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AUDIT REPORT NO. 68-6
MARCH 1968

FINANCIAL AUDIT OF THE HAWAII VISITORS BUREAU

FOR THE PERIOD JULY 1, 1966 TO JANUARY 31, 1967

A REPORT TO THE GOVERNOR AND THE LEGISLATURE OF THE STATE OF HAWAII

SUBMITTED BY THE LEGISLATIVE AUDITOR OF THE STATE OF HAWAII

THE OFFICE
OF THE LEGISLATIVE AUDITOR

The office of the legislative auditor is a public agency attached to the Hawaii State legislature. It is established by Article VI, Section 8, of the Constitution of the State of Hawaii. The expenses of the office are financed through appropriations made by the legislature.

The primary function of this office is to strengthen the legislature's capabilities in making rational decisions with respect to authorizing public programs, setting program levels, and establishing fiscal policies and in conducting an effective review and appraisal of the performance of public agencies.

The office of the legislative auditor endeavors to fulfill this responsibility by carrying on the following activities.

1. Conducting examinations and tests of state agencies' planning, programming, and budgeting processes to determine the quality of these processes and thus the pertinence of the actions requested of the legislature by these agencies.
2. Conducting examinations and tests of state agencies' implementation processes to determine whether the laws, policies, and programs of the State are being carried out in an effective, efficient and economical manner.
3. Conducting systematic and periodic examinations of all financial statements prepared by and for all state and county agencies to attest to their substantial accuracy and reliability.
4. Conducting tests of all internal control systems of state and local agencies to ensure that such systems are properly designed to safeguard the agencies' assets against loss from waste, fraud, error, etc.; to ensure the legality, accuracy and reliability of the agencies' financial transaction records and statements; to promote efficient operations; and to encourage adherence to prescribed management policies.
5. Conducting special studies and investigations as may be directed by the legislature.

Hawaii's laws provide the legislative auditor with broad powers to examine and inspect all books, records, statements, documents and all financial affairs of every state and local agency. However, the office exercises no control functions and is restricted to reviewing, evaluating, and reporting its findings and recommendations to the legislature and the governor. The independent, objective, and impartial manner in which the legislative auditor is required to conduct his examinations provides the basis for placing reliance on his findings and recommendations.

LEGISLATIVE AUDITOR

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FOREWORD

This financial audit report is the result of our examination of the financial books and accounts of the Hawaii Visitors Bureau for the fiscal year ended June 30, 1967 and the period from July 1, 1967 to January 31, 1968. The audit was conducted pursuant to a request made by the Speaker of the State House of Representatives on February 14, 1968.

In this financial audit we have omitted our normal procedure of testing for the reasonable accuracy and reliability of the subject agency's financial statements since this was already done by a private public accounting firm. Our efforts, therefore, were directed toward the accomplishment of the following objectives: (1) to ascertain the amount and to clarify the nature of the agency's deficit balance; (2) to identify the factors that have brought about this condition; (3) to evaluate the agency's fiscal management practices; and (4) to recommend such remedial actions as are necessary and appropriate.

On March 19, 1968, our preliminary report was transmitted to the Hawaii Visitors Bureau and the State department of planning and economic development for their review and comments. Their responses to us are shown in Part V of this report as *Memoranda of Comments of Affected Agencies.* We are pleased to note that the Hawaii Visitors Bureau has accepted all of our recommendations and has taken steps to strengthen its financial administration.

Our examination was greatly facilitated by the excellent cooperation and assistance rendered to our staff auditors by the officers and employees of the Hawaii Visitors Bureau and the State department of planning and economic development. To Mr. Robert Allen, managing director of the Hawaii Visitors Bureau, and Dr. Shelley Mark, director of the department of planning and economic development, we express our sincere appreciation.

Clinton T. Tanimura
Legislative Auditor

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Chapter 1

INTRODUCTION

During the past few months, much public attention has been focused upon the fiscal position and administration of the Hawaii Visitors Bureau. The bureau has been charged with laxity in fiscal control and with accumulating a large deficit. Opinions have differed as to the size of the deficit and as to the adequacy of the bureau's fiscal management. To *clear the air*, the Speaker of the House of Representatives, in mid-February, 1968, requested this office to conduct a comprehensive examination of the financial administration of the Hawaii Visitors Bureau. This is a report on that examination.

Objectives of the Audit

Our audit had the following objectives:

1. To ascertain the amount of the bureau's deficit balance.

2. To analyze, identify and report the factors which contributed to the bureau's deficit.

3. To examine the bureau's fiscal management practices and to recommend such actions as appropriate to correct such deficiencies as may exist.

Scope of Audit

Our audit included the examination of the bureau's financial records for and the transactions covering the fiscal year July 1, 1966 to June 30, 1967 and for the period from July 1, 1967 to January 31, 1968. An annual audit of the financial records and statements is performed by an independent certified public accountant firm for the purpose of attesting to the reasonable accuracy of the financial statements. Our efforts were not intended to duplicate the work of the independent accountant. Our examination was restricted to ascertaining the size of the bureau's deficit, to a detailed analysis of selected financial transactions and to a general review of the financial condition and fiscal management practices of the bureau. It should be noted that our examination was strictly a financial one and did not include a review of the effectiveness of the bureau or the efficiency with which the bureau is carrying out its programs in promoting tourism for Hawaii.

Organization of the Report

This report is organized into four parts. Part I consists of this introduction (chapter 1) and some background on the bureau's programs (chapter 2).

Part II (chapters 3 to 6) contains our findings and comments regarding the bureau's fund management, its financial statements, and its fiscal operations, in general.

Part III (chapters 7 to 9) contains our findings and comments on some specific classes of expenditures made by the bureau.

Part IV (chapters 10 and 11) contains a summary of our findings and comments and a note on what the bureau is doing to correct its fiscal deficit.

Definition of Terms

Certain accounting terms and abbreviations are used frequently throughout this report. The terms and their definitions, and the abbreviations and their references are as follows:

Encumbrances means obligations in the form of purchase orders, contracts, or commitments which are chargeable to the year in which they are budgeted. These obligations cease to be an encumbrance when paid or when they become actually due and payable.

State refers to the State of Hawaii.

HVB and *bureau* refer to the Hawaii Visitors Bureau.

DPED refers to the State department of planning and economic development.

PTMRI refers to the Pacific Tourism, Marketing & Research Institute, a department of HVB.

R & R refers to the armed forces rest and recuperation program.

Chapter 2

SOME BACKGROUND

Organization

The Hawaii Visitors Bureau had its start as early as 1903 when a Joint Tourist Committee, composed of representatives from the Chamber of Commerce and the then Merchants' Association, was organized. The major purpose of the committee was to formulate plans for the systematic advertising of the Territory (of Hawaii).[1] In the same year, the Territorial government appropriated $15,000 for the work of the committee. Governmental support to the program has continued since that time. The operations of the Joint Tourist Committee remained under the Chamber of Commerce until 1959. In 1959, the committee was dissolved, and the Hawaii Visitors Bureau was organized as a non-profit corporation to assume the functions previously performed by the Joint Tourist Committee.

The operations of the bureau is headed by an executive vice president and managing director, who is appointed by the bureau's board of directors. The other officers of the corporation serve on a part-time, voluntary basis. The board of directors, which is responsible for the bureau's policy matters, consists of 22 members, elected by the voting membership of the bureau.

Prior to 1959, when HVB was not yet in existence and the tourist promotion programs were being administered by the Joint Tourist Committee, the legislative acts which appropriated funds for the committee's operations contained a proviso that the Joint Tourist Committee's executive board or committee include five members appointed by the governor. These appropriation acts also spelled out the terms and conditions respecting the services to be provided by the Joint Tourist Committee.

Active participation by the State in the operations of the Joint Tourist Committee was terminated by Act 16, Session Laws of Hawaii 1959

[1] *An Evaluation of Hawaii Visitors Bureau Programs, Report to the Fourth State Legislature, State of Hawaii, Hawaii Visitors bureau, December 31, 1967*, pp. 13-14.

(First Special Session). By this time, the Joint Tourist Committee had been replaced by the Hawaii Visitors Bureau. Act 16 provided that no employee or officer of the State shall serve as a member of the HVB executive board or committee. The act also changed the method of appropriating moneys for tourist promotion. Instead of a direct appropriation to a non-governmental agency, the act authorized the State agency charged with tourism development to enter into a contract with HVB to provide for the promotion and development of tourism. This change in State-bureau relationship was the result of a desire by the legislature to exercise greater control over the funds appropriated to the bureau.

The bureau's main office is in the Waikiki Plaza building. An information center is also located in Waikiki to service that area. It has four mainland regional offices located in San Francisco, Los Angeles, Chicago and New York. HVB offices are also maintained on each of the neighbor islands of Hawaii, Maui and Kauai. The bureau is staffed by approximately 75 employees to carry out its programs.

Role of State

Recognizing the emerging importance of tourism on the economy of Hawaii, the legislature in 1957[2] created the Territorial planning office. The act which created the office specified that the director of the planning office shall, among other things, plan for the integrated and coordinated development and expansion of the tourist industry. The functions and duties of the Territorial planning office are now lodged in and performed by the department of planning and economic development.

As the agency charged with tourism development, the department of planning and economic development contracts with HVB for the promotion and development of tourism.[3] Until 1965, the annual contract with HVB consisted of a single document which spelled out all of the services to be rendered by HVB, including advertising services. HVB then contracted with an advertising agency for advertising services. Since 1965, two contractual documents have been executed. The basic contract with the bureau now covers all services, except advertising. Advertising services are covered in a separate contract executed by DPED, HVB and the advertising agency concerned.

Programs

The HVB has divided its activities into nine programs:

Administration
Advertising, publicity and promotion
Regional sales offices
Convention solicitation and servicing
Visitor satisfaction
Research
Community relations

[2]Act 150, Session Laws 1957, Regular Session.

[3]Act 16, Session Laws of Hawaii 1959. Unlike prior appropriation acts, the appropriation acts for fiscal years 1965-66 *et. seq.*, have not specifically named HVB as the organization with which the department of planning and economic development should contract for tourism promotion. These later acts have merely stated that the department may contract for tourism promotion and that the department itself shall not engage in tourism promotion other than by such contract or contracts.

Pacific Tourism Marketing & Research Institute (PTMRI)
Aloha R & R.

1. **Administration program.** This program includes all activities for the coordination and overall management of the various programs of HVB. It also includes central fiscal services for the organization.

2. **Advertising program.** The advertising program includes the promotion of Hawaii through advertisements in national magazines, periodicals and other media. The program also covers the printing and distribution of promotional literature such as brochures and posters and sell Hawaii and her people.

3. **Regional sales offices and convention solicitation.** The regional sales offices expend their efforts in person-to-person contacts with mainland carriers, hotels and travel agents. In addition, the regional offices attempt to sell Hawaii as a convention site and help coordinate group movements from the mainland to Hawaii.

4. **Visitor satisfaction program.** The basic purpose of the visitor satisfaction program is to assist in the financing and promotion of pageants and festivals, such as the Aloha Week, the Cherry Blossom Festival, Narcissus Festival and the Fiesta Filipina.

5. **Research.** The HVB's research activities consist mainly of compiling and summarizing travel and tourist data gathered through surveys and other methods of research. The kinds of information obtained include, among others, the reaction of tourists on their visit to Hawaii, the amounts and nature of spending by visitors, and the occupancy percentage of Hawaii hotels.

6. **Community relations.** The community relations program acquaints the local public and businesses with the activities and benefits of the HVB programs.

7. **PTMRI.** In May, 1966, the HVB's board of directors authorized the creation of the Pacific Tourism, Marketing and Research Institute (PTMRI), as a division of the bureau. The program provides professional consultative service and assistance to other Pacific countries in tourism development. A fee is charged for its studies, surveys and services. It is thought that the movement of people to and through the Pacific will specifically benefit Hawaii.

8. **R & R.** The Aloha R & R program had its start in August, 1966, after Hawaii was designated as one of the R & R sites. The bureau's activities include the printing and distribution of literature which provide some guide and direction to the R & R veterans and their families during their stay here. The bureau also provides staff assistance in coordinating and promoting the R & R program.

Financing HVB

Since 1903, the two principal sources of finances for HVB operations have been the State appropriations and private membership subscriptions. Table I below shows the State and private contributions over a ten-year period: 1957-58 to 1967-68. As the table reflects, State contribution has increased substantially from $478,377 in 1957-58 to $1,439,000 in 1967-68. In comparison, private contributions increased over the same period from $374,375 in 1957-58 to $534,750 (estimated) in 1967-68. In recent years, the ratio of State to private contributions has been approximately three to one.

TABLE I
SCHEDULE OF STATE APPROPRIATIONS AND PRIVATE SUBSCRIPTIONS

Fiscal Year Ended June 30	State Appropriations Amount	State Appropriations % of Total	Private Subscriptions Amount	Private Subscriptions % of Total	Total
1958	$ 478,377	56	$374,375	44	$ 852,752
1959	441,628	49	459,999	51	901,627
1960	758,250	64	435,419	36	1,193,669
1961	1,104,928	71	442,283	29	1,547,211
1962	1,194,500	83	244,291	17	1,438,791
1963	1,230,000	78	342,873	22	1,572,873
1964	1,230,000	79	322,608	21	1,552,608
1965	1,100,000	77	328,910	23	1,428,910
1966	1,200,000	78	329,957	22	1,529,957
1967	1,332,830	74	470,020	26	1,802,850
1968*	1,439,000	73	534,750	27	1,973,750

*Estimated

Table II below shows the private subscription amounts for the years 1965-66 and 1966-67, classified by types of subscribers' businesses.

TABLE II. SCHEDULE OF HVB BASE SUBSCRIPTIONS
Year Ended June 30, 1967
With Comparative Figures for 1966

Type of Business	1967 No. of Subscribers	1967 Amount	1967 %	1966 No. of Subscribers	1966 Amount	1966 %
Oahu and Mainland						
Hotels	81	$ 79,370	18.3	69	$ 70,438	21.8
Air Transportation	21	48,850	11.2	17	35,975	11.2
Utilities	3	29,800	6.9	3	21,450	6.6
Factor Agencies	5	27,320	6.3	5	21,320	6.6
Wholesale, other than Petroleum	105	24,116	5.6	107	21,278	6.6
Banks	7	23,888	5.5	6	17,225	5.3
Construction	55	17,399	4.0	38	10,446	3.2
Restaurants, Bars, Night Clubs	58	13,342	3.1	35	8,645	2.7
Printing and Publishing	27	11,159	2.6	18	7,882	2.4
Water Transportation	8	10,437	2.4	5	10,305	3.2
Unions	Various	9,190	2.1	Various	600	.1
Wholesale, Petroleum	6	9,150	2.1	5	8,600	2.7
Department Stores	10	8,838	2.0	6	5,350	1.7
Tour and Travel Agents	49	8,006	1.8	60	7,630	2.4
Garment Manufacture	34	5,931	1.4	16	2,899	.9
Real Estate	72	5,777	1.3	57	4,452	1.4
Ground Transportation	16	5,410	1.2	10	3,480	1.1
Clothing Stores	24	5,221	1.2	15	3,881	1.2
Photography	16	5,050	1.2	11	3,432	1.1
Credit Agencies, Savings and Loan	32	5,020	1.1	21	3,495	1.1
All Others		44,158	10.2		30,723	9.5
Total Oahu and Mainland		$397,432	91.5		$299,506	92.8
Neighbor Islands		23,633	5.4		9,389	2.9
Hawaii Calls		13,200	3.1		13,750	4.3
Total Base Subscriptions[1]		$434,265	100%		$322,645	100%
Total All Subscriptions[2]		$470,020			$329,957	

[1] A base subscription is the minimum amount committed by a subscriber as an annual subscription.

[2] Total all subscriptions includes base subscriptions and any amounts given by subscribers over and above the base subscription. A detail breakdown of these additional amounts is not readily available. Nevertheless, inclusion of the additional amounts would not significantly alter the amounts and percentages included in this table.

Source: The base subscription data were obtained from the HVB master list of subscribers, July 31, 1967.

PART II. FINDINGS AND COMMENTS ON FUND MANAGEMENT AND OPERATIONS

Chapter 3

METHODS OF ACCOUNTING

The principal financial statements of the bureau, and of most commercial organizations, are (1) the balance sheet and (2) the statement of revenue and expenditures. The bureau's financial statements are prepared on what is referred to as the **accrual** method of accounting and reporting. For the State, and for the purposes of this report, as we will illustrate, the method which we call the **budget basis** of accounting and reporting is more meaningful than the accrual method. We have, therefore, in reporting our findings, recast the bureau's, accrual-based, financial statements to the budget basis. In every instance, however, we have tried to explain the significance of our findings in terms of both the accrual and the budget-based methods of accounting and reporting.

Before we turn to our findings, it will be helpful to the reader if we describe, generally, but as clearly as possible, the essential differences between the **accrual** method and the **budget-based** method of accounting and reporting. An understanding of the main differences at the outset should aid the reader in more readily grasping the significance of our findings. We attempt to describe those differences in this chapter.

The main differences between the two methods of accounting may be described in terms of how the assets, liabilities, fund balances (deficits), and revenue and expenditures are accounted for and reported.

Accrual Method

1. **Assets.** The accrual method is an accepted method of accounting. It is commonly used by commercial enterprises. It recognizes as assets, **all** properties and rights which an organization owns or to which it has a rightful claim. In other words, the accounting and reporting fully disclose as assets all properties or claims owned by an organization, including items such as cash, receivables from debtors, amount of supplies or merchandise on hand, capital assets and prepaid costs. Prepaid costs are amounts spent for items, property and claims, the benefit of which will be received in a future period.

The balance sheet of the bureau at June 30, 1967 (Table III) shows that, under the accrual basis, its assets totaled $263,693. Included in the assets of the bureau are, in summary amounts, the following:

Cash	$ 19,531
Amounts due from subscribers and others	67,390
Inventories of promotional material on hand at June 30, 1967 which will be consumed in the subsequent period	40,087
Prepaid expenses and deferred charges for which benefit will be received in the future period ($14,982 plus $54,616)	69,598
Capital assets (cost, less accumulated depreciation)	67,087
Total assets	$263,693

2. Liabilities. The accrual method generally recognizes and accounts for all liabilities at the time the goods or services ordered are delivered or performed. Generally, a legal claim must exist before a liability is recognized. The bureau's liabilities at June 30, 1967 are shown on the balance sheet (Table III) to include the following items:

Amounts payable to creditors	$295,447
Payroll and other taxes due to the federal and State governments	39,146
Other sundry liabilities	1,467
Total liabilities	$336,060

3. Fund balance (deficit). In the accrual method of accounting, the fund balance represents the residual or the net equity of the organization —that is, the excess of **all** assets over **all** liabilities. The fund balance in a commercial enterprise, under the accrual method, represents what belongs to the owners of the organization.

Deficit balance, on the other hand, represents the amount by which the **total** liabilities exceed the **total** assets. The balance sheet of the bureau at June 30, 1967 (Table III), under the accrual method, shows a deficit balance of $72,367. This deficit balance may be viewed as the amount by which the bureau would have been short to pay creditors if the bureau had discontinued business on June 30, 1967, and had sold all of its assets for $263,693, the amount noted in the books as the value of the assets.[1]

[1] This illustration may be an oversimplification, and is offered only to explain the significance of the fund balance or deficit balance.

4. Revenue and expenditures. The accrual method recognizes income when it is **earned**, regardless of whether or not cash has been collected. Thus, with respect to the bureau, the amounts due from subscribers and other debtors of $61,072 are included in the statement of revenue and expenditures (Table IV) for the fiscal year ended June 30, 1967. The disbursement or obligation of funds for operating expenses, such as salaries, rent, supplies and taxes, are generally charged or allocated to the year when the expenditure is incurred; except in instances when the cost of an expenditure benefits the operations beyond the year in which the expenditure is incurred. In the latter event, the cost is allocated over the period the benefit will accrue.

Budget Based Method

One of the difficulties with financial statements presented on the accrual basis is that they do not readily reflect the **operational solvency** of an organization. The budget basis of presenting financial information is intended to do that. This method is in line with the method by which funds are accounted for by government agencies.

1. Assets. The budget-based method recognizes as assets only cash and other assets, such as subscriptions receivable, which are converted into cash in the normal course of operations. One difference of the budget-based method from governmental accounting should be noted here. In governmental accounting, an amount due from a debtor is often not recognized as an asset until the cash is collected. However, with respect to HVB, we have included the receivables of $64,230 as assets, because they will in due process be converted into cash. Another reason for the inclusion of the receivables as an asset is that the amount of pledges due from the subscribers was included in the budget plans for the fiscal year 1966-67, and the budget basis of accounting is intended in part to indicate the bureau's financial position in relation to its budget. The exclusion of the pledges, therefore, would not be proper.

Expenditures which benefit future operations, such as inventory of materials, prepaid expenses and deferred charges are not considered as assets since they will not be converted into cash in the normal course of the bureau's operations. Since the legislature appropriates funds on an annual basis for expenditures to be incurred for the year, the technical method of accounting for or allocating expenditures to the period receiving the benefit is not of primary concern to the legislature. For example, the cost of new film productions was budgeted in the amount of $30,000 for the fiscal year 1966-67. The bureau received delivery and made a payment of $15,000 for one of the films. The remaining $15,000 budgeted was obligated for the second film at June 30, 1967, the delivery of which was made after that date. On the budget basis, the entire $30,000 is treated as an expenditure in the year in which it was expended or obligated, regardless of when benefit will be received. This is proper from the standpoint of fund management.

Capital assets, such as furniture and equipment, are not included as assets on the budget basis. Although they represent properties owned by the organization and have utility, they are not expected to be converted into cash in the normal course of the bureau's operations.

2. **Liabilities and encumbrances.** The budget-based method, like the accrual method, recognizes all liabilities at the time the goods or services ordered are delivered or performed. In addition, the budget-based method accounts for all encumbrances (defined earlier in the report). As illustrated earlier in this chapter, the bureau had obligated $15,000 at June 30, 1967 for the purchase of the remaining portion of the film production. Although this was not a legal liability at that time, since the second film had not then been received, it is recognized as an encumbrance since funds for that amount had been committed and set aside for a specific purpose on June 30, 1967.

3. **Fund balance (deficit).** The budget-based method, as mentioned above, attempts to show the solvency or liquidity of an organization. The solvency is reflected in the fund balance or deficit balance. When the cash and other *equivalent* assets exceed the liabilities and other earmarked funds, the balance is called the fund balance. Conversely, where the liabilities exceed the assets, the balance is termed a deficit balance. On the budget basis, at June 30, 1967, the Hawaii Visitors Bureau had a deficit balance of $267,299.

4. **Revenues and expenditures.** Revenues are recognized on the same basis with respect to the budget and accrual bases.

Subscription revenue is recognized at the time pledges are made by subscribers. With respect to State appropriation, revenue is recognized at the time allotments are made by the State to the bureau.

As mentioned earlier, expenditures are accounted for differently between the budget and accrual bases. Expenditures on the budget basis reflect all disbursements, obligations and commitments of funds for the operation of the bureau's activities, regardless of whether the benefit will accrue beyond the fiscal year of the expenditure. This method of accounting for expenditures is in conformity with the approved budget plans for expenditures.

The excess of revenue over expenditures is called **surplus**. Conversely, when the expenditures exceed the revenue, the balance is called a **deficit**. This surplus or deficit resulting from the operational activities for each fiscal year is added to (where a surplus occurs) or deducted from (where a deficit occurs) the previous year's accumulated fund balance (or deficit balance as the case may be).

BALANCE SHEET

The balance sheet of the Hawaii Visitors Bureau as of June 30, 1967 is shown in Table III. It is presented, for comparison purposes, on both the budget basis and the accrual basis of accounting. A discussion of the major classifications and the differences between the two methods follow the table.

TABLE III. BALANCE SHEET
June 30, 1967

	Actual Amount	
ASSETS	Accrual Basis	Budget Basis
Assets:		
Cash	$ 19,531	$ 19,531
Receivables:		
Subscriptions, less allowance of $2,500 for doubtful subscriptions	41,059	41,059
Other	26,331	23,171
	67,390	64,230
Inventories of promotional material, etc.	40,087	–
Prepaid expenses	14,982	–
Deferred charges:		
Cost of new film production	15,000	–
Cost of campaign fund drive	39,616	–
	54,616	
Equipment and leasehold improvements, at cost:		
Furniture and fixtures	100,888	–
Leasehold improvements	38,243	–
	139,131	–
Less accumulated depreciation and amortization	72,044	–
Net equipment and leasehold improvements	67,087	–
Total assets	$263,693	$ 83,761
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	$295,447	$295,447
Taxes accrued and withheld	39,146	39,146
Other	1,467	1,467
Total liabilities	336,060	336,060
Reserve for encumbrance		15,000
Fund balance [deficit]:		
Fund balance [deficit], beginning of year	55,417	[34,380]
Excess of expenditures over revenue	127,784	232,919
Fund balance [deficit] end of year	[72,367]	[267,299]
Total liabilities and fund balance	$263,693	$ 83,761

Cash

The cash balance shown on the balance sheet is comprised of:

Cash in banks	$14,056
Imprest and petty cash fund	5,475
Total cash	$19,531

The bureau currently transacts business and maintains bank accounts with eight banks in Honolulu. In addition, the bureau maintains employee imprest and petty cash funds at several of its offices. The imprest and petty cash funds are used to make immediate payment of minor expenditures incurred in the daily course of business. It should be noted that there is no distinction or separation made in cash receipts or expenditures between private subscriptions and State moneys.

Receivables

1. **Subscriptions receivable.** The accounting records of the bureau show a balance of $43,559 as the amount of private subscriptions due but uncollected as of June 30, 1967. The bureau estimates that approximately $2,500 of this amount will be uncollectible. Accordingly, the bureau, by a bookkeeping entry, has made an allowance for this $2,500. The total amount of the receivables is thus reduced by $2,500, leaving a balance of $41,059.

2. **Other receivables.** The $26,331 shown on the balance sheet under the accrual basis, is a summary of the following:

Applicable to the Pacific Tourism Marketing & Research Institute	$17,513
Sales of Promotional Literature	3,816
Advance Travel and Expense Allowances	3,160
Salary Advances	1,380
Others	462
Total Other Receivables	$26,331

The $17,513 shown above as being applicable to the Pacific Tourism Marketing and Research Institute, is discussed in chapter 5.

There is a difference of $3,160 in *other receivables*, between the accrual and budget bases ($26,331 minus $23,171). This difference represents the amount of advances made to employees for travel and expense allowances. As of June 30, 1967, the trips for which these advances were made had already occurred. For budget purposes, therefore, we treat these advances as having been expended. On the accrual basis, this amount would be recognized as an expense only when expense reports are submitted as evidence of the expenditures.

Inventories of Promotional Materials, Etc.

The bureau, as of June 30, 1967, inventoried all major items of literature and other promotional materials on hand and recorded the cost thereof of $40,087 as an asset. It thus appears as an item under the accrual basis in the balance sheet. In prior years, the inventory at the end of the year was not shown as an asset, because the amounts were relatively insignificant. However, the substantial increase in purchases of literature and promotional material during the fiscal year 1966-67, led to a sufficiently large inventory to be on hand at June 30, 1967 to warrant its inclusion on the balance sheet. As mentioned earlier, although accounting principles support showing the inventory as an asset, it should not be shown as such for budget purposes.

Prepaid Expenses and Deferred Charges

Prepaid expenses and deferred charges represent payments made in advance for which benefits will be derived in future periods.

1. **Prepaid expenses.** Prepaid expenses include rental and other deposits, and other sundry prepaid items which are summarized below:

Rental and other deposits	$10,758
Cost of services and expenses relating to visual aid project	3,814
Other prepaid expenses	410
Total prepaid expenses	$14,982

2. **Deferred charges. a. New film productions.** For the fiscal year 1966-67, $30,000 was budgeted for new film productions. The bureau decided during the year to use all of the $30,000. As of June 30, 1967, it received one of the two films it had ordered. The sum of $15,000 was expended for this film. The balance sheet shows this expenditure of $15,000, on the accrual basis, as a deferred charge. The deferral is on the presumption that future periods will benefit from this expenditure. Since a film of this nature generally has utility in the bureau's promotional activities for a period in excess of a year, there appears to be a basis for the allocation of the cost over several years. Since the period of benefit is not readily determinable, the bureau has selected a three-year period over which to allocate the cost. On the budget basis, of course, the $15,000 is treated as an expense, and it does not appear as an asset.

As of June 30, 1967, the bureau had not received the second film, also costing $15,000. The film was received and the $15,000 paid subsequent to June 30, 1967. On the accrual basis, since cost is not picked up until a legal liability comes into existence, and since legal liability to pay for a film does not arise until the film is delivered, the $15,000 for the second film does not appear on the balance sheet. However, on the budget basis, since the second film had already been ordered and the expenditure of $15,000 for this second film had been committed, as of June 30, 1967, the $15,000 for this second film is reflected in the liability section of the balance sheet as a *reserve for encumbrance*.

b. Cost of campaign fund drive. The bureau employed a professional organization to conduct a fund drive in April 1966. It cost the bureau $60,013 to conduct this fund drive, including $19,200 in fees for the services of the professional organization and $40,813 in reimbursable expenses incurred by the organization. The bureau chose to pro-rate the cost of the fund drive over a three-year period, beginning July 1, 1966. The sum of $20,397 was charged to fiscal year 1966-67, leaving a balance of $39,616 at June 30, 1967, which is the amount shown on the balance sheet as a deferred charge.

The bureau chose to defer portions of the professionally conducted fund drive cost, because professionally conducted drives are unusual and do not occur on a regular basis and the groundwork and techniques developed by the professional organization are expected to benefit the bureau in its future bureau-conducted fund raising activities.

As previously explained, on the budget basis of accounting, money actually spent is not carried on the balance sheet as an asset under deferred charges, even if benefits of the expenditure may be realized in future years.

Equipment and Leasehold Improvements

On the accrual basis of accounting, assets of a long-term character which are intended to continue to be held or used, such as a building, leasehold improvements, machinery, furniture and other equipment, are capitalized and depreciated. The cost of the asset is pro-rated over the estimated life of such asset with each period being charged with a part of such cost. It is for this reason that the undepreciated and unamortized portions of furniture, fixtures and leasehold improvements appear on the balance sheet under the accrual basis. However, on the budget basis, the cost of an asset purchased is not capitalized nor depreciated but treated as an expenditure in the period when the purchase is made.[1]

Thus, the net investment of equipment and leasehold improvements in the amount of $67,087 is not reflected on the budget basis.

[1]The inclusion of capital assets on the balance sheet would have the corresponding effect of increasing the fund balance. Since a capital asset is intended to provide utility and not to be sold and converted into cash, the inclusion of it may be misleading as explained in an earlier chapter.

The net $67,087 shown under the accrual basis includes the undepreciated and unamortized portions of the $10,523, for office furniture and fixtures, and $850, for minor leasehold improvements, expended by the bureau in fiscal year 1966-67.

Liabilities

Under both the accrual and budget bases of accounting, the total liabilities shown on the balance sheet in the amount of $336,060 are recognized. Of the total liabilities outstanding, $295,447 represents accounts payable, which is discussed further under chapter 7.

Reserve for encumbrance. The reserve for encumbrance of $15,000 represents the cost of a new film, ordered but not yet received as of June 30, 1967. This matter is discussed under deferred charges, above.

Fund Balance (Deficit)

As of June 30, 1967, the accumulated fund deficit on the budget basis amounted to $267,299 as compared to a deficit of $72,367 on the accrual basis. The difference of $194,932 ($267,299 minus $72,367) is the net result of the adjustments made to recast the balance sheet from the accrual basis to the budget basis of accounting. A summary of these adjustments follows.

Deficit balance – accrual basis		$ 72,367
Add items not recognized as assets under the budget basis of accounting:		
Advances for travel and expense account allowance included as an asset	$ 3,160	
Inventory of promotional material	40,087	
Prepaid expenses	14,982	
Deferred charges:		
Cost of new film production	15,000	
Cost of campaign fund drive	39,616	
Equipment and leasehold improvement at cost:		
Cost of equipment and leasehold improvements (after deducting depreciation)	67,087	
	179,932	
Add encumbered item not recognized under the accrual basis of accounting :		
Cost of new film production	15,000	194,932
Deficit balance – budget basis		$267,299

As reflected on the balance sheet, the accumulated fund deficit of $72,367 on the accrual basis essentially represents the difference of all of the assets owned whether it be in cash, inventory or property and all of the liabilities incurred which were outstanding as of June 30, 1967.

On the other hand, the accumulated fund deficit of $267,299 on the budget basis represents the net deficiency in **liquid** assets required to meet obligations. Liquid assets are those assets which are and can be readily converted to cash ($83,761) to meet current obligation ($336,060 plus $15,000).

Of the two, we believe that the deficit figure of $267,299 has greater significance to the State than the deficit figure of $72,367. It is its **liquid** or cash position which determines whether the bureau can *pay as it goes*. It is the amount of cash and the amount of assets readily convertible to cash, on hand, which determine how much additional cash is needed for the bureau to pay its bills. Items such as equipment and leasehold improvements are not readily convertible to cash nor are they expected to be sold in the ordinary course of the bureau's business for the purpose of paying the bureau's bills.

Chapter 5

STATEMENT OF REVENUE AND EXPENDITURES

This chapter describes generally the nature of the bureau's revenues and expenditures for fiscal year 1966-1967.[1] The bureau's statement of revenues and expenditures for fiscal year 1967 is in Table IV.

TABLE IV. STATEMENT OF REVENUE AND EXPENDITURES
Year Ended June 30, 1967

	Actual Amount			Actual Budget Basis Over [Under] Budgeted Amount
	Accrual Basis	Budget Basis	Budgeted Amount	
Budgeted Items:				
Revenue:				
Private Subscriptions	$ 470,020	$ 470,020	$ 500,000	$ [29,980]
State Appropriations	1,332,830	1,332,830	1,332,830	–
Total Budgeted Revenue	1,802,850	1,802,850	1,832,830	[29,980]
Expenditures:				
Salaries	479,522	479,522	472,769	6,753
Taxes	22,887	22,887	21,554	1,333
Employee Benefits	13,269	13,269	19,940	[6,671]
Rent	66,958	66,958	57,007	9,951
Janitorial	4,829	4,829	6,243	[1,414]
Utilities	5,723	5,723	5,380	343
Publicity and Promotion (Schedule I)	502,677	572,764	473,696	99,068
Operating Expenses (Schedule II)	196,595	210,073	154,532	55,541
Travel	101,242	104,402	121,709	[17,307]
Advertising	499,323	499,323	500,000	[677]
Total Budgeted Expenditures	1,893,025	1,979,750	1,832,830	146,920
Excess of Budgeted Expenditures over Revenue	90,175	176,900	–	176,900
Non-Budgeted Items (Schedule III)				
Expenditures	66,063	84,262	–	84,262
Revenue	28,454	28,243	–	28,243
Excess of Non-Budgeted Expenditures over Revenue	37,609	56,019	–	56,019
Excess of Expenditures over Revenue	$ 127,784	$ 232,919	–	$232,919

[1] A discussion of some of the bureau's specific expenditure transactions is in part III of this report.

General Description of the Statement

The statement shows the revenues by their sources and the expenditures by the nature or objects of the expenditure. The revenues and expenditures are classified as either budgeted or non-budgeted. Budgeted items are those which were taken into account when the budget for the fiscal year was formulated; non-budgeted items are those which were not considered when the budget was initially prepared. The table reflects actual revenues and expenditures under both accrual and budget basis methods of accounting. The table further compares the actual revenues and expenditures (on the budget basis of accounting) with the budget amounts.

The statement shows an excess of expenditures over revenues of $232,919 on the budget basis and $127,784 on the accrual basis. As reflected in the statement and the schedules (which are dispersed throughout the chapter), nearly all of the expenditures (budget basis), except for travel expenses, exceeded the budget amounts. A discussion of the major variances between the actual revenues and expenditures (on the budget basis) and the budget amounts follows.

Budgeted Items

Revenues:

1. **Private subscriptions.** The sum of $470,020 was received as subscriptions from private sources during the fiscal year. This figure represents subscriptions that were pledged and collected in cash; it also includes pledges totaling $43,559 which the bureau had not collected as of June 30, 1967. The latter amount is shown as a receivable on the balance sheet (Table III). The actual subscriptions ($470,020) fell short of the budgeted amount of $500,000, by $29,980.

The collection of $470,020 represents 94 percent of the subscription goal. The rate of actual collection of the subscription goals has been fairly consistent over the years as evidenced by the following tabulation:

FY Ended June 30	Subscription Goal	Actual Subscriptions	% of Actual Subscriptions to Subscription Goal
1963	$ 355,775	$ 342,873	96
1964	360,000	322,608	90
1965	350,000	328,910	94
1966	370,000	329,957	89
Tot. 4 yrs.	$1,435,775	$1,324,348	92

The amount of actual subscriptions collected in fiscal year 1966-67 is attributable in part to the fact that a professional fund raising firm was contracted by HVB to conduct the 1966-67 fund drive. The cost of this fund drive is reflected in Schedule III[2] as a non-budgeted expenditure. It should be noted that since the fund drive was specifically to increase the amount of private subscriptions, at least a part of the cost of the drive should be charged against the subscription revenue in ascertaining the success of the bureau in attaining its goal. As noted in greater detail later in this chapter, the cost of the fund drive was $47,915. If all of this cost is applied against the subscriptions collected, only 84 percent of the goal has been met. If, however, only $20,397

[2] See page 24, *infra.*

of the total fund drive cost is considered an expense for fiscal year 1967, as the bureau elected to do,[3] then the actual subscriptions collected amounted to 90 percent of the subscription goal.

2. **State appropriations.** Under the terms of the contract between DPED and HVB, money is allotted to HVB by DPED on a quarterly basis. The following is a detail of the quarterly payments received by HVB in fiscal year 1966-67.

Qr.	Date Received by HVB	Amount: Advertising Contract	Amount: Basic Contract	Amount: Total
1st	July, 1966	$221,572	$329,568	$ 551,140
2nd	Sept. 29, 1966	206,497	278,094	484,591
3rd	Jan. 16, 1967	46,931	141,707	188,638
4th	Apr. 14, 1967		83,461	83,461
	Apr. 28, 1967	25,000		25,000
		$500,000	$832,830	$1,332,830

As reflected above, approximately 90 percent of the total State appropriation of $1,332,830 was disbursed to the bureau by the beginning of the 3rd quarter. Payment of most of the amount appropriated by the State is made by the beginning of the 3rd quarter primarily to equalize the bureau's flow of revenue throughout the fiscal year. Approximately 60 percent of the private subscriptions is collected in the last four months of the fiscal year. This situation is because the major subscribers' anniversary date for payment generally falls within the months of March to June.

Expenditures

Actual expenditures for budgeted items exceeded the budget by $176,900 under the budget basis of accounting (see Table IV). The following explains the nature of the major expenditures and describes the differences between the actual and budgeted amounts.

1. **Salaries.** HVB has approximately 75 full-time employees who were paid $479,522 during the fiscal year ended June 30, 1967 (see Table IV. This actual cost exceeded the budget by $6,753. The excess was primarily due to overtime and the hire of a couple of employees, the costs of which were not included in the budget.

2. **Rent.** Expenditures for rent include rentals of in-state and out-of-state offices. In-state offices are rented for the administration and visitor satisfaction programs, while out-of-state offices are rented for sales functions. The following tabulation lists the actual rents incurred and compares the actual with the budgeted amounts for the year ended June 30, 1967.

	1966-1967: Actual Expenses	1966-1967: Budgeted Amounts	1966-1967: Over [Under]
In-State Offices			
Waikiki Business Plaza - Adm.	$31,218	$24,348	$6,870
Waikiki Information Center	12,288	12,288	—
Hilo, Hawaii	443	300	143
Kona, Hawaii	840	840	—
Maui	484	180	304
Kauai	932	600	332
Sub-Total	46,205	38,556	7,649
Out-of-State Offices			
Regional Sales, Los Angeles	2,930	2,784	146
Regional Sales, San Francisco	2,727	2,736	[9]
Regional Convention Sales, Chicago	6,420	4,675	1,745
Regional Convention Sales, New York	8,676	8,256	420
Sub-Total	20,753	18,451	2,302
Total	$66,958	$57,007	$9,951

[3]See chapter 4, *supra*, and page 13, *infra*.

The actual cost for the fiscal year ended June 30, 1967 exceeded the budget by $9,951 as shown above. The reasons for the excess with respect to the two major variances follow:

1. Waikiki Business Plaza	
Rental charge for additional space	$3,488
Real property and other taxes	3,382
	$6,870
2. Regional Conventional Sales, Chicago	
Rental charges for additional space	$1,745

3. **Publicity and Promotion.** The publicity and promotion costs totaled $572,764 for the year ended June 30, 1967. The details of this cost are noted in Schedule I.

As noted in Schedule I, promotional literature and promotion account for the major portions of the excess of actual cost over the budgeted amount. The management of HVB explains the

SCHEDULE I OF TABLE IV
SCHEDULE OF PUBLICITY AND PROMOTION
Year Ended June 30, 1967

	Actual Amounts			Actual Budget Basis Over [Under]
	Accrual Basis	Budget Basis	Budgeted Amount	Budgeted Amounts
Promotion	$ 52,671	$ 52,671	$ 40,000	$12,671
Photography - World Release	9,453	9,453	10,000	[547]
Assisting Travel Writers . .	2,229	2,229	1,575	654
Hawaii Calls	93,390	93,390	93,390	–
Distribution - Movies . . .	7,846	7,846	8,400	[554]
Warrior Markers	1,704	1,704	2,029	[325]
Leis and Music	1,062	1,062	2,000	[938]
Promotional Literature . .	181,566	221,653	128,792	92,861
Special Events	40,012	40,012	48,450	[8,438]
Ulu Mau Village	9,186	9,186	6,000	3,186
Convention Servicing . . .	7,914	7,914	7,500	414
PATA Dues	5,500	5,500	8,250	[2,750]
Aloha Week	85,000	85,000	85,000	–
New Movie or Visual Aid . .	–	30,000	30,000	–
HVB Bulletin	5,144	5,144	2,310	2,834
Totals	$502,677	$572,764	$473,696	$99,068

excess in promotional literature cost as follows: (1) the demand for brochures from travel agents far exceeded expectations during the year, and (2) the bureau's administration, in early spring of 1967, changed its policy of purchasing quarterly to purchasing semi-annually to take advantage of lower per unit cost of purchasing and shipping in bulk. This change in policy accounts for the inventory on hand at the end of the year under the accrual method of accounting. Under the budget method of accounting, however, the money has been spent, and the cost of the inventory is sunk.

Promotion expenditures as shown in Schedule I exceeded the budget by $12,671. We understand that this was primarily due to the American Society of Travel Agents Convention, which was budgeted for $10,000 but actually cost $22,550.

The total cost incurred by the bureau for special events amounted to $40,012 as shown in Schedule I. Expenditures for special events are incurred by contractual arrangements between the bureau and various organizations. A comparison of actual cost and budgeted amounts for some of the special events is listed below.

	1966 - 1967		
	Actual Cost	**Budgeted Amount**	**Actual Over [Under]**
Makaha Surfing Championship	–	$ 2,000	$ [2,000]
Kauai Rodeo	–	1,000	[1,000]
Festival of the Garden Isle	$ 3,057	–	3,057
Discovery Day	–	7,600	[7,600]
Whaling Spree	8,254	6,000	2,254
Central Maui	–	2,000	[2,000]
Makahiki (all islands)	1,212	4,500	[3,288]
Sub-Total	12,523	23,100	[10,577]
All Other Events	27,489	25,350	2,139
Total	$40,012	$48,450	$ [8,438]

The reasons for the above variances are (1) expenditures were made to some events that were not included in the budget and (2) some of the budgeted events did not materialize or required less money than originally budgeted.

4. **Operating expenses.** Operating expenses for the year ended June 30, 1967 totaled $210,073. They are detailed in Schedule II.

The operating expenses actually incurred exceeded the budget by $55,541. The items contributing heavily to the excess were mail and postage, stationery and supplies, telephone and telegraph, professional services and data processing services. A discussion of the last three items follows.

Telephone and telegraph. Telephone and telegraph charges, which amounted to $32,620,

SCHEDULE II OF TABLE IV
SCHEDULE OF OPERATING EXPENSES
Year Ended June 30, 1967

	Actual Amounts			Actual Budget Basis Over [Under] Budgeted Amounts
	Accrual Basis	Budget Basis	Budgeted Amount	
Mail and Postage	$ 63,452	$ 63,452	$ 52,475	$10,977
Stationery and Supplies	33,147	33,147	27,106	6,041
Telephone and Telegraph	32,620	32,620	23,457	9,163
Equipment and Maintenance	2,202	2,202	2,100	102
Dues and Subscriptions	1,689	1,689	2,100	[411]
Professional Services	15,200	15,200	9,471	5,729
Insurance	1,998	1,998	1,250	748
Annual Meeting	505	505	630	[125]
Data Processing Service	31,935	31,935	12,768	19,167
Research Data	7,831	7,831	8,209	[378]
Hotel Accommodation	6,016	6,016	5,000	1,016
Capital	--	13,478	9,966	3,512
Totals	$196,595	$210,073	$154,532	$55,541

were primarily for the offices located in Honolulu, Los Angeles, Chicago and New York. Below is a breakdown of the costs, by offices, incurring major portions of the total telephone and telegraph expenses.

	Nature of Cost				
Office	Basic Telephone Rental	Long Distance	Telegrams	Misc.	Total
Honolulu	$ 9,626	$ 6,556	$1,927	$397	$18,506
Los Angeles	1,122	1,285	31	–	2,438
Chicago	2,456	1,794	229	–	4,479
New York	1,515	1,540	346	–	3,401
All Others	2,034	1,699	63	–	3,796
	$16,753	$12,874	$2,596	$397	$32,620

Professional services. Fees for professional services exceeded the budget by $5,729 as shown on Schedule II of Table IV. We understand that this excess was primarily due to the unanticipated additional work done to improve the format and content of the reports furnished through the data processing system.

Data processing service. The bureau presently receives data processing services from Computab, Inc., and American Security Bank. The following services are provided by Computab, Inc.:

Monthly subscription listings;
At various intervals, the pledge listing of all members;
Bi-monthly computations of HVB payroll.

The monthly subscription listing contains information such as the area location of the subscriber, name of subscriber, business code, payment date and payment amount. The pledge listing lists the members of the bureau, the amounts and dates of the pledges, and classifies these pledges by either new, renewal or additional. Payroll computations for approximately 75 HVB employees are also provided.

The data processing department of the American Security Bank provides the following monthly reports:

Detailed accounts payable listings;
Detailed expenditure listings;
Research reports.

The accounts payable listing contains each vendor's name, invoice status and date, the unpaid balance, and the expenditure classification. The expenditure listing report is a detail listing of all expenditures; it includes a comparison between budget and actual expenditures for the month and year to date. Research reports represent a compilation of various statistical data such as visitors' length of stay and composition of visitors.

The data processing cost exceeded the budget by $19,167 as shown on Schedule II. Below is the computation provided by HVB of the costs budgeted and the cost not considered in the budget.

Cost No.	Costs Budgeted	1966 - 1967 Actual Cost	Budgeted Amount	Actual Over Budget
1	Computab, Inc.	$ 2,256	$ 720	$ 1,536
2	American Security Bank	27,175	12,048	15,127
	Sub-Total	29,431	12,768	16,663
	Cost Not Considered in the Budget			
3	Cost of shipping IBM 401	2,504	–	2,504
	Total	$31,935	$12,768	$19,167

The excess of the actual over budgeted expenses has been attributed to the following:

Cost No.

1 In prior years, payroll and quarterly tax returns were prepared by the bureau. However, for fiscal 1966-67, these functions were performed by Computab, Inc., for $900. The remaining $636 of the $1,536 excess was for pledge listings of all members, which the bureau requested of Computab, Inc., at various intervals. These listings were not requested in prior years.

2 This excess was due entirely to an underestimation of cost.

3 The bureau, in prior years, leased a data processing machine for various accounting functions. When these functions were taken over by Computab, Inc., and American Security Bank, HVB had to ship the machine back to the lessor at HVB's expense. The budget did not provide for this cost.

5. **Travel and Advertising.** The travel and advertising expenses are discussed in chapters 8 and 9.

Non-Budgeted Items

All expenditure and revenue items that were not budgeted in the bureau's budget are shown on Schedule III of Table IV. The excess of $56,019 of non-budgeted expenses over non-budgeted revenue contributed to the bureau's deficit. A brief discussion of the major non-budgeted items follows the schedule.

SCHEDULE III OF TABLE IV
EXCESS OF NON-BUDGETED EXPENDITURES OVER REVENUE
Year Ended June 30, 1967

	Actual Amounts: Accrual Basis	Actual Amounts: Budget Basis	Budgeted Amount	Actual Budget Basis Over [Under] Budgeted Amounts
Non-Budgeted Expenditures:				
Depreciation	$13,117	–		–
Campaign Fund Drive	20,397	$47,915		$47,915
Pacific Tourism Marketing and Research Institute	10,778	10,778		10,778
Rest and Recuperation	19,471	19,471		19,471
Provisions for Uncollectible Subscriptions	2,300	2,300		2,300
Other	–	3,798		3,798
Total Non-Budgeted Expenditures	66,063	84,262	–	84,262
Non-Budgeted Revenues:				
Pacific Tourism Marketing and Research Institute	27,658	27,658		27,658
Other	796	585		585
Total Non-Budgeted Revenues	28,454	28,243	–	28,243
Excess of Non-Budgeted Expenditures Over Revenues . .	$37,609	$56,019	–	$56,019

Cost of Fund Drive

The treatment of cost of the fund raising drive as a deferred charge is discussed in chapter 4. The amount charged as an expense, on the accrual basis, of $20,397 represents the portion of the total cost which HVB allocated as an expense of the 1966-67 fiscal year. On the budget basis, the amount of $47,915 represents expenditure incurred during the fiscal year.

Pacific Tourism Marketing and Research Institute

The Pacific Tourism Marketing and Research Institute Program (PTMRI), as mentioned earlier in the introduction of this report, provides professional, consulting and advisory services in tourism development to countries in the Pacific Basin. For the year ended June 30, 1967, PTMRI realized an excess of revenue over expenditures in the amount of $16,880 ($27,658 minus $10,778). The expenditure and revenue amounts are shown on Schedule III of Table IV. Of the $27,658 PTMRI revenue, $17,513 of it had not been collected as of June 30, 1967. This amount is included in the total accounts receivable shown in the balance sheet on Table III.

For the seven-month period ended January 31, 1968 (July 1, 1967 to January 31, 1968), the expenditures ($44,861) exceeded the revenue ($13,046) by $31,815. After deducting the loss ($31,815) of the seven-month period from the surplus of $16,880 at June 30, 1967, the program shows a deficit balance of $14,935 at January 31, 1968.

We understand that PTMRI is intended to be a self-sustaining program. The operations to January 31, 1968 show otherwise.

Aloha R & R

The Rest and Recuperation (R & R) program was first established on August 3, 1966 to assist the military in its R & R program. The bureau has claimed that it incurred $23,671 in R & R expenses during the year ended June 30, 1967[4] and requested reimbursement for that amount from the State. The breakdown of this amount is as follows:

Salaries	$ 8,672
R & R cards and brochures	14,738
Travel	261
Total	$23,671

However, as shown on Schedule III of Table IV, the real cost of R & R was $19,471. The difference of $4,200 ($23,671 minus $19,471) represents a purported, pro-rata amount of an HVB administrator's salary which the bureau considers should be chargeable to the R & R program, since the administrator devoted a considerable amount of time to the program. We do not think that the amount is a proper reimbursable item, since the cost of the administrator's salary has already been budgeted in another of the HVB programs. Since additional cash outlay was not required, the allocated cost should not be reimbursable.

[4] Letter dated January 22, 1968, from Robert Midkiff, president of the bureau, to Shelley Mark, director of DPED.

Chapter 6

EFFECT OF FUND MANAGEMENT PRACTICES ON DEFICITS, SURPLUS AND FUND BALANCE

This chapter contains an analysis of the reasons why fiscal year 1966-67 ended in a deficit and suggests ways in which deficits may be avoided in the future. As defined in chapter 3, *deficit* means the excess of expenditures over revenue in any given fiscal year, and *surplus* means the excess of revenue over expenditures in any given fiscal year. The deficit or surplus of a fiscal year, when added to or subtracted from the fund balance or fund deficit existing at the beginning of the fiscal year gives one a new fund balance or fund deficit at the end of the fiscal year.

Deficit Factors

As reflected in the statement of revenue and expenditures (Table IV), the fiscal year 1966-67 ended with a deficit of $127,784, under the accrual method of accounting, and with a deficit of $232,919, under the budget basis of accounting. The following summarizes the combination of factors which led to the deficit.

	Method of Accounting	
	Accrual Basis	Budget Basis
Insufficient private subscriptions to meet budgeted revenue	$ 29,980	$ 29,980
Overexpenditure of budgeted expenditures	60,195	146,920
Net expenditure of non-budgeted items	37,609	56,019
Deficit	$127,784	$232,919

The above amounts were derived by determining the differences between the actual transactions and the amounts budgeted for the year. The differences between the accrual basis and the budget basis are explained in chapter 3.

To prevent deficits from occurring, prudent management practices require certain financial controls. In the subsequent parts we discuss the more obvious kinds of control which should be followed.

Budget Preparation

Fiscal controls should be imposed at the earliest possible stage in the bureau's fiscal process. The earliest stage in the process is, of course, when the budget for the ensuing fiscal year is prepared. A careful preparation of the budget can assist in preventing deficits from occurring. The bureau's budget is prepared on the premise that the total expenditures for the year should not exceed the total revenues to be received in that year. Any budgetary practice which permits the expenditure of funds in excess of expected receipts can be expected to lead to a deficit. It appears that the bureau's budgetary practice is such that it permits the expenditure of funds in excess of the year's receipts. The practice appears faulty in two respects: (1) in utilizing private subscription goal as the estimate of the revenues to be received in private contributions; and (2) in failing to consider the deficit balance as may exist at the commencement of the year for which the budget is formulated.

1. **Subscription goal.** The bureau receives financial support from the State and from private subscriptions. The amount of State support for

any given year is known upon finalization of the contract between the bureau and DPED. This amount is generally set and not subject to change. The amount of money the bureau will receive in the next fiscal year in private contributions, however, is not definite. The bureau rightfully uses the State contract amount in estimating a portion of the next year's revenue. It, however, also uses the bureau's subscription **goal** for the next year to estimate its revenues. We do not believe that the **total** amount of the subscription goal should be used to estimate the bureau's revenues.

Past experiences of the bureau show that the bureau rarely, if ever, attains its goal 100 percent; it generally attains 92 to 94 percent of its subscription goals. The four-year average prior to fiscal year 1966-67 was 92 percent. Yet, the bureau includes in its estimated revenue **all** of the subscription goal. This was done for fiscal year 1966-67, in which year private contributions reached 94 percent of the bureau's goal.

It would appear that, based on past experiences, prudent management would not consider all of its subscription goal in estimating the bureau's revenues for the next fiscal year (unless, of course, the goal itself is reduced).

A goal is something which an organization wishes to attain. Expectations may or may not be synonymous with goal. In the case of the bureau, expectations evidently have not been the same as its goal in the past few years.

2. **Prior year's deficit.** In budgeting for the next fiscal year, prudent management practice seemingly requires that any deficit existing at the time of the budget formulation be taken into account. This apparently was not done by the bureau in preparing its 1966-67 budget. As shown in Table V in the latter part of this chapter, the bureau ended the fiscal year 1965-66 with a deficit of $34,380. This deficit amount should have been taken into account in preparing the budget for fiscal year 1966-67, and provisions made in the budget to liquidate this deficit.

We recommend that all future budgets of the bureau be prepared on the basis of revenues which can reasonably be expected to be received, rather than on the amounts stated in the bureau's goal; we further recommend that in all future budget preparations, the deficit or surplus as may then exist be taken into account.

Expenditure Controls

As noted in summary at the beginning of this chapter, during the fiscal year, the bureau expended $146,920 (on the budget basis) and $60,195 (on the accrual basis) more than had been allowed in the budget. Obviously, there was a lack of control over expenditures during the fiscal year. Prudent management practice requires that expenditures be examined from time to time throughout the fiscal year to determine what moneys are being spent at what rate and what this means in terms of the flow of revenue to the bureau.

Since the amount of the State's contribution is fixed, the revenue which bears watching throughout the fiscal year is the private contributions. While the exact amount which will be received from private sources cannot be predicted with precision, past experiences on the rate of collection should provide some guide. Past experiences of the bureau indicate that 60 percent of the total private contributions is generally expected in the last quarter of the fiscal year. This rate plus the rate at which the subscription goals are generally reached should provide some information respecting what might be expected in terms of the revenue flow.

We recommend that appropriate controls over expenditure during any given year be established and enforced.

Expenditure for Non-Budgeted Items

In fiscal year 1966-67, expenditures for non-budgeted items exceeded the revenues from non-budgeted sources in the amount of $56,019 (on the budget basis) and $37,609 (on the accrual method). It appears that these expenditures for non-budgeted items have been made without careful scrutiny. Expenditures for non-budgeted items should be made and we recommend that they be made only (1) if there are sufficient funds available to pay for such expenditures without causing a deficit, (2) where it is absolutely necessary that they be made, in which event as these expenditures for non-budgeted items are made, corresponding adjustments be made in the budget for budgeted items, or (3) where there is assurance that the expenditure for the non-budgeted item will be reimbursed by revenue in equal amount from a non-budgeted source.

Whether HVB's management was cognizant of or exercised any of the above controls is certainly not apparent by the amount of the bureau's deficit for the year ended June 30, 1967. Aside from the unforeseen cost incurred as a result of the armed forces rest and recuperation program, which amounted to only $19,471, some of which will be reimbursed the HVB by the State, it is our opinion that all other expenditures could have been controlled to some degree to avoid the large deficit which occurred during the fiscal year ended June 30, 1967.

State Control

As a result of the excess of expenditures over revenue in fiscal year 1966-67, the bureau's deficit balance (or accumulated deficit) at June 30, 1967 amounted to $72,367 (accrual basis) and $267,299 (budget basis). This deficit balance at June 30, 1967, will require the use of future funds to pay for the debts of the earlier periods.

It is said that the deficit balance will be paid for from private contributions. We note that payment of the deficit balance from private contributions will affect public funds, unless the private contributions which are used to pay off the deficit balance are in an amount equal to the deficit balance and are received, over and above the amount of private contributions needed to cover current year's budgeted expenses, and unless, further, the current year's revenue and expenditures end in $0 or in surplus. Otherwise, the siphoning of private contributions toward the liquidation of the deficit balance would mean that the State would be paying for a greater percentage of the total cost of the bureau's operations in the current year.

We believe that the State should exercise greater control over the financial operations of the bureau. Although we feel that the bureau should continue to exercise control over its internal affairs, we strongly recommend that the contract between HVB and DPED include a provision whereby the bureau must secure the prior written approval of DPED in all cases where expenditures are sought to be made when there are no funds on hand to pay for these expenditures. The contract should also require the budget basis of accounting, as described in this report, to be used for the purposes of reporting the bureau's financial status to DPED.

Deficit and Surplus–Prior Years

This section describes briefly the results of HVB's financial operations in fiscal years 1958 through 1967. The amount of deficit or surplus applicable to this period is shown in Table V.

TABLE V. SCHEDULE OF DEFICIT AND SURPLUS 1958 THROUGH 1967

	Surplus [Deficit] for the Year		Accumulated Surplus [Deficit]	
Fiscal Year Ended June 30	Accrual Basis	Budget Basis	Accrual Basis	Budget Basis
Beginning Balance			$291,503	$ 262,478
1958	$ [41,442]	$ [41,111]	250,061	221,367
1959	[62,964]	[53,727]	187,117	167,640
1960	[10,149]	[25,366]	176,968	142,274
1961	57,433	41,286	234,401	183,560
1962	[146,720]	[161,093]	87,681	22,467
1963	69,004	71,648	156,685	94,115
1964	[4,910]	[6,770]	151,775	87,345
1965	[20,838]	[13,616]	130,937	73,729
1966	[75,520]	[108,109]	55,417	[34,380]
1967	[127,784]	[232,919]	[72,367]	[267,299]

As shown above in Table V, under the column *Surplus (Deficit) for the Year*, the only major deficit year, besides 1966 and 1967, was 1962. However, unlike 1966 and 1967, when the amounts of private subscriptions increased over the previous year, 1962 experienced a severe drop in private subscriptions. The subscriptions fell from $442,283 in 1961, to $244,291 in 1962, a decline of $197,992. It is interesting to note, however, that in 1962, the actual expenditures were less than the budgeted expenditures by approximately $70,000, indicating, in our opinion, that an attempt was made by HVB's management at that time to control expenditures to minimize the deficit which was inevitable, because of the decline in subscription revenue. Conversely, it is not apparent that in 1966 and 1967, any attempt was made to minimize the deficit by a reduction of expenditures.

As Table V notes, the practice of engaging in annual deficit spending is not uncommon in the history of HVB's financial operations. At the start of fiscal year 1958, there was an accumulated surplus of $291,503 (accrual basis) and $262,478 (budget basis). This accumulated surplus gradually diminished to a low point in 1962. In 1963, the bureau made a brief recovery but, again, starting in 1964, the accumulated surplus dwindled, until a deficit balance occurred for the first time in 1967 on the accrual basis and in 1966 on the budget basis. The fact that the bureau has almost always gone into deficit spending in prior years is, in our opinion, no justification for its continuation, especially at such times when a surplus balance is insufficient to offset any deficit spending. Being cognizant of the diminishing surplus, HVB's management should have initiated definite measures to curtail any deficit spending in 1966 and 1967, in order to avoid the present undesirable and substantial deficit balance.

Chapter 7

ACCOUNTS PAYABLE

This chapter includes a tabulation of the amounts payable to creditors and the length of time the debts have remained unpaid. The purpose of the tabulation is to show the degree of promptness with which HVB pays off its debts. The tabulation is made for the amounts outstanding both at June 30, 1967 and also at January 31, 1968, for comparative purposes and to determine whether there has been any improvement in the credit status of the bureau.

Easy Credit

A review of the tables and exhibits contained in this chapter quickly shows that HVB has been delinquent in the payment of its debts. It is customary in business to refuse to grant additional credit to a customer who has not paid his debts within a reasonable time. However, with respect to HVB, its requests for additional credit have usually been granted by its trade creditors.

It appears that this leniency on the part of the creditors is in part attributable to the fact that HVB has been heavily financed by the State. The substantial interest in HVB that the State has exhibited in the past leads to a reasonable assumption that such interest will continue in the future. This substantial State interest is an insurance against the chance that HVB will ever fold and be required to liquidate. The creditors thus have a reasonable assurance that they will eventually be paid. The bureau has taken full advantage of this attitude, as evidenced by the large amount of debts it incurred regardless of whether it had sufficient cash to liquidate the debts.

At June 30, 1967, the total amount of accounts payable ($295,447) and other liabilities ($40,613) far exceeded the available cash, including receivables ($64,230 on the budget basis and $67,390 on the accrual basis) (see Table III). This has made it necessary for the bureau to utilize the subsequent year's funds to liquidate the liabilities outstanding at June 30, 1967. It is imperative that the bureau discontinue this practice of deficit financing.

Accounts Payable at June 30, 1967

A summarization of the accounts payable as of June 30, 1967, aged according to the month in which the charges were billed to the bureau, is shown in Table VI. Of the $295,447 accounts payable as of June 30, 1967, $107,218 or 36% represents the charges billed the bureau in June, 1967, and $188,229 or 64% represents charges billed in the months prior to June, 1967.

TABLE VI
SUMMARY OF AGED ACCOUNTS PAYABLE AT JUNE 30, 1967

Status of Account: Status	Status of Account: Billing Month	Amount	%
Current	June, 1967	$107,218	36
Past Due			
1 - 30 days	May, 1967	42,890	15
31 - 60 days	April, 1967	32,860	11
61 - 90 days	March, 1967	68,357	23
91 - 120 days	February, 1967	9,124	3
121 - 150 days	January, 1967	5,673	2
Over 150 days	December, 1966, & prior	29,325	10
Total past due accounts		$188,229	64
Total accounts payable at June 30, 1967		$295,447	100

A detailed listing of all accounts payable as of June 30, 1967, from which the above summary (Table VI) was constructed, is contained in Exhibit I attached at the end of this chapter. The exhibit displays for each account outstanding as of June 30, 1967, what portion of the total charge was incurred in what month. For example, the unpaid invoices from Fawcett-McDermott at June 30, 1967 totaled $109,240, of which $24,104 was billed in June, 1967; $19,607 in May, 1967; $16,532 in April, 1967; and $48,997 in March, 1967.

Accounts Payable at January 31, 1968

A summarization of the aged accounts payable as of January 31, 1968 is shown in Table VII.

TABLE VII
SUMMARY OF AGED ACCOUNTS PAYABLE
AS OF JANUARY 31, 1968

Status of Account			
Status	Billing Month	Amount	%
Current	January, 1968	$ 61,779	37
Past Due			
1 - 30 days	December, 1967	21,976	13
31 - 60 days	November, 1967	31,273	19
61 - 90 days	October, 1967	29,027	18
91 - 120 days	September, 1967	875	1
121 - 150 days	August, 1967	20,125	12
Over 150 days	July, 1967, & prior	393	–
Total past due accounts		$103,669	63
Total accounts payable at January 31, 1968		$165,448	100

A detailed listing of all accounts payable as of January 31, 1968, from which the above summary was constructed is contained in Exhibit II, attached at the end of this chapter.

Table VII reflects a reduction of $129,999 in total accounts payable from the $295,447 which was outstanding on June 30, 1967. This reduction, however, does not necessarily signify an improvement in the credit status of the bureau for the following reasons:

(1) The November and December, 1967 advertising bills of Fawcett-McDermott were paid off directly by the department of planning and economic development, due to the inability of HVB to meet the bills. This payment was made although funds for this payment had previously

been advanced to HVB via the quarterly allotment for the October–December quarter. The amount of the November and December payments made by the department of planning and economic development was subtracted from the current quarter's allotment to HVB for its operating expenses. In addition, as shown in Exhibit II, Fawcett-McDermott's January charge for advertising was paid off directly by DPED under the new advertising contract payment arrangement initiated by the department of planning and economic development. (This change in payment method is discussed in a later chapter.)

(2) The bureau secured a $75,000 loan from the Bank of Hawaii in December, 1967, as described more fully later in this chapter. The borrowed money was used to pay off some accounts payable. This transaction, however, only converted some *accounts payable* to *note payable*. The loan from the bank thus reduced accounts payable by $75,000, but increased other obligations by the same amount and effected no change in total liability as of January 31, 1968.

In addition to the $165,448 accounts payable as of January 31, 1968, the bureau's accounting records reflect encumbrances, as defined elsewhere in this report, totaling $54,817.

Line of Credit

Since the bureau was encountering difficulties in liquidating its open accounts, the board of directors on August 25, 1967, approved *obtaining a line of credit with the Bank of Hawaii to pay the outstanding debts at the end of the fiscal year, June 30, 1967. Adjustments will be made this fiscal year in order to pay off the loan and remain within the budget.*[1]

On September 8, 1967, the Bank of Hawaii granted the bureau a $100,000 open line of credit expiring June 30, 1968. The interest rate to be charged was stated at 3/4% over the bank's then prime rate of 5-1/2%. *Prime rate* is the minimum rate charged by the banks on short-term loans to the larger business firms with the strongest credit standings.

Arrangement to utilize the line of credit was initiated on September 29, 1967, when the bureau requested a loan of $75,000 to be deposited into its checking account. On October 2, 1967, the bank honored the bureau's request. On October 12, 1967, this loan was repaid. The interest paid on this loan was $130.19.

On November 24, 1967, the bank informed the bureau that the interest rate on the line of credit had been increased to 6-3/4% per annum, effective November 21, 1967.

On December 4, 1967, the bureau again requested a loan of $75,000. This amount was deposited to the bureau's checking account on December 6, 1967. Twenty-five thousand dollars was repaid on February 28, 1968. The remaining balance of $50,000 has not been repaid as of the writing of this report. Interest paid on this loan through February 29, 1968 totaled $1,188.03.

[1] Minutes of board of directors, HVB, August 25, 1967.

EXHIBIT I

HAWAII VISITORS BUREAU
SCHEDULE OF AGED ACCOUNTS PAYABLE
June 30, 1967

Vendor	Tot. 6-30-67	Current 6-67	PAST DUE (DAYS) (1-30) 5-67	(31-60) 4-67	(61-90) 3-67	(91-120) 2-67	(121-150) 1-67	(Over 150) 12-66 & Prior
Fawcett-McDermott	$109,240[1]	$ 24,104	$19,607	$16,532	$48,997	$ –	$ –	$ –
Tongg Publishing Company	39,998	32,766	5,165	1,001	206	860	–	–
Pacific Area Travel Association	12,865[2]	19	–	–	–	–	–	12,846
Universal Data Processing-Am. Sec.	12,803	2,561	5,121	–	5,121	–	–	–
Hawaiian Telephone	9,117	1,536	1,416	1,797	1,624	1,354	1,390	–
Honolulu Lithograph	6,926[3]	–	–	–	–	–	–	6,926
Pacific Technical Analysts	6,219[4]	–	–	–	312	–	–	5,907
Mail and Media, Inc.	3,694	642	645	963	562	882	–	–
Xerox Corporation	3,596	512	479	834	935	184	402	250
Cates and McGlone	3,500	3,000	–	–	–	500	–	–
Honolulu Paper Company	3,335	169	1,222	202	665	319	730	28
Telecheck Hawaii	3,147	3,147	–	–	–	–	–	–
Paul Nakagaki	2,290	2,290	–	–	–	–	–	–
A Top Notch Service	2,247	339	617	595	696	–	–	–
The Smith Company	2,225	405	266	533	545	476	–	–
Aloha Secretarial	2,022	351	187	464	1,020	–	–	–
United Service Company	2,021	405	404	404	404	404	–	–
Modern Talking Picture	1,993	154	245	423	472	335	364	–
Lawrence Hata	1,885	222	123	388	658	464	30	–
United Air Lines	1,877	192	1,478	207	–	–	–	–
Sterling Movies, USA	1,693	81	226	347	88	287	403	261
Pan American	1,496	1,276	–	220	–	–	–	–
Hawaiian Exotic Flowers	1,405	653	409	88	31	–	224	–
Waikiki Business Plaza	1,283	1,283	–	–	–	–	–	–
Computab, Inc.	1,160	153	207	178	73	140	409	–
Cardinal Mailing Service	1,059	–	–	–	503	61	495	–
All Others (less than $1,000 per account)	56,351	30,958	5,073	7,684	5,445	2,858	1,226	3,107
Totals	$295,447	$107,218	$42,890	$32,860	$68,357	$9,124	$5,673	$29,325

[1] The balance of $109,240 payable to Fawcett-McDermott includes $100,350 payable under the advertising contract and $8,890 payable on open account.

[2] Of the $12,865 payable to Pacific Area Travel Association, $12,846 represents the bureau's membership dues for fiscal year July 1, 1966 to June 30, 1967 billed in August 1966.

[3] The amount payable to Honolulu Lithograph of $6,926 as of June 30, 1967 represents the balance of a contract for the printing of promotional brochures. The contract was completed in December 1966 for $11,926 of which $5,000 was paid in April 1967.

[4] Of the balance of $6,219 payable to Pacific Technical Analysts, $5,907 represents the charges for programming the data processing system for the accounting department in December 1966.

EXHIBIT II

HAWAII VISITORS BUREAU
SCHEDULE OF AGED ACCOUNTS PAYABLE
January 31, 1968

Vendor	Total 1-31-68	Current 1-68	PAST DUE (DAYS) (1-30) 12-67	(31-60) 11-67	(61-90) 10-67	(91-120) 9-67	(121-150) 8-67	(Over 150) 6-67
Fawcett-McDermott	$ 35,047[1]	$30,664[1]	$ 1,195	$ 3,188	$ –	$ –	$ –	$ –
Tongg Publishing Company	29,767	1,892	4,704	8,437	14,734	–	–	–
Pacific Air Travel Association	19,197	–	–	–	–	–	19,197	–
Waikiki Business Plaza	5,121	2,561	2,560	–	–	–	–	–
Pacific Technical	4,784	4,784	–	–	–	–	–	–
Xerox Corporation	3,615	754	904	857	313	787	–	
Star-Bulletin Printing	3,099	1,885	28	47	746	–	–	393
Nieman Advertising	2,967	–	849	1,424	694	–	–	–
Peat Marwick Mitchell & Co.	2,400	–	2,400	–	–	–	–	–
Honolulu Paper Company	2,305	844	[504]	1,237	728	–	–	–
United Service Company	1,804	451	451	451	451	–	–	–
Lawrence Hata	1,614	206	376	496	536	–	–	–
Computab, Inc.	1,535	1,251	–	154	130	–	–	–
Pacific Area Communications	1,525	1,525	–	–	–	–	–	–
IBM Corporation	1,448	460	512	127	349	–	–	–
Hawaiian Telephone	1,428	149	1,191	88	–	–	–	–
Modern Talking Picture	1,390	–	429	537	424	–	–	–
Aloha Secretarial	1,380	27	379	586	388	–	–	–
Cates and McGlone Films	1,136	–	1,136	–	–	–	–	–
Monarch Marking System	1,136	–	–	–	581	–	555	–
United Air Lines	1,114	222	354	538	–	–	–	–
Diners Club	1,108	290	347	347	124	–	–	–
All Travel, Inc.	1,100	855	245	–	–	–	–	–
Mid Pacific Press	1,011	13	156	62	780	–	–	–
All Others (less than $1,000 per account)	38,417	12,946	4,264	12,697	8,049	88	373	–
Totals	$165,448	$61,779	$21,976	$31,273	$29,027	$875	$20,125	$393

[1] Included in these amounts is $28,678 payable to Fawcett-McDermott by DPED under the new arrangement for advertising contract payments.

Chapter 8

ADVERTISING CONTRACT

Prior to July 1, 1965, the annual contract between DPED (for the State) and HVB included advertising as one of the services to be rendered by HVB. Beginning in 1965, however, advertising has been deleted from the annual contract between DPED and HVB and has been made the subject of a separate contract executed by three parties–DPED, HVB and Fawcett-McDermott Associates, Inc., an advertising agency.

Under the terms of the advertising contract, the advertising agency provides professional and technical services in connection with the promotion of tourism for Hawaii. These services, which are administered in coordination with the bureau, consist primarily of advertising and promotion through such media as magazines, newspapers and television. The contract provides that payment for these services is to be made by DPED **through** HVB. The contracts to date have been for the following amounts:

Fiscal Year	Amount Not To Exceed
1965-66	$475,000
1966-67	500,000
1967-68	418,000

Up to January 8, 1968, the State followed the provisions of the advertising contract and made payments of money to the bureau with which the bureau was expected to pay the advertising agency for these advertising services. The payments to the bureau were made on a quarterly basis, in advance, as the bureau submitted its allotment request for the ensuing quarter.

Diversion of Advertising Funds, Fiscal Year 1966-1967

One of the reasons for a separate contract for advertising was the State's concern that under the single contract with HVB, the bureau was expending less for advertising and correspondingly more for other programs than was intended by the contract. Under the three-party agreement, it was thought that the State could exercise more direct control over the amount expended for advertising.

The three-party agreement did result in greater control by the State over the amount expended for advertising, but the method of paying for the advertising services did not assure **prompt** payment to the advertising agency. The quarterly allotments made in advance to the bureau were often used by the bureau for purposes other than advertising. As a consequence, the bureau found itself unable to pay the bills for advertising as they were incurred. Table VIII illustrates this for fiscal year 1966-1967.

As the table indicates, the State made quarterly disbursements of funds totaling $500,000 for advertising during fiscal year 1966-1967. The charges under the advertising contract totaled $499,862.52. The bureau made payments totaling $399,512.19, leaving a balance payable at June 30, 1967 of $100,350.33 ($499,862.52 minus $399,512.19). This sum of $100,350.33 represents the charges for the months of March through June, 1967. Since the State had funded the full amount of the contract, there should have been sufficient cash at June 30, 1967 to liquidate the liability of $100,350.33. However, the bureau's cash balance at that date, as reflected in the accounting records of HVB, was only $19,531. Based on these facts, we conclude that the bureau used approximately $80,819 ($100,350 minus $19,531) of the advertising funds to finance other operational activities. We find that this diversion of the advertising funds constituted a violation of the bureau's contractual obligation. This diversion necessitated the use of the subsequent year's first quarter allotment to liquidate the balance for advertising which was outstanding at June 30, 1967.

As a result of HVB's late payments, the advertising agency was forced to secure financing from a bank on June 27, 1967, in order for it to meet the national advertising billings covering HVB advertisements before their due dates. Unless these national advertising billings were met by their due dates, the agency would have lost its commissions. To secure the loan from the bank, the agency assigned to the bank $74,000 of the amount due the agency from HVB. The interest charges on the above financing amounted to $244.45 and were charged to and paid for by HVB.

TABLE VIII. ADVERTISING CONTRACT APPROPRIATION, CHARGES AND PAYMENTS MADE FOR THE FISCAL YEAR 1966-67

Month	State Appropriation	Advertising Contract Charges	Payment by HVB[a/]
July, 1966	$221,572.00	$ 85,010.34	
August		58,304.72	$ 85,010.34
September	206,497.00	35,552.23	58,304.72
October		28,248.57	35,552.23
November		69,184.84	28,248.57
December		50,102.56	69,184.84
January, 1967	46,931.00	21,974.22	50,102.56
February		51,134.71	21,974.22
March		48,618.11	none
April	25,000.00	15,508.08	51,134.71
May		12,053.99	none
June		24,170.35	none
	$500,000.00	$499,862.52	$399,512.19
July, 1967			82,230.62
August			18,119.71
			$499,862.52

a/ Payment is due on the 25th of the month following the month of billing.

Diversion of Advertising Funds, Fiscal Year 1967-1968

During the current year (1967-68) the bureau appears to have resorted again to the application of advertising funds for other purposes. This is reflected in Table IX below. Note the delay in payment of the advertising billings for the months of July, August and November, 1967.

Current Method of Paying for Advertising

On January 5, 1968, the State changed its method of paying the advertising agency for its services. Payments are no longer made through the bureau; they are made directly to the advertising agency by the State. We concur in this change in the method of payment and recommend its continued enforcement.

TABLE IX. ADVERTISING CONTRACT APPROPRIATION CHARGES AND PAYMENTS MADE FOR THE PERIOD JULY 1, 1967 TO JANUARY 31, 1968

Month	State Appropriation	Advertising Contract Charges	Payment by HVB and State [a]
July, 1967	$168,858.00	$ 86,581.31	$ 17,907.51
August		67,817.23	49,456.99
September		60,370.87	none
October	138,639.00	33,072.64	147,404.91
November		42,872.93	33,072.64
December		46,519.40	none
January, 1968		28,678.38	89,392.33
	$307,497.00	$365,912.76	$337,234.38
Balance for the Year	110,503.00		
	$418,000.00		

[a] Payment is due on the 25th of the month following the month of the billing.

Chapter 9

TRAVEL AND RELATED EXPENDITURES

Travel expenditures for the fiscal year 1966-67 totaled $101,242 (accrual basis) and $104,402 (budget basis), as shown on Table IV. The amount budgeted for the fiscal year was $121,709. Travel expenses include air fares, lodging, local transportation expenses, entertainment and other related expenses. Our objectives in examining the travel expenses were two-fold: (1) to review and evaluate the fiscal controls established by management with regard to travel and related expenses, and (2) to ascertain the propriety of certain expenditures.

In our examination, we did not check on all travel and related expenses. The sheer volume of these transactions made it impossible to check on each and every one. We believe, however, that a sufficient number of these transactions were examined to enable us to reach the conclusions contained in this chapter.

Findings, Generally

Generally, our examination revealed the following deficiencies:

1. Expense reports have not been submitted in all cases to account for the expenditure of advances made for travel.

2. On certain occasions, expense reports which were submitted lacked supporting receipts and other evidences of expense payments made by the employees.

3. Where advances exceeded the reported expenses, no refund has been made of the excess, and management has made no attempt to collect it.

4. Although it is the bureau's policy that an expense report be submitted within a specified time, this policy has not been always observed by the employees and is not being enforced by management. In one extreme case, an expense report was submitted by an employee on March 28, 1967, for expenses incurred in April, 1965.

5. The bureau has made and is making certain expenditures of questionable propriety.

Specific illustrations of the above-noted deficiencies are discussed below.

In-State and Out-of-State Advances

Advances are generally made to employees for in-state and out-of-state expenses such as entertainment, tips, and travel. Travel advances cover expenses for car rental, plane fare, taxi fare and lodging. The bureau's policy requires employees receiving such advances to submit an expense report within 30 days after the trip has been taken.[1]

1. Failure to file reports. The records of the bureau show that on January 31, 1968, there was a number of expense reports which had not been filed, although advances and the travels connected therewith had been made sometime ago. In the schedule below, we note these delinquent reports. The schedule shows the amounts of advances made to employees and the time that has elapsed up to January 31, 1968 without

[1]HVB policy, section V, *Personal Expenses*, effective 7/26/62.

a filing of expense reports. As noted in the schedule, the most serious case of unreported advances concerns the assistant managing director. He has a total of $7,849 advances for which he has not submitted expense reports. Of the $7,849, $4,781 represents advances which he received more than 12 months before January, 1968.

SCHEDULE OF UNREPORTED ADVANCES
January 31, 1968

Employee's Position	Total at 1/31/68	Months Advances Unreported: One to Three	Four to Six	Six to Twelve	Over Twelve
Managing Director	$ 2,695	$ 970	$ 425	$ 350	$ 950
Assistant Managing Director	7,849	625	125	2,318	4,781
Eastern Regional Manager	300	--	--	300	--
Research Director	1,251	240	--	1,011	--
Hawaii Conventional Sales Manager	1,520	312	500	362	346
Hawaii Regional Sales Manager	550	70	20	--	460
Research Assistant	216	--	--	216	--
Assistant to Director of Advertising, Publicity and Promotion	103	--	83	--	20
Assistant to the Director of Membership	120	--	120	--	--
	$14,604	$2,217	$1,273	$4,557	$6,557

As the schedule obviously indicates, the bureau's policy of requiring submission of an expense report within 30 days after the completion of the trip is not being observed and enforced.

2. **Failure to refund excess advance.** Our examination of the advances also revealed that the managing director owes the bureau $2,332, which is the net excess of all advances made to him over actual expenditures. The following is a tabulation of the advances made to and expenses reported by the managing director during the period July 1, 1965 to January 31, 1968.

	Period			
	7-1-65 to 6-30-66	7-1-66 to 6-30-67	7-1-67 to 1-31-68	Total
Advances	$7,134	$6,260	$1,725	$15,119
Expenses reported	[5,630]	[5,882]	[1,275]	[12,787]
Excess of advances over reported expenses	$1,504	$ 378	$ 450	2,332

Club Dues

One of the practices of the bureau is to pay the managing director's membership dues to several private organizations. A schedule of these dues is as follows:

	Monthly	Annual
Pacific Club – Dues	$33	$396
Pacific Club – Christmas and Art Fund		25
Outrigger Club – Dues	20	240
Rotary Club – Dues	12	144
Skal Club of North America, Inc.	12	144
	$77	$949

In addition to the above, we noted that the bureau on one occasion contributed $30 to a wedding party for two local entertainers, to which party the managing director was invited.

These expenditures of the bureau's funds for what seemingly are personal obligations of the managing director raise serious questions of propriety. We believe that these kinds of expenditures should be seriously reviewed to determine whether or not they are indeed necessary for the bureau's operations.

Plane Fares

The bureau currently lacks policies respecting mode of travel. The bureau's chief officers and departmental heads, including the managing director, assistant managing director, and various regional heads, travel first-class at times and economy or thrift at other times. Since these employees make frequent trips out of state, and since travel is a major cost item in the bureau's operations, we suggest that management study the practice of traveling first-class and establish a policy governing mode of travel.

Travel and Lodging Costs for Wives

In our examination, we noted that HVB paid the plane fares and registration fees of the managing director and two board members and their wives to attend the ASTA conference in Lihue, Kauai. The bureau states that the registration fees covered lodging and meal costs at the hotel and that it is necessary for wives to attend these in-state conferences. We noted, however, that one board member, on March 22, 1967, reimbursed the bureau for his wife's registration fee (but not for his wife's plane fare). It appears that there is a general lack of bureau policy to govern matters of this nature. The result is, of course, inconsistency in the treatment of the persons involved.

We also noted that, in September, 1966, the managing director, accompanied by his wife, attended the PATA conference in San Francisco and the ASTA conference in Seattle. The plane fare ($630) for the managing director and his wife was paid for by the bureau. Upon our inquiry, the managing director subsequently reimbursed the bureau for his wife's portion of the plane fare ($315). Apparently, with respect to conferences out of state, the bureau does not believe that attendance by wives is necessary.

All of this suggests that management ought to review its expenditure practices regarding wives' attendance at conferences and to adopt policies with respect thereto.

Auto Allowances

Under present HVB policies, employees who use their personal motor vehicles on HVB business are compensated by either (1) reimbursements based on mileage, or (2) flat monthly allowances.[2] The following is a list of the employees who receive flat monthly allowances. The amount each receives is noted opposite his office.

Employee's Position	Flat Monthly Allowance
Managing Director	$100
Assistant Managing Director	75
Director of Advertising, Publicity and Promotion	75
Director of Membership	75
Campaign Representative	75
Director of PTMRI	75
Hawaii Regional Sales Manager	75
Acting Controller	25
Accountant	25

[2]*Ibid.*

We make two comments respecting the granting of flat car allowances.

1. **Violation of HVB policy.** HVB's auto allowance policy regarding flat monthly allowances states:

> *Inasmuch as auto allowances are given for usage of the automobiles on behalf of the Bureau, a pro-rata amount will be given in cases of absence from work for any length of time—i.e., away by reason of illness, vacation, promotional trips, other travel.*[3]

Our examination revealed that this policy is not being followed. Some of the employees listed above have received the **full** amounts of their flat monthly car allowance, irrespective of whether they were on sick leave, vacation, or traveling.

2. **Reasonableness of allowance amount.** We question the reasonableness of some of the amounts of the flat monthly car allowances. As far as we can ascertain, there has never been a systematic study of automobile usage to enable the bureau to evaluate, objectively, the fairness of the allowance amounts. For example, the executive vice president and managing director must travel 1,000 miles per month on business to justify the $100 per month car allowance he receives. This is computed at the rate of $.10 per mile, which is the amount paid to other HVB employees who receive no flat allowances. We suggest that the bureau study this matter to ascertain the reasonableness of the allowances it now grants.

[3]*Ibid.*

State vs. Private Funds for Certain Expenditures

On various occasions during our examination when we sought clarification regarding certain items of expenditure, the HVB's management has indicated that some of the expenditures incurred as a result of the bureau's operating requirements were funded and paid for by private money. This response was received generally when reference was directed towards expenditures which we thought questionable.

We do not believe that such contention has merit. The bureau's operating requirements are financed through the combined efforts of the State and private industry. State funds and private funds are commingled and placed in a common pot. A physical distinction between private and State funds is difficult, if not impossible, to make and is not made in the bureau's system of recordkeeping, except for funds disbursed for advertising.

As such, we believe that the State is entitled to question the propriety of any expenditure made by the bureau. Further, even if it is possible to trace questionable expenditures to private funds, use of private funds for purposes other than the legitimate business of the bureau lessens the availability of private funds and places a correspondingly heavier burden on public funds to pay for the proper expenses of the bureau.

Chapter 10

PRESENT STATUS OF HVB FINANCIAL OPERATIONS

Adoption of New Management Practices

Recently adopted management practices of HVB indicate that the bureau is undertaking measures to tighten its fiscal control. The following are major examples of such measures.

1. Monthly expenditure reports now include encumbrances as a listed item. The inclusion of encumbrances aids management in determining, with reasonable accuracy, the amount of funds actually committed at a given time.

2. A monthly cash flow statement is now prepared to show the flow of money, both revenues and expenditures, during a given period.

3. Proposed revisions in fiscal policies and purchasing procedures, dated January 30, 1968, are awaiting board approval. In our opinion, these revised policies and procedures appear adequate.

4. The HVB's budget and finance committee, starting with a meeting on October 19, 1967, has become active in the fiscal affairs of the bureau. The treasurer of the bureau is chairman, and the membership of the committee includes local business leaders. One of the major functions of this committee is to assure proper accounting for bureau expenditures, guarding of funds, and financial soundness.[1] We are informed that this committee was not active in fiscal affairs for at least the past year or so.

The above-mentioned budget and finance committee, at its October 19, 1967 meeting, directed management to present a plan of action to re-establish the bureau's financial position. Subsequently, by a memorandum, dated December 27, 1967, management proposed to the members of the budget and finance committee that HVB cut back its current operating budget by approximately $135,000. This proposal was approved by the HVB's board of directors at its January 17, 1968 meeting, upon the recommendation of the budget and finance committee.

The purposes of this retrenchment program are (1) to avoid a deficit at the end of the current fiscal year and (2) to create a surplus by the end of the current fiscal year sufficient to overcome a part, if not all, of the deficit balance of June 30, 1967. Achievement of these purposes will depend on the bureau's ability to (1) control and maintain actual expenditures, whether originally budgeted for or not, at the reduced budget level of $1,411,000 (original level was $1,546,000) and (2) obtain private subscriptions totaling an amount equal to or surpassing the private subscription goal of $575,000.

[1] *HVB Manual of Organization*, 1958, budget and finance committee charter.

Financial Status as of January 31, 1968

To secure some idea as to the bureau's current financial status, we examined the bureau's accounting records covering the seven-month period from July 1, 1967 to January 31, 1968. No audit was made of these records to determine accuracy. We did, however, gather data as they exist on the books of the bureau, which reflect the bureau's present financial condition. It should be noted that the seven-month period represents only a part of an entire operational year and thus no definite conclusions as to the final outcome of the financial operation of HVB for the current fiscal year can be reached. The data gathered indicate the following.

1. **Revenue: private subscriptions.** As of January 31, 1968, subscriptions, including pledges, totaled $197,342. This is approximately 34 per cent of the subscription goal for the year of $575,000. Although the above percentage appears low, with only five months remaining in the fiscal year, this situation is not unusual based on past experiences which have shown that approximately 60% of the subscriptions is received in pledges as well as in cash during the last four months of the fiscal year.

2. **Revenue: State appropriations.** The sum of $1,248,817 has been paid by the State to HVB during the first three quarters of this fiscal year. This is about 90% of the total State appropriation for the year. It should be noted that portions of the third quarter payment made by the State to HVB are for charges incurred in February and March, 1968. These charges are not reflected in the expenditure of $1,293,247 noted in the next paragraph as the total expenditure as of January 31, 1968. The sum of $59,417 remains to be paid by the State to HVB in the last quarter of this fiscal year for the bureau's operating expenses. (The sum of $80,765 remains to be expended by the State for advertising. Under its revised procedure, this sum will be paid directly to the advertising agency instead of to HVB.)

3. **Expenditure.** As of January 31, 1968, the bureau's expenditure for the current fiscal year totaled $924,754, including the excess of non-budgeted expenditures over revenues of $52,237. (The $924,754 does not include $365,912 paid to the advertising agency.) This expenditure amount of $924,754 is approximately $78,000 below the bureau's budget for the seven months ended January 31, 1968. It would thus appear that the bureau is succeeding in its attempt to cut back on its budgeted expenditure total ($1,003,021). However, the $924,754 does not include some $54,000 in encumbrances. If the encumbrances are taken into account, the expenditure total is $24,000 below the bureau's budget for the seven months ended January 31, 1968. The non-budgeted expenditures consist of the cost of the fund drive conducted during fiscal year 1967-68[2] and PTMRI expenditures. The non-budgeted revenue is primarily revenue generated by the PTMRI program.

It appears from the foregoing that the attainment of the bureau's objective of ending this fiscal year without a deficit (including the generation of sufficient revenue to erase the

[2]This fund drive is conducted by HVB's fund raising staff and is not the same as the professionally conducted fund drive held during the fiscal year 1966-67. This fiscal year's allocation of the professionally conducted fund drive expense will be made at the end of the fiscal year.

deficit of fiscal year 1966-1967) will depend heavily on the amount of private subscriptions the bureau will be able to obtain, and the control it can exercise over expenditures during the remaining five months of the fiscal year.

Chapter 11

SUMMARY

Pursuant to a request made by the Speaker of the House of Representatives, in mid-February, 1968, this office conducted a comprehensive examination of the financial administration of the Hawaii Visitors Bureau.

The audit was conducted to ascertain the amount of the bureau's deficit balance; to analyze, identify and report the factors which contributed to the bureau's deficit; and to examine the bureau's fiscal management practices and to recommend such actions as appropriate to correct such deficiencies as may exist.

The examination covered the financial records and transactions for the fiscal year July 1, 1966 to June 30, 1967, and for the period from July 1, 1967 to January 31, 1968. Our examination was restricted to ascertaining the size of the bureau's deficit, to a detailed analysis of selected financial transactions and to a general review of the financial condition and fiscal management practices of the bureau. The results of our findings together with our comments are summarized below.

Generally

The Hawaii Visitors Bureau was organized as a non-profit corporation in 1959. Prior to that date, the tourism promotion program was carried on by a joint tourist committee, as an arm of the Chamber of Commerce. State support of the activities of the tourist committee and later the bureau dates back to 1903.

The State's relationship with HVB is had through the State department of planning and economic development, which is the government agency charged with the responsibility of contracting with the HVB for the tourist promotion program. Since 1965, DPED has entered into two contracts, one with HVB for all services, except advertising; another with HVB and Fawcett-McDermott, an advertising agency, for advertising services. Payment to the advertising agency was, until January, 1968, made through HVB; since January, 1968, payment has been made directly to the agency by DPED.

The bureau's sources of income are primarily the State and private contributions. In recent years, the ratio of State to private contributions has been approximately three to one. Over the years, State contribution has increased from $478,377 in 1957-58, to $1,439,000 in 1967-68.

Accounting Methods

The bureau's fiscal position and the size of its deficit may be determined in different ways, each way giving a different result. In our report, we are concerned with two methods of accounting and reporting which lead to different results.

The financial statements of HVB are prepared on that method of accounting called the **accrual** method. It is an accepted method of accounting.

However, for the State, we consider that method, which we call the **budget basis**, to be a more meaningful way of accounting and reporting. We have, therefore, recast the bureau's accrual-based financial statements to the budget basis, and throughout the report compared the results of both methods of accounting and reporting. We believe that the budget-based method is more meaningful to the State, since it reflects the operational solvency and liquidity of the bureau —something which the accrual method does not readily do.

The principal differences between the accrual method and the budget-based method of accounting and reporting may be summarized thus:

1. **Assets.** The accrual method of accounting includes as assets, all property and rights, including furniture, fixtures and equipment, leasehold improvements, and charges, the benefits of which are to be derived in future years. The budget-based method takes into account as assets only cash and those assets, such as receivables, which are readily convertible into cash and which are generally converted into cash in the ordinary course of business.

2. **Liabilities.** The accrual method of accounting includes as liabilities only those obligations which are legally binding. The budget-based method includes as liabilities not only those obligations which are legally binding, but also encumbrances, which, although they are not legal obligations, are expenditure commitments.

3. **Fund balance.** In the accrual method, the fund balance is the excess of **all** assets over **all** liabilities, and the deficit balance is the excess of **all** liabilities over **all** assets. In the budget-based method, the fund balance is the excess of cash and other **liquid** assets over liabilities and other earmarked funds, and the deficit balance is the excess of such liabilities over such assets. The fund balance or deficit balance in the budget-based method shows the solvency or liquidity of the organization.

4. **Revenue and expenditures.** Both the accrual method and the budget-based method consider as revenue cash actually received and the receivables (receivables being those items which are readily convertible into cash and which are, in the ordinary course of business, converted into cash). Accrual method of accounting records expenditures as they are legally incurred, except that it defers to future years those expenses, the benefits of which are forthcoming in the future. The budget-based method considers expenditures which are actually made or encumbered.

The Balance Sheet

As of June 30, 1967, **on the accrual method** of accounting, the bureau had assets of $263,693 and liabilities of $336,060, for a deficit balance of $72,367. **On the budget-based method** of accounting, it had assets of $83,761 and liabilities of $351,060, for a deficit balance of $267,299. The difference in the amount of assets between the accrual method and the budget-based method is in the inclusion in the accrual method of non-liquid assets, such as promotional materials, furniture, equipment, deferred charges, etc.; the difference in the amount of liabilities between the accrual method and the budget-based method is in the inclusion in the budget-based method of encumbrances.

Revenue and Expenditures

Contributing to the deficit balance as of June 30, 1967, was that fiscal year 1966-67 ended in a deficit—that is, expenditures exceeded revenue, by $127,784 on the accrual method, and by $232,919 on the budget-based method. The causes for the excess of expenditures over revenue were (1) private subscriptions fell short of the bureau's goal; (2) the bureau overspent on budgeted items; and (3) the bureau spent more than it received on non-budgeted items. The following is a summary of these causes; the figures are on the budget-based method of accounting:

1. Amount by which private subscription revenue did not attain goal of $500,000	$ 29,980
2. Expense in excess of budgeted amounts:	
Cost of promotional literature	92,861
Promotional expenses	12,671
Cost of data processing service	19,167
Other expenses in excess of budgeted amounts	22,221
3. Excess of non-budgeted expenditures over revenue	56,019
	$232,919

Management Control to Prevent Deficit Balance

The records of the bureau show that at the commencement of fiscal year 1957-58, the bureau had a surplus of $262,478. Over the years, however, this surplus gradually dwindled, until by the end of fiscal year 1965-66, by the budget-based method, the bureau had an accumulated deficit of $34,380. The records also show that in every year, beginning with fiscal year 1957-58, except for fiscal years 1960-61 and 1962-63, the bureau expended more than it received. It appears that the yearly deficits have occurred due to deficiencies in the bureau's fiscal management practices. We recommend that the following fiscal management practices be instituted to help prevent deficits from occurring in the future:

1. All future budgets be prepared on the basis of revenues which can reasonably be expected to be received, rather than on the amounts stated in the bureau's goal. Experience has shown that the bureau, over the years, has been able to receive on the average of 92% of its subscription goal, yet the full amount of the bureau's goal has always been used as the estimate of revenues from private subscriptions in the preparation of the bureau's budget. Consistently, therefore, actual revenues have been short of estimated.

2. In all budget preparations, any deficit or surplus balance as may exist be taken into account. At the close of fiscal year 1965-66, the bureau had a deficit balance of $34,380, on the budget-based method of accounting. Yet, it does not appear that in the preparation of the 1966-67 budget, the bureau took this deficit balance into account; at least, no provision is apparent in the budget for 1966-67 fiscal year to reduce or erase the deficit balance.

3. Appropriate controls over expenditures during any given year be established and enforced. The bureau's history shows that except for two years, since 1957-58, the bureau has always spent more than its receipts. This indicates that the bureau either has lacked expenditure controls or has not been enforcing them.

4. Expenditures for non-budgeted items be permitted only (a) if there are sufficient funds to pay for such expenditures; (b) where it is

absolutely necessary that they be made, in which event, as these expenditures for non-budgeted items are made, corresponding adjustments be made in the budget for budgeted items; or (c) where there is an assurance that the expenditures for the non-budgeted items will be made up in equal amount by revenues from non-budgeted sources. As noted in the bureau's financial statements for fiscal year 1966-67, the bureau's expenditures for non-budgeted items far exceeded its revenues from non-budgeted sources.

Accounts Payable

The bureau has often been late in the payment of its bills. Thus, as of June 30, 1967, the bureau's accounts payable totaled $295,447, of which $188,229 (or 64 per cent) was delinquent for more than 30 days; and as of January 31, 1968, the accounts payable totaled $165,448, of which $103,699 (or 63 per cent) was delinquent for more than 30 days.

It appears that the bureau's creditors have generally been lenient with the bureau in the payment of its bills, and they have generally continued to extend credit to the bureau, despite the bureau's delinquencies. This attitude on the part of the bureau's creditors is not hard to understand. The bureau is a non-profit organization, supported largely by State funds. Unless some affirmative action is manifested on the part of the State, which threatens the existence of the bureau, it is natural to assume that the bureau will continue to receive State financial support, and that the bureau's bills will eventually be paid.

In fiscal year 1966-67, since it was finding difficulty meeting its financial obligations, the bureau secured from the Bank of Hawaii a line of credit. The bureau borrowed the sum of $75,000 on two occasions. The first $75,000 was repaid. The second loan of $75,000 was still outstanding as of January 31, 1968.

Advertising Contract

Since 1965, the advertising contract has been executed by three parties—DPED, HVB and Fawcett-McDermott Associates, Inc., an advertising agency. Under the terms of the contract, the advertising agency, in coordination with the bureau, provides advertising and promotional services in connection with the promotion of tourism for Hawaii. Prior to January, 1968, payment for these services were made by DPED **through** HVB. DPED made its payments to HVB on a quarterly basis, in advance. These advances were specifically earmarked for payment to the advertising agency of bills incurred in the quarter.

1. Diversion of advertising funds, fiscal year 1966-67. Advance quarterly payments made to the bureau were not always used by the bureau to pay the advertising agency. In fiscal year 1966-67, the bureau used approximately $80,819 of the advertising funds for purposes other than to pay the advertising agency. As a consequence, on June 30, 1967, $100,350 of the advertising agency's bills remained unpaid. The bureau had cash on hand on that date of only $19,531. We find that this diversion of advertising funds constituted a violation of the bureau's contractual obligation. This diversion necessitated the use of this fiscal year's first quarter allotment to liquidate the advertising balance which was outstandng at June 30, 1967.

2. **Diversion of advertising funds, fiscal year** 1967-68. During the current year (1967-68) the bureau appears to have resorted again to the application of the advertising funds for other purposes. This is reflected by the bureau's delay in payments to the advertising agency for bills incurred in July, August, and November, 1967.

3. **Current method of paying for advertising.** On January 5, 1968, the State changed its method of payment under the advertising contract. Payments are now made directly to the advertising agency instead of through the bureau. We concur with this change in method of payment and recommend its continuance.

Travel and Related Expenditures

Travel expenditures for the fiscal year ended June 30, 1967 totaled $101,242 (accrual basis) and $104,402 (budget basis). The total amount which was budgeted for these expenses for the fiscal year was $121,709. These expenses include air fares, lodging, entertainment, local transportation and other related expenses. Although we did not examine all travel and related expenses, a sufficient number of transactions were examined to enable us to reach the following conclusions.

1. **In-state and out-of-state advances.** Advances are made to bureau employees for in-state and out-of-state expenses such as entertainment, tips, travel and related expenses. The bureau's policy requires such advances to be reported within 30 days after the trip has been taken. Employees have failed to comply with this policy and management has failed to enforce it. As of January 31, 1968, advances totaling $14,604 have not been accounted for. Of this, $6,557 had been advanced more than 12 months ago. Where expense reports are filed, they are often filed many months after the expenses have been incurred. For example, one employee submitted an expense report in March, 1967, for expenses incurred in April, 1965. In addition, the expense reports which are filed often lack supporting receipts or other evidence of expense payments made by the employees. In the case of the managing director, not only does he have $2,695 worth of advances unreported as of January 31, 1968, but he also owes the bureau $2,332, which represents the excess of advances over actual expenditures. No effort has been made by the bureau to collect this amount.

2. **Club dues.** One of the practices of the bureau is to pay the managing director's membership dues to several private organizations, including the Pacific Club, Outrigger Club and the Rotary Club. In addition, on one occasion, the bureau paid the director's contribution to a wedding party of two local entertainers. We believe that expenditures of the bureau's funds for what appears to be personal obligations of the managing director raise serious questions of propriety. We believe that these kinds of expenditures should be seriously reviewed to determine whether or not they are necessary for the bureau's operations.

3. **Plane fares.** The bureau's chief officers and department heads travel first-class at times. Since these employees make frequent trips out of state, and since travel is a major cost item, we

suggest that management study the practice of traveling first-class and establish a policy governing mode of travel.

4. Travel and lodging cost for wives. HVB paid the plane fares for and registration fees of the managing director, two board members, and their wives, to attend the ASTA conference in Lihue, Kauai. We also noted that one board member reimbursed the bureau for the registration fee, which included hotel lodging and meal cost. On the other hand, the managing director and other board member did not make any reimbursement. It appears that there is a general lack of bureau policy to govern matters of this nature.

In 1966, the managing director, accompanied by his wife, attended the PATA conference in San Francisco and the ASTA conference in Seattle. Both plane fares were paid for by the bureau. Upon our inquiry, the managing director subsequently reimbursed the bureau for his wife's portion of the plane fare. This and the previously mentioned incident suggest that management ought to review its expenditure practices regarding wives' attendance at conferences and adopt policies thereto.

5. Auto allowances. Employees who use their personal motor vehicles are compensated by either (1) reimbursements based on mileage or (2) flat monthly allowances. Our examination revealed that employees receive the full amount of their auto allowances, even if they are ill, or on vacation, promotional trips or other travel. This practice is a clear violation of HVB policy.

In addition, we question the reasonableness of some of the flat monthly car allowance amounts. Since there has never been a systematic study of auto usage as far as we can ascertain, we suggest that the bureau make a study to ascertain the reasonableness of the amounts.

6. State vs. private funds for certain expenditures. HVB's management has indicated that some of the expenditures incurred by the bureau were funded and paid for by private money, especially when reference was directed towards expenditures which we thought questionable.

We do not believe that such contention has merit because State funds and private funds are commingled and placed in a common pot. A physical distinction between the two funds is not made in the bureau's system of recordkeeping, except for funds disbursed for advertising.

As such, we believe that the State is entitled to question the propriety of all bureau expenditures. Further, even if it is possible to trace expenditures to private funds, the use of private funds for purposes other than the bureau's legitimate business places a correspondingly heavier burden on public funds to pay for the proper expenses of the bureau.

Present Status of HVB Financial Operations

1. Adoption of new management practices. We are informed that the bureau is currently undertaking measures to tighten its fiscal control. Major examples of such measures include (1) recognition of encumbrances in monthly expenditure reports, (2) preparation of a monthly cash flow statement, (3) revisions in fiscal policies and purchasing procedures, and (4) active participation by HVB's budget and finance committee in fiscal affairs.

The bureau's budget and finance committee, at its October 19, 1967 meeting, directed management to present a plan of action to re-establish the bureau's financial position. Management responded with a proposal to cut back its current operating budget by approximately $135,000. This proposal was approved by HVB's board of directors at its January 17, 1968 meeting upon the recommendation of the budget and finance committee.

The purposes of this retrenchment program are (1) to avoid a deficit at the end of the current fiscal year and (2) to create a surplus by the end of the current fiscal year sufficient to overcome a part, if not all, of the deficit balance of June 30, 1967. Achievement of these purposes will depend on the bureau's ability to (1) control and maintain actual expenditures at the reduced budget level of $1,411,000 (original level was $1,546,000) and (2) obtain private subscriptions totaling an amount equal to or surpassing the private subscription goal of $575,000.

2. Financial status as of January 31, 1968. To secure some idea as to the bureau's current financial status, we gathered data as they exist on the books of the bureau covering the seven-month period from July 1, 1967 to January 31, 1968. The data gathered indicate that (1) private subscriptions totaled $197,342, which is approximately 34 per cent of the subscription goal of $575,000 for the year; (2) State appropriations paid by the State to HVB totaled $1,248,817, which is about 90 per cent of the total State appropriations for the year; and (3) expenditures (including encumbrances of $54,000) totaled $978,754, which is approximately $24,000 below the bureau's budget for the seven months ended January 31, 1968.

It appears from the foregoing that the attainment of the bureau's objectives in its retrenchment program will depend heavily on the amount of private subscriptions the bureau will be able to obtain, and the control it can exercise over expenditures during the remaining five months of the fiscal year.

Errata

PART V
MEMORANDA OF COMMENTS OF AFFECTED AGENCIES

Our memorandum on the comments of affected agencies was inadvertently omitted. Our note simply indicated that on March 19, 1968, we transmitted our report to the Department of Planning and Economic Development and the Hawaii Visitors Bureau for their comments and that their replies are attached as Attachment Nos. 3 and 4.

Accordingly, the page numbers noted in the table of contents with respect to the various attachments are corrected as follows:

ATTACHMENT NO. 1

CLINTON T. TANIMURA
AUDITOR

THE OFFICE OF THE AUDITOR
STATE OF HAWAII
IOLANI PALACE
HONOLULU, HAWAII 96813

March 19, 1968

Dr. Shelley M. Mark, Director
Department of Planning and
Economic Development
426 Queen Street
Honolulu, Hawaii 96813

Dear Dr. Mark:

It is our practice to request each of the agencies affected by our examination to submit in writing its comments on our findings and recommendations and to indicate what action it has taken or intends to take therefor. We would appreciate receiving your comments on the enclosed report on the financial audit of the Hawaii Visitors Bureau. Your comments must be in our hands by no later than April 4, 1968. Our final report which would include your comments will be issued shortly thereafter.

If you wish to discuss the report with us, we will be pleased to meet with you on or before April 2, 1968. We await a call from your office to fix the appointment. A *no call* will be assumed to mean that a meeting is not required.

We are deeply appreciative of the help and cooperation which you and members of your organization have extended to our staff auditors.

Yours very truly,

Clinton T. Tanimura

Clinton T. Tanimura
Legislative Auditor

CLINTON T. TANIMURA
AUDITOR

THE OFFICE OF THE AUDITOR
STATE OF HAWAII
IOLANI PALACE
HONOLULU, HAWAII 96813

March 19, 1968

Mr. Robert R. Midkiff, President
Hawaii Visitors Bureau
2270 Kalakaua Avenue
Honolulu, Hawaii 96815

Dear Mr. Midkiff:

It is our practice to request each of the agencies affected by our examination to submit in writing its comments on our findings and recommendations and to indicate what action it has taken or intends to take therefor. We would appreciate receiving your comments on the enclosed report on the financial audit of the Hawaii Visitors Bureau. Your comments must be in our hands by no later than April 4, 1968. Our final report which would include your comments will be issued shortly thereafter.

If you wish to discuss the report with us, we will be pleased to meet with you on or before April 2, 1968. We await a call from your office to fix the appointment. A *no call* will be assumed to mean that a meeting is not required.

We are deeply appreciative of the help and cooperation which you and members of your organization have extended to our staff auditors.

Very truly yours,

Clinton T. Tanimura

Clinton T. Tanimura
Legislative Auditor

ATTACHMENT NO. 3

RECEIVED

APR 17 1968

OFFICE OF THE AUDITOR
TIME

DEPARTMENT OF PLANNING AND ECONOMIC DEVELOPMENT

STATE OF HAWAII

426 QUEEN STREET • HONOLULU, HAWAII 96813

JOHN A. BURNS
Governor

SHELLEY M. MARK
Director

EDWARD J. GREANEY, JR.
Deputy Director

April 17, 1968

Mr. Clinton T. Tanimura
Legislative Auditor
The Office of the Auditor
State of Hawaii
Honolulu, Hawaii 96813

Dear Mr. Tanimura:

The findings of your financial audit of the Hawaii Visitors Bureau substantiate our own views of the Bureau's financial position and will be extremely valuable to us in negotiating and administering the State's contract with the Bureau for the forthcoming fiscal year.

Please convey our congratulations to your staff involved in the assignment for a job "well done." They conducted themselves in an exemplifying fashion during the course of the assignment, and the report itself reflects their professional competency and judgment.

Sincerely,

Shelley M. Mark

Shelley M. Mark

SMM:aeh

ATTACHMENT NO. 4

HAWAII VISITORS BUREAU

2270 KALAKAUA AVE., HONOLULU, HAWAII 96815, CABLE: VISBU

ROBERT C. ALLEN
EXECUTIVE VICE PRESIDENT
& MANAGING DIRECTOR

April 3, 1968

RECEIVED
APR 4 1968
OFFICE OF THE AUDITOR
TIME ______

Mr. Clinton T. Tanimura
Legislative Auditor
The Office of the Auditor
State of Hawaii
Iolani Palace
Honolulu, Hawaii 96813

Dear Mr. Tanimura:

This will acknowledge your letter of March 19, 1968, requesting the Hawaii Visitors Bureau to submit in writing its comments on the findings and recommendations of the Financial Audit of the Hawaii Visitors Bureau, March, 1968, and indicating the action we have taken concerning these recommendations.

We have carefully reviewed your findings and recommendations with the HVB Budget and Finance Committee, the Executive Committee, and Officers and the Board of Directors and find them to be thorough and valid.

The major difference we find in the report is that of accounting procedures - the budget basis of accounting versus the accrual method. Since the State requests the HVB adopt the budget basis of accounting, we shall prepare our monthly operating reports to the DPED on a cash basis listing encumbrances. Our 1968-69 contract with the DPED will take note of the recommendations of your report.

Mr. Clinton T. Tanimura - 2 -
April 3, 1968

On Page 19*of the Audit Report there is a reference to the Hawaii Visitors Bureau producing two films in the fiscal year 1966-67 at a cost of $15,000 each. For clarification, we produced only one film, Hawaii-Crossroads of the Pacific, at a cost of $15,000. In addition, one-hundred prints of the film at $150 each were delivered after the June 30, 1967 end of that fiscal year and are now in use.

Based on the Auditor's Report, we have completely revised the Bureau's Fiscal Policies and Purchasing Procedures, Travel Regulations, Auto Allowances, Personal Expenses and Club Dues. These were adopted at the meeting of the Board of Directors held Friday, March 29, 1968.

We are enclosing two copies of these revised fiscal policies, procedures, rules and regulations, and request that these be made a part of the Office of the Legislative Auditor's Final Report.

I wish to thank you and your staff for the diligent job you have done, and to assure you of our desire to effectuate the findings and recommendations as quickly as possible.

Sincerely yours,

Robert C. Allen

Robert C. Allen

enclosures

*Page 19 refers to the preliminary form of our report. In the final form, the reference to the Hawaii Visitors Bureau producing two films is on page 13.

cc: The Honorable John A. Burns
Governor of the State of Hawaii

The Honorable Shelley M. Mark, Director
Department of Planning & Economic Development

The Honorable John J. Hulten
President of the Senate

The Honorable Tadao Beppu
Speaker of the House of Representatives

March 29, 1968

RECEIVED
APR 4 1968
OFFICE OF THE AUDITOR
TIME

HAWAII VISITORS BUREAU

FISCAL POLICIES & PROCEDURES

I. FISCAL POLICIES

The Hawaii Visitors Bureau shall be governed by the following fiscal policies and purchasing procedures which implement those adopted by the Bureau on July 26, 1962.

All Hawaii Visitors Bureau State appropriated funds, private subscriptions, and other monies received by the Bureau shall be managed and disbursed only upon the authority of its Executive Vice President and Managing Director.

The Executive Vice President and Managing Director shall maintain through the Comptroller a system of centralized requisitioning, accounting, and controlling rules and procedures so that no financial commitments may be made for HVB funds without conforming to these rules and procedures. Monies must be available to pay for such financial commitments.

The Comptroller shall report to the Executive Vice President and Managing Director on all fiscal and budgetary matters involving the use of Hawaii Visitors Bureau State appropriated funds, private subscriptions, or other monies received. The Comptroller shall make a monthly financial report to the Executive Committee.

He shall have prepared all vouchers and other fiscal forms for the Managing Director's approval.

He is responsible for the issuance of all purchase orders and maintaining a daily record of all financial commitments. He shall make all major purchases for the Hawaii Visitors Bureau.

No expenditure in excess of $50.00 shall be made without prior approval of the Managing Director, and knowledge of the Comptroller.

The purchase of any item of non-expendable equipment costing more than $25.00 requires the prior approval of the Managing Director and knowledge of the Comptroller, even if such expenditure is provided in the HVB budget.

Expenditures for any new programs, projects, or services not contained in the HVB budget or any changes or alternations in the budget shall require prior approval of the Budget and Finance Committee and Department of Planning and Economic Development before commitment of funds.

Under no circumstances shall any employee of the HVB commit funds for program or operating expenditures for which there are no funds or insufficient funds.

Competitive bids must be obtained for all services, supplies, and equipment expected to cost $1,000.00 or more.

Fiscal prudence shall be exercised at all times by HVB employees who shall strictly adhere to the established rules and procedures described herein for sound fiscal management.

II. PURCHASING PROCEDURES

1. All purchases of goods and services require purchase authorization prior to consummation of the purchase. Purchase orders are issued only by the Comptroller or, in his absence, by an individual named by the Managing Director. In all cases, purchase orders must be obtained prior to placing the order.

2. The Comptroller shall make all major purchases in excess of $50.00 in cooperation with the Department or office requesting the goods or services.

3. The Department head will advise the Comptroller of the major purchase and shall, in conjunction with the Comptroller, determine the specifications of the materials or services to be purchased.

4. The Comptroller shall secure bids in writing from not less than three vendors for any goods or services expected to cost $1,000.00 or more. If bids are not feasible, he shall secure the best prices from vendors consistent with service and quality.

5. The Comptroller will issue the purchase order and authorize the purchase consistent with the budget.

6. The Department heads may execute purchases under $50.00 in accordance with the following procedures:

   (a) Check Department budget to see if funds are budgeted and available for expenditure in that particular activity.

(b) Secure best prices from vendors consistent with service and quality and secure bids as deemed necessary.

(c) Secure purchase order from the Comptroller indicating vendor, quantity, description of merchandise, reason purchased, amount and account charged.

(d) Place order with vendor citing the purchase order number as HVB authority to purchase.

(e) Arrange for delivery and proper control and use of the goods or services.

7. All Capital Expenditures in excess of $500.00 and not more than $1,000.00 shall be approved by the Managing Director. Capital Expenditures in excess of $1,000.00 shall be recommended by the Managing Director to the Budget and Finance Committee for approval.

Procedures for purchasing Capital Goods shall be adhered to as follows:

(a) The request shall be made in writing to the Managing Director with a copy to the Comptroller who will indicate if the item is within the budget. The request shall contain a description of the merchandise, justification for the purchase, quantity and amount.

(b) The Managing Director shall approve/disapprove or bring before the Budget and Finance Committee for action as the amount dictates.

(c) The Managing Director shall inform the Comptroller of the action taken.

(d) If approved, the Comptroller will issue the purchase order and order the material (s).

8. These Fiscal Policies and Purchasing Procedures shall likewise apply to all purchases made by HVB Neighbor Island Office Managers on the Islands of Hawaii, Maui, and Kauai; and Regional Managers in the Mainland offices of Los Angeles, San Francisco, Chicago and New York.

III. TRAVEL REGULATIONS

The following rules and regulations governing official travel and transportation expenses by Hawaii Visitors Bureau officers committeemen, and staff, shall become effective Friday, March 29, 1968.

These Travel Regulations implement and strengthen those adopted by the HVB on July 26, 1962. They are in line with State Travel Regulations and business practices.

These rules and regulations shall be applicable to both out-of-State and in-State travel. They shall apply uniformly and equitably for all HVB travelers in all cases.

1. Approval Required.

All out-of-State travel shall be approved by the Executive Vice President and Managing Director, and the HVB Comptroller. All in-State travel requires the approval of the Executive Vice President and Managing Director only.

This does not apply to travel in the United States and Canada required by the HVB Mainland Regional Office Managers and Assistant Managers whose travel itineraries and expenses for the fiscal year have already been approved.

In the event the Executive Vice President and Managing Director is not available to approve the out-of-State or in-State travel requests, these forms shall be approved by the Acting Manager and Comptroller.

The traveler shall secure authorization for travel from the Managing Director or Comptroller by submitting a "Request for Travel Funds." One copy of the approved travel request shall be submitted to the Comptroller after approval of the Managing Director.

Upon approval, the traveler will be issued the amount authorized. The traveler is then wholly responsible for the funds.

The following rules shall apply:

2. Travel Rules.

All bills will be paid by the traveler.

No charges are to be made to the HVB, nor are bills to be submitted to the Comptroller for payment.

Transportation charges will be handled as a regular purchase by the Comptroller.

The traveler must submit a "Travel Expense Report" to the Comptroller within 15 days after his return from a trip. This statement shall furnish the authority for the period of absence and shall provide a summary accounting of travel funds supported by a detailed expenditure statement provided on the form.

Excess funds are to be returned to the Bureau by the traveler within 15 days after his return from a trip. If said funds are not returned by the traveler within this 15-day period, the Comptroller is authorized to deduct such funds from the traveler's monthly pay check in the case of HVB employees.

Any additional reimbursement to the traveler by the HVB, which represents overexpenditure, shall require special approval of the Executive Vice President and Managing Director and the Budget and Finance Committee.

All major expenses listed on the "Travel Expense Report" must be accompanied by supporting receipts and vouchers from the vendors. (This is not applicable to items relatively small in amount such as taxi cab fares, tips, and other small items that are not readily susceptible to substantiation.)

All expense items over $25.00 listed on the "Travel Expense Report" which are not supported with vouchers will not be paid by the Comptroller.

3. Travel Status.

HVB personnel will be considered to be on travel status only during the time when conducting business away from their official headquarters or while traveling to and from the place at which such business is transacted. Travel status begins with the departure of the traveler from his place of residence and terminates upon his return.

4. Means of Transportation.

Travel shall be by the most economical, convenient, and appropriate means.

Carrier travel, either ocean or air, on the Mainland or abroad, shall be by economy or tourist class except as authorized by the Executive Vice President and Managing Director. If a person wishes to travel first-class he may do so at his own expense by making up the difference. Travel shall be by the most direct means available.

There shall be no deviation from approved travel plans without approval of the Executive Vice President and Managing Director.

5. Travel Expenses.

A. Out-of-State and In-State-Travel.

The per diem allowance for out-of-State travel and in-State travel shall be $35.00 per day. Such allowance shall be granted only for time on official travel status.

Per diem allowance is a specific sum of money made available each day to cover personal expenditures of the traveler, such as lodging, meals, laundry, tips and other necessary expenses incident to travel. It does not include entertainment expenses which are taken care of in another section of this report.

The following types of expenses may be allowed in addition to those covered under the $35.00 per diem per day allowance, and upon approval by the Executive Vice President and Managing Director:

Rental of suite of rooms to promote Hawaii at ASTA, PATA, and other important regional, national and international travel conferences and business meetings as approved by the Managing Director and Comptroller.

Rental of U-Drive Cars where public carriers are not available to the point of destination, or where U-Drive Car rental would be more economical.

Secretarial services and registration fees at regional, national or international travel conferences and business meetings.

Currency exchange fees or costs of traveler's checks for out-of-State travel.

Fees for passports, visas, costs of photographs, certificates of birth and health, costs of affidavits, and charges for inoculation.

B. Neighbor Island Directors and Committeemen Travel.

Neighbor Island Directors and Committeemen who are bona-fide members of standing HVB committees meeting in Honolulu are authorized to travel from their Islands to attend the meeting by virtue of receipt of a committee meeting announcement.

Air reservations and tickets may be secured by notifying and contacting the Neighbor Island Secretaries who will make arrangements.

Only in special circumstances are directors and committeemen required to spend more than a morning or afternoon on HVB business in committee meetings. The pattern of travel is therefore expected to be in and out of Honolulu on the same day. The usual expenses chargeable to the Bureau will be transportation to and from the Island airport, transportation from and to the Honolulu Airport, and one meal.

The directors and committeemen must fill out a "Travel Expense Report" in accordance with the instructions on the reverse side. The report must be filled out within 15 days after the trip is made and sent to the Comptroller who will channel it to the Executive Vice President and Managing Director for approval.

C. Other Non-Staff Inter-Island Travel.

Travel for non-staff members shall be authorized by the Executive Vice President and Managing Director, except Neighbor Island directors and committee members.

The traveler will submit (with staff aid) a "Request for Travel Authorization" to the Executive Vice President and Managing Director. This shall be routed to the Comptroller who will indicate if funds are available and transmit to the Managing Director for approval.

Upon approval the Comptroller will secure transportation tickets and make other arrangements as desired by the traveler.

D. Out-of-State Travel for Non-Staff.

Authorization for out-of-State travel for non-staff people shall be granted only by the Chairman of the Budget and Finance Committee under policies established.

A written request for out-of-State travel for non-staff people will be submitted by the Executive Vice President and Managing Director. The request will state the purpose of the trip, destination, dates, and estimated costs. The Managing Director will place the travel request by the non-staff person on the agenda of the Budget and Finance Committee.

The travel expense procedures will be the same as for staff personnel.

E. Travel and Lodging Costs for Wives.

In the event the wives of the Executive Vice President and Managing Director, officers, Directors, or other HVB staff members' wives wish to attend either in-State or out-of-State tourism conferences, all travel, lodging, registration fees, and other expenses shall be paid by the individual or business concerned and not from HVB funds, except when specifically authorized by the Budget and Finance Committee under policies established by the Executive Committee.

IV. AUTO ALLOWANCES

The following rules and regulations shall apply to the use of automobiles by the HVB officers, committeemen, and staff.

A. Flat Allowance.

Flat monthly allowances for the use of private automobiles on official business may be authorized by the Executive Vice President and Managing Director upon approval by the Budget and Finance Committee. Monthly allowances for automobiles are not to be reported on the expense reports.

B. Staff Cars.

Authorization is granted for the leasing of cars by the Bureau for the following key executives: Executive Vice President and Managing Director; Assistant Managing Director; and Comptroller.

These officers frequently contact and entertain important business and government officials and visitors, and it is felt that the vehicles designated should provide comfortable and reasonable transportation.

C. Mileage for Official Business.

The Executive Vice President and Managing Director and Comptroller may authorize any HVB employee to use privately owned automobiles on official HVB business on a mileage allowance basis. Twelve cents per mile for the first 400 miles per month and ten cents per mile for any mileage in excess thereof per month will be paid for auto travel made on HVB business.

These reports are to be submitted monthly by the individual on the expense account report for reimbursement.

In accepting this allowance each employee will be required to carry minimum insurance coverage as required by law in Hawaii. This is (a) $10,000/20,000 Public Liability; (b) $5,000 Property Damage.

V. PERSONAL EXPENSES

A. HVB Staff. Policy Re: Entertainment Expenses.

The HVB Manual of Organization provides a policy for the reimbursement of authorized personnel for reasonable business expenses incurred in behalf of the Bureau.

The following rules and regulations shall apply to HVB staff entertainment expenses.

The HVB Executive Committee shall have the authority to establish the policy for expenses of the Executive Vice President and Managing Director. His expenses shall be approved by the Comptroller pursuant to policy. The Comptroller shall approve the expenses for all other employees.

The following instructions explain the operation of the system and shall be adhered to by the HVB staff.

All bills are to be paid for by the individual. No charges are to be made to the HVB, nor are any bills to be submitted to the HVB Accounting Department for payment.

"HVB Local Expense Report" forms are to be submitted to the Accounting Department (two copies) by the 10th of the following month for in-State Hawaii personnel, and the 30th of the month for out-of-State personnel. These forms shall be prepared in accordance with the instructions printed on the reverse side of the form.

Upon approval of the expenses, the Bureau will reimburse the individual the amount shown on the expense report, which shall not exceed the authorized annual amount set for each individual. Special approval must be obtained from the Executive Vice President and Managing Director for any over-expenditure.

Staff members who do not have an expense fund must obtain the approval of the Comptroller prior to spending any funds on entertainment involving HVB business.

The same regulations with reference to payment of bills by the individual, and submitting of "HVB Local Expense Report" forms shall apply.

B. Personal Expenses for Non-Staff. Entertainment Expenses.

The HVB offices on the Neighbor Islands are frequently requested to host visiting VIPs on their Islands. Authorization for non-staff entertainment expenses shall be granted as follows:

The Director of Advertising, Publicity and Promotion may request and authorize the HVB Neighbor Island Manager or Committee Chairman to host visiting VIP. He shall advise the HVB Neighbor Island Manager or Committee Chairman of the date of arrival, length of stay place of contact, number of persons involved, provide a brief resume of the individual(s), suggest appropriate entertainment, and establish maximum dollar expenditure.

A copy of the letter of authorization shall be sent to the Comptroller.

The host will finance the entertainment by securing a cash advance from the Neighbor Island Managers, who will cite the letter as authorization to issue funds. No charges shall be made against the HVB.

The host will secure expense account reporting forms from the Neighbor Island Managers. These forms must be filled out completely in accordance with the instructions set forth on the reverse side of the form. The forms must be accompanied with supporting receipts and vouchers from the vendors.

These forms shall then be submitted to the HVB Comptroller who will in turn channel to the Executive Vice President and Managing Director for approval and reimbursement. The Executive Vice President and Managing Director shall authorize in advance all other entertainment by non-staff people not authorized under these regulations. The same procedures for settling expenses and reporting of expenses shall apply.

C. Association Dues.

The HVB will reimburse the Executive Vice President and Managing Director for membership dues in travel trade organizations and associations.

PUBLISHED REPORTS OF THE LEGISLATIVE AUDITOR

1965
1. Long and Short Range Programs of the Office of the Auditor.
2. A Preliminary Survey of the Problem of Hospital Care in Low Population Areas in the State of Hawaii.

1966
1. Examination of the Office of the Revisor of Statutes.
2. An Analysis of the State-Wide Information System Including Comments on its Operating Budget for Fiscal 1966-1967.
3. Procedural Changes for Expediting Implementation of Capital Improvement Projects.

1967
1. Overtime in the State Government.
2. Management Audit of Kula Sanatorium.
3. The Large School: A Preliminary Survey of Its Educational Feasibility for Hawaii.
4. State-City Relationships in Highway Maintenance and Traffic Control Functions.
5. Federal-Aid Highway Cut-back.
6. An Inventory of Responses to the 1965 Legislative Requests.
7. An Inventory of Responses to the 1966 Legislative Requests.
8. The Planning- Programming-Budgeting System and Hawaii's Program Budget: A Comparison.
9. Manual of Guides of the Office of the Legislative Auditor.

1968
1. Financial Audit of the Department of Health for the fiscal year ended June 30, 1967.
2. Financial Audit of the Department of Planning and Economic Development for the fiscal year ended June 30, 1967.
3. Financial Audit of the Department of Regulatory Agencies for the fiscal year ended June 30, 1967.

LEGISLATIVE AUDITOR
IOLANI PALACE
HONOLULU, HAWAII 96813