

OVERVIEW

Management and Financial Audit of Hawai'i Tourism

Authority's Major Contracts

Report No. 09-02, January 2009

Summary

This is the second audit of the Hawai'i Tourism Authority (HTA) and its major contractors, which we conduct every five years as required by Section 23-13, Hawai'i Revised Statutes. The audit focused on three multi-year contracts, each exceeding \$15 million over the life of the contract, awarded by the HTA to the Hawai'i Visitor and Convention Bureau (HVCB), Hawai'i Tourism Japan (HTJ), and SMG, the marketer and operator of the Hawai'i Convention Center. We reviewed the authority's processes and controls that guide contractor performance and ensure compliance with applicable laws. We also contracted with a consultant to perform an agreed-upon procedures audit of the HVCB.

We found that the authority's year-to-year approach to planning and program implementation hinders its ability to strategically manage the long-term growth of Hawai'i's visitor industry. We also found that the authority no longer has a functional strategic plan of its own, and its annual budget, the only plan it has, provides no long-term strategies to fulfill the goals of the Hawai'i Tourism Strategic Plan: 2005 - 2015, the State's overall tourism road map. By choosing to map out their strategy and appropriate funds on a year-to-year basis, HTA officials have returned to the approach to tourism promotion that it was created to replace.

Chief among the authority's responsibilities is to create a vision of Hawai'i tourism and develop a strategic plan of its own that should serve as a roadmap for the organization and its partners. In the five years since our last audit, the HTA has spent nearly \$270 million in state funds or 90 percent of its marketing funds to attract visitors from North America and Japan and operate and market the Hawai'i Convention Center through its major contracts with the HVCB, HTJ, and SMG. Without a strategic plan that maps out the long-term goals and processes to assess the accomplishments of its major contractors, the authority's board of directors is unable to demonstrate that the promotional dollars have been spent purposefully and effectively. By failing to define its own strategies and account for its efforts, the authority has not fulfilled its leadership role to manage Hawai'i tourism in a sustainable manner during times of economic decline or prosperity. The authority's failure to establish clear objectives and account for its own activities extends to its major contractors.

We found the HTA's role as the lead entity and advocate of the tourism industry is significantly weakened by its inability to provide measurable results for its major marketing contractors. The only stated goal of the authority in the major contracts we reviewed refers to an "overall goal" of *Ke Kumu*, the HTA's strategic plan, which was phased out in 2004. For example, specific to the HVCB and HTJ contracts, references are made throughout to "HTA's stated goal and objectives" but nowhere



in the contracts are these clearly defined. Essentially, the authority relies on the contractors to set up their own contract terms, deliverables, and even the means by which performance will be evaluated. Lacking objective measures, benchmarks, and documentation, the authority is unable to demonstrate the effectiveness of its oversight process. In previous reports, we raised the issue of the need for HTA to develop measures that could demonstrate the effectiveness of its activities and programs. Industry experts attest to the complexity and difficulty in assessing the effectiveness of tourism development efforts such as promoting brand awareness. But absent objectively determined results, the effectiveness of taxpayer funds spent on promoting Hawai'i's most important industry cannot be demonstrated. The tourism industry has begun to embrace performance management practices. For example, in the handbook *Standard CVB Performance Reporting*, the Destination Marketing Association International has developed best practice methods for performance reporting on marketing destinations and convention centers.

In the opinion of N&K CPAs, Inc., with whom we contracted for an agreed-upon procedures audit, the HVCB's management has taken a stronger role in enforcing current policies and procedures. Despite better oversight by HTA to reduce risk in contract management, weaknesses and opportunities for improvement remain, primarily in the administration of the contracts with HTJ and SMG. Informal deviation from contractual terms, including the waiver of independent audits, serious errors in contractual documents, and contractor's failure to adhere to expenditure procedures are some of the issues we identified during our audit.

Recommendations and Response

We recommended that HTA's board of directors exercise the leadership necessary for the development of an action plan that gives a clear picture of the authority's long-term direction and expected outcomes from its activities in terms that can be objectively measured. We also recommend that objectively measureable outcomes be incorporated in the contractual agreements, annual plans, evaluations, and renewal deliberations relating to HTA's major contractors.

The Hawai'i Tourism Authority replied that it is in the process of developing an operational plan to address the audit's findings and recommendations and intends to "also explore the need to develop a longer range plan of its own which would also be aligned with the [Hawai'i Tourism Strategic Plan]." The authority provided information to clarify a number of points raised in our audit, which neither contradicts nor changes our findings and recommendations. However, the authority's response and clarifications do not appear to fully embrace one of the report's important points—that HTA's plans lack quantifiable, objective benchmarks linking the activities and resources spent to pre-determined outcomes in a format that does not rely on or require industry expertise.

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