

---

# Auditor's Summary

## Audit of the Hawai'i Tourism Authority

Report No. 18-04



PHOTO: ISLAND OF HAWAII VISITORS BUREAU (IHVB) / TYLER SCHMITT

### Why Did These Problems Occur?

We found that HTA's semi-autonomy and its exemption from the State Procurement Code has led the Authority to be less accountable and less prepared, with operations that lack the rigor necessary to adequately manage and oversee its contracts, to ensure that procurement is conducted fairly, appropriately, and in the State's best interest, and to address the statutory reduction of the limit on administrative expenses. Also, as the Authority's staffing has evolved over the years, we found that its policies and procedures have become outdated, no longer reflecting the reality of its current organizational structure.

### What problems did the audit identify?

**IN REPORT NO. 18-04**, *Audit of the Hawai'i Tourism Authority*, we assessed the Hawai'i Tourism Authority's (HTA) oversight of its two contracts valued at over \$15 million: one with AEG Management HCC, LLC (AEG) to manage, operate, and market the Hawai'i Convention Center, and the second with the Hawai'i Visitors and Convention Bureau (HVCB) to market Hawai'i in the United States and Canada. We also examined HTA's procurement of service contracts and its compliance with the statutory limit on its administrative expenses. In all three areas, we found that HTA's autonomy, which includes permanent funding and an exemption from the State Procurement Code, has facilitated lax oversight, deficient internal controls, and, ultimately, less accountability.

We found that HTA reimbursed millions of dollars to contractors without receipts and other required documentation; reimbursed costs, such as first-class airfare, luxury hotel accommodations, and other extravagant expenses, that were expressly prohibited by contract; and consistently failed to enforce contract terms that are intended to protect the State. HTA has disregarded its own procurement policies and procedures, awarding sole source contracts based on questionable justifications, paying contractors without existing contracts, and voluntarily waiving ownership of intellectual property that the State paid to develop. In response to a statutory change reducing the amount of the Tourism Special Fund that can be used for administrative expenses, HTA shifted some expenses to other budget lines and to HTA programs, but did not significantly reduce its costs.

### Why Do These Problems Matter?

With tourism being one of the industries responsible for the State's economic growth and standard of living, it is vital that HTA be best able to accomplish this critical mission while remaining accountable and ensuring appropriate stewardship of public funds. Without strong oversight of its contracts, HTA may be allowing its contractors to underperform and overspend. In fact, in the case of AEG's contract to transition the management and operation of the Hawai'i Convention Center, we found concrete instances in which HTA approved improper, extravagant expenses disallowed by the terms of that contract. Our audit findings suggest that this scenario is likely not an isolated one.

