarkings that we at DBT/MOTT have no discretion in determining the grantee, etc. . . .

[Regarding the contract files] ... We would like to highlight the following:

- 1. No earmarked entity can receive a second payment without submission of a progress report.*
- 2. No earmarked entity can receive final payment without submission of a detailed final program/financial report.*
- 3. Several of the earmark recipients have received earmarked funding for a period of years. In this case, we only ask for the latest financial statements rather than repeatedly ask for the same reports every year. Also, requesting this information from small Not for Profits would cost these agencies more than the earmarked amount.*
- 4. Because of the nature of our payment schedule, it is not prudent to ask for interim reports. The majority of earmarks range from \$25,000 to \$100,000; most are for operating costs or for one time projects. Additional reporting requirements would add an administrative burden to not only DBT staff but also to the recipients' respective staff. . . .*

In response to your audit findings, we will work with the Office of the Comptroller to review DBT/MOTT's policies and procedures for earmarked funds. However, we also request OSA guidance regarding "No Less Than" Legislative Earmarks since it is our understanding that Legislative Earmarks that are labeled "No Less Than" require us to disburse all of the earmarked funding. DBT/MOTT has taken their fiduciary responsibilities on Legislative Earmarks very seriously, and most of the guidelines that are in the OSC Policy were already followed by DBT/MOTT. . . .In the case of the noted

\$4M Earmarking, DBT/MOTT had in fact extended the encumbrance deadline to September 15, 2006, in order to resolve the matter of deficient information.

Furthermore, we take exception to the necessity of site audits on Legislative Earmarks. First, DBT staff is already severely burdened with just the processing of these Legislative Earmarks, which have grown exponentially over the past 2 fiscal years. While your sample includes some of the larger earmarks, the majority are for small dollar amounts and are granted to entities who need considerable technical assistance to guide them through the state contracting process. Nowhere in the Comptroller's Guidance is there a requirement for on-site audits on legislative earmarks. The Legislature has not provided DBT/MOTT any monies for any additional staff or for audits.

Please know that the Legislature has never required formal reports regarding the use of their earmarked funds. Each earmark has its own legislative sponsor with limited guidance on the use of the earmarked funds.

Auditor's Reply

Contrary to what MOTT asserts in its response, the guidance issued by OSC relative to the administration of grants also applies to legislative earmarks. Although we acknowledge that DBT/MOTT does not designate the recipients of these earmarks, it still has the responsibility of ensuring that these funds are expended for their intended purposes. Our report acknowledges that DBT executed the required Standard Contract Form with each of the recipients of earmarked funds as required by 815 CMR 2.05. However, our issue is that the controls MOTT has established relative to the monitoring of these earmarked funds could be improved. As noted in our report, MOTT officials stated that the agency does not have any formal written policies and procedures relative to monitoring recipients' use of these funds. Consequently, during our audit, we selected and reviewed the files of 10 of the 76 fiscal year 2006 earmarks administered by MOTT and noted a number of problems with the documentation in each of these files.

In its response, MOTT states that it did not issue second or final payments to any recipient without first receiving the required reports, and that under certain circumstances, it does not require certain recipients to submit required reports. As noted in our report, we found a number of instances in which the contact files being maintained by MOTT relative to recipients of earmarked funds did not contain all of the reports that recipients are required to submit in accordance with their contracts. If MOTT did not require these recipients to submit these reports, it would have been prudent to document this fact either in a formal written contract amendment or in a formal agency policy and to note this fact in the recipients' contract file.

In addition, we also found problems with MOTT's desk audit process. Specifically, in seven of the 10 files examined in which a recipient failed to provide a deliverable, there was no documentation such as notes, memorandums, letters, or other evidence that indicated that any effort was made by MOTT staff to contact the recipient to obtain the missing data. Further, MOTT staff did not record the problem or any actions they may have taken relative to the problem in the recipient's file, and did not document that the file had been subject to a desk audit. Also, MOTT did not summarize the results of its desk audits, and MOTT staff did not ever visit a grantee firm to review the original data and verify the accuracy of the information that had been submitted by the grantee to MOTT. Again, if MOTT did not require certain grantees to submit the documents specified in their contracts, then this fact should have been noted in the grantee's file. Also, although it appears that MOTT, given its limited resources, made reasonable attempts to establish appropriate monitoring activities relative to earmarked funds, our concern is that any activities that may have been conducted by MOTT staff during its desk reviews were not adequately documented.

We understand that MOTT has limited resources and does not have the ability to conduct regular site visits to recipients of earmarked funds. However, the agency should consider conducting periodic visits to some recipients for the purposes of verifying the accuracy and completeness of the information being provided by recipients. We believe that such a measure, even if only implemented on a limited basis, would not only provide better assurance that earmarked funds are being used for their intended purposes, but may also serve as a deterrence to the misuse of these funds.

Finally, we recognize that the Legislature does not require MOTT to provide it with any reports relative to the use of earmarked funds. However, it may be prudent for MOTT to develop an annual compliance report in this area and make it available upon request to members of the Legislature. Such a report would provide useful information to the Legislature, on which it could assess future funding requests.

SUBSEQUENT EVENTS

In February 2008, the Commonwealth of Massachusetts, Office of the Inspector General (OIG) issued a report on contracts between the Massachusetts Office of Travel and Tourism and Massachusetts International Marketing Partnership, Inc. (MIMP) for the 2005-2007 period.

The OIG found that all funds expended by MIMP were accounted for properly. In addition, the report found no evidence or impropriety in the awarding of contracts or in the expenditure of funds by MIMP.