
Audit of Major Contracts and Agreements of the Hawai'i Tourism Authority

A Report to the
Governor
and the
Legislature of
the State of
Hawai'i

Report No. 13-09
December 2013



THE AUDITOR
STATE OF HAWAII

Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawai'i State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. Financial audits attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. Management audits, which are also referred to as performance audits, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called program audits, when they focus on whether programs are attaining the objectives and results expected of them, and operations audits, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. Sunset evaluations evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.
4. Sunrise analyses are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. Health insurance analyses examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. Analyses of proposed special funds and existing trust and revolving funds determine if proposals to establish these funds are existing funds meet legislative criteria.
7. Procurement compliance audits and other procurement-related monitoring assist the Legislature in overseeing government procurement practices.
8. Fiscal accountability reports analyze expenditures by the state Department of Education in various areas.
9. Special studies respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawai'i's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.



THE AUDITOR

STATE OF HAWAII

Kekuanao'a Building

465 S. King Street, Room 500

Honolulu, Hawai'i 96813



Office of the Auditor
465 S. King Street
Rm. 500
Honolulu, HI 96813
Ph. (808) 587-0800

Jan K. Yamane
Acting State Auditor
State of Hawai'i

**The HTA
"marketing plan"
consists of 15
documents and
578 pages.**

Recommendations

Response

Prior Audits

For the full text of this and
other reports, visit our website:
<http://auditor.hawaii.gov/>

Audit of Major Contracts and Agreements of the Hawai'i Tourism Authority

Report No. 13-09, December 2013

*State tourism marketing would benefit from improved plans,
reporting, and oversight*

The authority's incohesive, self-described "marketing plan" and poor reporting on measures of effectiveness impede transparency

By law, the Hawai'i Tourism Authority (HTA) has taken steps to address previously identified planning and performance monitoring deficiencies. However, more progress is needed to ensure transparency and accountability of tourism marketing efforts targeted at a visitor industry that generates \$14.4 billion in economic activity yearly and represents 20 percent of Hawai'i's economy.

The authority is responsible for developing an annually updated tourism marketing plan that identifies marketing efforts and targets, and for establishing measures of effectiveness and documenting the progress of the marketing plan in meeting strategic plan goals. This provision is designed to hold HTA accountable for State tourism marketing efforts and, among other things, requires coordination of marketing plans of all destination marketing organizations that receive state funding prior to finalization of the authority's marketing plan. We found that HTA's "marketing plan" is nearly 600 pages, spread across more than a dozen documents, and falls short of statutory requirements. Monitoring HTA's progress against measures of effectiveness required reviewing even more documents and was slowed by missing targets, outdated benchmarks, and a lack of analysis by the authority.

Contract monitoring needs improvement to ensure compliance with deliverables and performance expectations

A lack of formal written policies, procedures, and training has contributed to weaknesses and inconsistencies in HTA's monitoring of nearly \$59 million spent on marketing contracts and on Access and Signature Event agreements during 2012. For example, HTA does not ensure that contractors submit final reports nor routinely conduct final evaluations of contractors. Contract files were also missing key reports. Without improved contract monitoring, HTA cannot ensure contractors are held accountable for the use of those taxpayer funds.

The HTA's lack of policies, procedures, and training and its incomplete contract files are troubling since we found similar problems in our 2002 report.

Agency response

The authority responded that it appreciated our feedback. It did not disagree with nor dispute any of our findings. Although the authority did not specifically address how it plans to address all of our findings, it said our recommendations would be integrated into a work plan with specific actions and timelines to be presented to its Board of Directors on December 19, 2013.

Audit of Major Contracts and Agreements of the Hawai'i Tourism Authority

A Report to the
Governor
and the
Legislature of
the State of
Hawai'i

Submitted by

THE AUDITOR
STATE OF HAWAI'I

Report No. 13-09
December 2013

Foreword

This report on our audit of the major contracts and agreements of the Hawai'i Tourism Authority was prepared pursuant to Section 23-13, Hawai'i Revised Statutes, which requires the Auditor to conduct a management and financial audit of all contracts or agreements valued in excess of \$15 million awarded by the Hawai'i Tourism Authority at least every five years.

We wish to express our appreciation for the cooperation and assistance extended to us by members of the Hawai'i Tourism Authority board of directors, the chief executive and staff of the HTA, and other individuals whom we contacted during the course of our audit.

Jan K. Yamane
Acting State Auditor

Table of Contents

Chapter 1 Introduction

Background.....	1
Prior Audits.....	8
Objectives of the Audit	9
Scope and Methodology	9

Chapter 2 State Tourism Marketing Would Benefit From Improved Plans, Reporting, and Oversight

Summary of Findings	11
HTA’s Incohesive, Self-Described “Marketing Plan” and Poor Reporting on Measures of Effectiveness Impede Transparency	12
Contract Monitoring Needs Improvement to Ensure Compliance With Deliverables and Performance Expectations	22
Conclusion.....	33
Recommendations.....	33

Response of the Affected Agency..... 35

List of Exhibits

Exhibit 1.1	Hawai‘i Tourism Authority Board Committees.....	3
Exhibit 1.2	Hawai‘i Tourism Authority Organizational Chart.....	4
Exhibit 1.3	HTA Marketing Contracts.....	6
Exhibit 1.4	Photo of the Hawai‘i Convention Center	7
Exhibit 1.5	HTA Appropriations by Means of Financing, FY2009 through FY2014.....	7
Exhibit 1.6	HTA Special Trust Fund Balances as of June 30, 2012.....	8
Exhibit 2.1	Section 201B-6, HRS, Tourism Marketing Plan and Measures of Effectiveness Requirements	12
Exhibit 2.2	Photo of “Marketing Plan”	14

Exhibit 2.3	HTA Brand Sustainability and Execution Plan Measures Lacking Targets	15
Exhibit 2.4	HTA Strategic Plan Indicator Chart Reflecting Return on Investment.....	20
Exhibit 2.5	Visitor Expenditures With 2002 Benchmark.....	21
Exhibit 2.6	Analysis of Access Agreement Final Evaluations, FY2012	27
Exhibit 2.7	HTA Report Requirements and Deliverables Checklist.....	30
Exhibit 2.8	2012 Marketing Files With Reports Missing	31

Chapter 1

Introduction

This is our third audit of the Hawai‘i Tourism Authority conducted pursuant to Section 23-13, Hawai‘i Revised Statutes (HRS), which requires the Auditor to conduct a management and financial audit of all contracts or agreements valued in excess of \$15 million awarded by the Hawai‘i Tourism Authority at least every five years. Section 23-13 requires these audits to include, among other things, a review of the propriety of expenditures and compliance by all major contractors with relevant laws and rules; in addition, the audits may include any additional audit issues the Auditor deems appropriate.

Background

In October 1997, the Legislature and the governor joined with key leaders in the private sector to form a 26-member Hawai‘i Economic Revitalization Task Force, which focused on “bold, fundamental, and strategic actions” to kick-start the state’s economy following nearly a decade of economic stagnation. The task force put a high priority on addressing the visitor industry’s short- and long-term needs since, at the time, tourism accounted for one in every three jobs in Hawai‘i and more than 25 percent of the state’s economic activity. The task force concluded that a maturing of Hawai‘i’s visitor product and rising competition had eroded the State’s competitive position in the U.S. market.

To help remedy these developments, the task force recommended creating a Hawai‘i Tourism Authority (HTA), funded by an increased transient accommodations tax, “to assure that promotion dollars are effectively expended.” Previously, the Office of Tourism, within the Department of Business, Economic Development and Tourism (DBEDT), was the agency responsible for promoting, marketing, and developing Hawai‘i’s tourism industry, which included managing the Hawai‘i Visitors and Convention Bureau (HVCB) contract. At the time, HVCB was the state’s sole tourism promotional organization and received annual general fund appropriations from the Legislature, a process considered unpredictable and unreliable for long-term planning.

In 1998, the Legislature adopted the task force’s recommendation and established the HTA under Chapter 201B, HRS. Responsibility for tourism policy development, marketing, market development, product development, and impact monitoring shifted from the Office of Tourism to the HTA. In July 1999, the HTA began operations, which included

managing the only contract for promoting Hawai‘i worldwide, held by HVCB. In 2002, the HVCB was responsible for an approximately \$39 million worldwide promotional budget.

The Legislature has regularly amended the authority’s law. In 2007, the Legislature established a Tourism Emergency Trust Fund to provide for the development and implementation of emergency measures to respond to tourism emergencies. In 2009, it transferred functions relating to tourism research and statistics from DBEDT to the HTA. In 2010, the Legislature provided HTA an exemption from the open meetings law to protect information needed to preserve Hawai‘i’s competitive advantage as a visitor destination. In 2012, the Legislature capped at \$71 million the allocation of transient accommodations tax revenue (TAT) to the Tourism Special Fund until June 30, 2015. The fund was created in 1998.

HTA’s mission, organization, and programs

The Hawai‘i Tourism Authority is responsible for creating a vision and developing a long-range strategic plan for tourism in Hawai‘i; and promoting, marketing, and developing the tourism industry. The authority may, among other things, execute contracts and set and collect rent or other payments for the lease and use of the Hawai‘i Convention Center. The authority’s chief executive is empowered to engage the services of qualified persons to implement the State’s tourism marketing plan.

The authority is exempt from state procurement law (Chapter 103D, HRS), and from some of the administrative supervision of boards and commissions (Section 26-35, HRS). Authority revenues and receipts are exempt from all state taxation.

Board of Directors

The authority is headed by a 12-member policymaking Board of Directors appointed by the governor. Members include at least one representative each from the City and County of Honolulu and the counties of Hawai‘i, Kaua‘i, and Maui; the remaining members are appointed at-large. Members are appointed for terms of four years. At least six members must have knowledge, experience, and expertise in the area of visitor industry management, marketing, promotion, transportation, retail, entertainment, or visitor attractions; and at least one in the area of Hawaiian cultural practices. No more than three members can represent, be employed by, or be under contract to any sector of the industry represented on the board. The board elects a chairperson from among the members. Members serve without compensation but are reimbursed for expenses, including travel expenses necessary for the performance of their duties. The board is organized into standing and investigative committees as shown in Exhibit 1.1.

Exhibit 1.1 Hawai'i Tourism Authority Board Committees

Committee	Function
Administrative Standing Committee	Makes policy recommendations related to evaluation of the president and chief executive officer and the administration of HTA.
Audit Standing Committee	Develops policies to ensure the financial integrity of HTA through the proper allocation and expenditure of funds consistent with the board's policies and objectives, and ensures funds are properly expended under a budget previously approved by the board.
Tourism Strategic Plan Investigative Committee	Updates the Tourism Strategic Plan, which expires in 2015, and obtains current information on tourism industries in Hawai'i.
Convention Center Capital Improvement and the Management and Marketing Procurement Investigative Committee	Develops an assessment of future projects; determines and prioritizes all capital improvement projects; and assesses the best use of the convention center facility to achieve a higher return on investment.

Source: Hawai'i Tourism Authority

Organization

The authority is attached to DBEDT for administrative purposes. It has a staff of 26 and is organized into three offices: Executive, Brand Management, and Administration.

The **Executive Office** provides overall administration and management of the HTA. The board appoints an individual to serve as president and chief executive officer (CEO) who oversees HTA staff and is responsible for assisting the board in fulfilling its duties.

In 2010, the HTA reported it restructured operations so that functions including marketing, product development, the Access program, and Hawaiian culture—which had previously operated independently—were combined under the Brand Management Office.

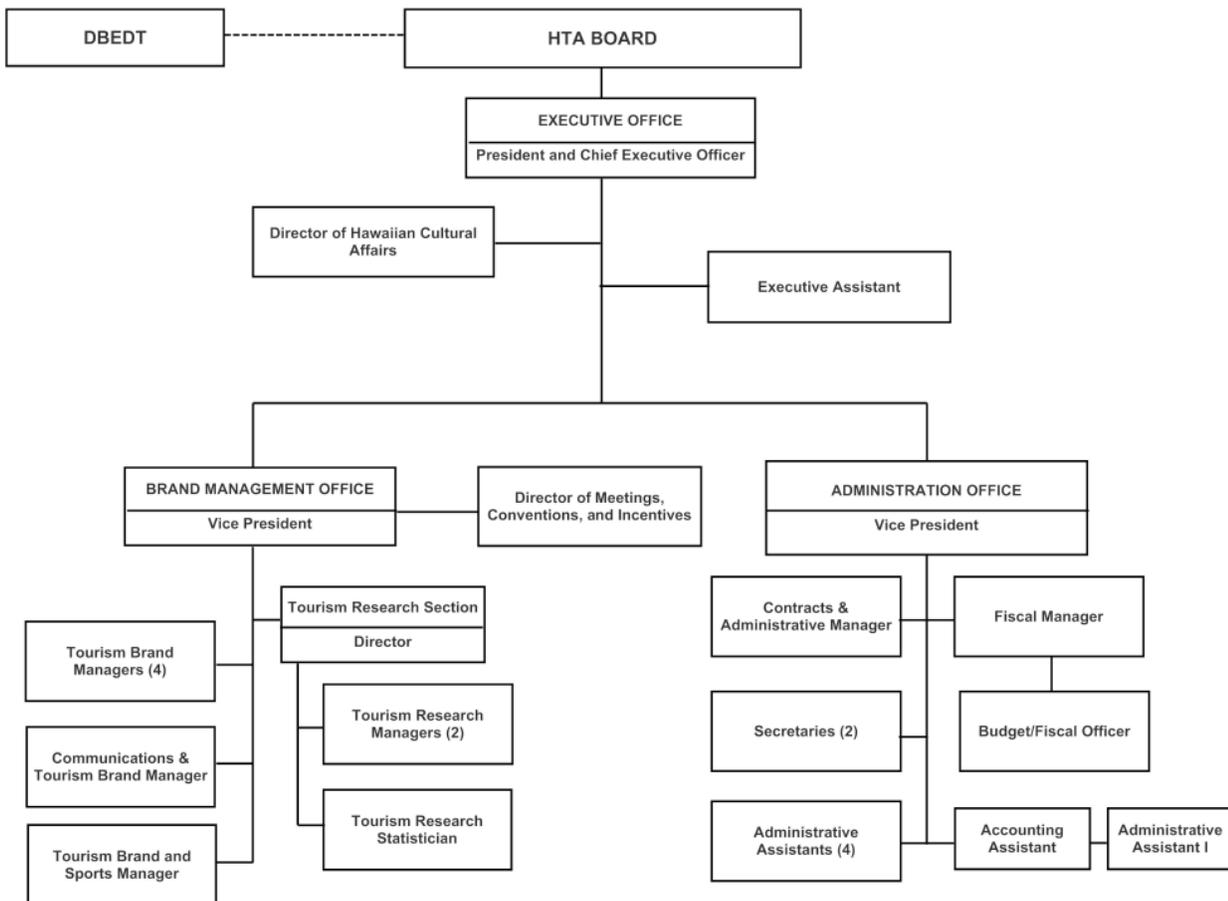
The **Brand Management Office** is responsible for developing and implementing Hawai'i's brand as a visitor destination for leisure and business, including developing and promoting Hawai'i's tourism product; marketing the Hawai'i Convention Center; and communicating with stakeholders, including the visitor industry, government entities, and visitors. The office is also responsible for HTA tourism research and planning. Brand management efforts include tourism product development and supporting transportation services to Hawai'i through the Access program. The HTA provided \$6 million in FY2012 in cooperative marketing funds through the Access program, which includes efforts to develop airline and cruise ship routes. Brand management also promotes the Hawaiian islands through the support of events that emphasize the Hawai'i brand. These include community and cultural festivals, Signature Events such as the Pro Bowl and PGA Tour events,

and other community programs. The authority budgeted \$9.5 million for FY2012 Signature Events.

The **Administration Office** is responsible for providing oversight and management of operational aspects of the HTA including contracts, budget, information technology, and personnel. The office also manages operation of the Hawai'i Convention Center, HTA's expenditures, personal matters and provides general office support to the authority.

Exhibit 1.2 illustrates the authority's organizational structure.

Exhibit 1.2
Hawai'i Tourism Authority Organizational Chart



Source: Hawai'i Tourism Authority

Plans

The authority operates under both long- and short-term strategic plans. The long-term plan is the Tourism Strategic Plan 2005–2015, which the HTA is in the process of updating. The short-term plan is the HTA strategic plan 2013–2014, which is updated annually. The HTA also has

a Brand Sustainability and Execution Plan, which implements the other plans and is updated annually. The Brand Sustainability and Execution Plan was adopted in 2011 and most recently updated in June 2013. It prioritizes issues that HTA deems most pertinent and includes an operation plan that organizes the HTA. The HTA strategic plan and the Brand Sustainability and Execution Plan set the framework for annual marketing plans created by marketing contractors.

In 2004, the Legislature required the HTA to develop an annually updated tourism marketing plan that includes, among other things, targeted markets; coordination of destination marketing plans; and measures of effectiveness for the authority's promotional programs. In 2010, the Legislature required the authority, in conjunction with an annually updated tourism marketing plan, to develop measures of effectiveness to assess the overall benefits and effectiveness of the marketing plan and include documentation of the progress of the marketing plan towards achieving the authority's strategic plan goals.

Geographic markets

The HTA contracts with marketing organizations to promote Hawai'i in five geographic areas, called major market areas (MMAs), that are Japan, North America, other Asia (Korea, China, and Taiwan), Oceania (Australia, New Zealand), and Europe. Contractors are responsible for developing annual marketing plans and cooperative programs, including advertising, public relations, promotions, travel trade marketing, education and training, and stakeholder communications and relations.

HTA contracts

Under statute, HTA's *major contracts* are defined as those over \$15 million. The authority's major contracts are with the Hawai'i Visitors and Convention Bureau (HVCB), Spectacor Management Group (SMG), and a.link LLC, each of which are multi-year contracts. Between January 2009 and December 2012, HTA allocated \$161 million to attract leisure and business travelers from all major market areas. Exhibit 1.3 shows the amount of funds spent on marketing contracts in 2012 and the Hawai'i Convention Center in FY2012. Major contracts are highlighted.

Exhibit 1.3 HTA Marketing Contracts

Contractor	Type of Contract	CY2012 Contract Expenditures	Percent of HTA Contract Expenditures
Hawai'i Visitors and Convention Bureau	MMA - North America and MCI	\$28.8 million	50.2%
Spectacor Management Group (SMG)	Convention Center	\$18.4 million*	32.1%
a.link LLC	MMA - Japan	\$7 million	12.2%
AVIAREPS Marketing Garden (Holdings), Ltd.	MMA - Other Asia (Korea, China, Taiwan)	\$1.9 million	3.3%
The Walshe Group Pty Ltd.	Oceania	\$1.1 million	1.9%
AVIAREPS Tourism GmbH	Europe	\$146,902	0.3%
Total		\$57.35 million	100%

*For FY2012 and includes operations, repair, and maintenance costs.

MMA – major market area

Source: Hawai'i Tourism Authority

Hawai'i Convention Center

Built by the State in 1998 at a cost of \$350 million, the Hawai'i Convention Center, shown in Exhibit 1.4, encompasses 1.1 million square feet and was designed to accommodate a wide range of meeting facilities, including a 200,000 square-foot exhibit hall that can be partitioned into three halls, a 35,000 square-foot registration lobby, a 35,000 square-foot ballroom, 47 meeting rooms, simultaneous translation rooms, and two presentation theaters with tiered seating. Following the sunset of the Convention Center Authority on June 30, 2000, the HTA assumed responsibility for operating, managing, and maintaining the Hawai'i Convention Center.

In 1996, the State contracted Pennsylvania-based company SMG to operate and manage the convention center from its opening in 1998. On July 3, 2013, HTA announced the selection of AEG Facilities as the new convention center manager beginning January 1, 2014.

Exhibit 1.4
Photo of the Hawai'i Convention Center



Source: Office of the Auditor

Funding

The HTA is almost entirely special-funded. Most of its revenues are derived from a percentage of the State's transient accommodations tax (TAT). Over the past six years, HTA's annual appropriations averaged \$140.5 million. Exhibit 1.5 shows HTA's appropriations, by means of financing, over the past six years.

Exhibit 1.5
HTA Appropriations by Means of Financing, FY2009 through FY2014

	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014
BED 113 Tourism						
General funds	\$ -	\$454,599	\$115,524	\$ -	\$ -	\$ -
Special funds	\$140,063,979	\$138,208,698	\$140,939,553	\$141,162,298	\$141,073,635	\$141,162,298
Total appropriations	\$140,063,979	\$138,663,297	\$141,055,077	\$141,162,298	\$141,073,635	\$141,162,298

Source: General and supplemental appropriations acts, SLH 2008 through 2013

HTA's special funds

The authority has two special funds and one trust fund: the Tourism Special Fund, the Convention Center Enterprise Special Fund, and the Tourism Emergency Trust Fund. As provided by Chapter 237D, HRS, revenue for these funds comes from a portion of the TAT. The TAT is assessed at 9.25 percent of the gross rental proceeds derived

from providing transient accommodations. The amounts deposited into the tourism fund and the convention center fund are 34.2 percent and 17.3 percent, respectively, of HTA’s 7.25 percent portion of TAT revenues. If convention center fund revenues exceed \$33 million in a calendar year, or tourism fund revenues exceed \$71 million in a fiscal year, the excess revenue is deposited in the State’s general fund.

The Tourism Emergency Trust Fund is maintained with a fund balance of \$5 million to be used when the governor declares a tourism emergency (such as natural disaster or other catastrophic event). The fund is supported by TAT revenues. Exhibit 1.6 shows HTA’s special and trust fund balances.

Exhibit 1.6
HTA Special and Trust Fund Balances as of June 30, 2012

Special Fund	Balance as of June 30, 2012
Tourism Special Fund	\$32.4 million
Convention Center Enterprise Special Fund	\$11.5 million
Tourism Emergency Trust Fund	\$5 million

Source: Office of the Auditor

Prior Audits

We have published three prior management audits of the HTA and one follow-up report. The first, Report No. 02-04, *Management Audit of the Hawaii Tourism Authority* (February 2002), was initiated because of legislative concerns about inadequate explanations for the authority’s actions, especially the spending of moneys seen as critical to the state’s economic well-being. We identified a wide array of management deficiencies in the authority’s contracting process, including a lack of written policies and procedures. Specifically, we found that contract files were incomplete and insufficient, and the authority did not adequately monitor all contracts.

Report No. 03-10, *Management and Financial Audit of the Hawai‘i Tourism Authority’s Major Contracts* (June 2003), was initiated pursuant to Section 23-13, HRS, which requires the Auditor to conduct a management and financial audit of all contracts or agreements valued in excess of \$15 million awarded by the Hawai‘i Tourism Authority at least every five years. The audit, which utilized a consultant, found the authority’s inadequate contract management and internal controls failed to safeguard state funds allocated for marketing Hawai‘i as a visitor destination. In addition, poorly written contracts and the authority’s failure to exert adequate controls allowed the Hawai‘i Visitor and Convention Bureau to spend \$151.7 million of tax dollars with little accountability and no identifiable benefit to the state.

Report No. 09-02, *Management and Financial Audit of the Hawai‘i Tourism Authority Major Contracts* (January 2009), was also initiated pursuant to Section 23-13, HRS, and again used a consultant. The audit found that HTA’s year-to-year approach to planning and program implementation hindered its ability to strategically manage the long-term growth of the state’s visitor industry, and that the authority did not have a functional strategic plan of its own and lacked performance goals and targets. Also, the authority’s reports provided no indication of progress toward planned outcomes or measurable results.

Report No. 12-06, *Report on the Implementation of State Auditor’s 2009 Recommendations* (August 2012), was initiated pursuant to Section 23-7.5, HRS, which requires the Auditor to report to the Legislature on each recommendation that the Auditor has made that is more than one year old and that has not been implemented by the audited agency. We found that the HTA had taken steps to address many of its deficiencies, including developing a new strategic plan and establishing key performance indicators, which it uses to measure the performance of marketing contractors. In addition, HTA had undergone an extensive reorganization designed to increase organizational efficiency and accountability. However, we found that the HTA had not established agency visitor industry targets nor reported on its own performance towards achieving its goals. We also could not discern from our review of agency documents how well HTA is achieving its overarching goal to optimize benefits that integrate visitors’, the community’s, and the visitor industry’s interests. We found that the authority commissions reports and gathers data (through visitor satisfaction and resident sentiment surveys) relevant to such a determination, but does minimal analysis or reporting of that data.

Objectives of the Audit

1. Assess whether the Hawai‘i Tourism Authority’s plans satisfy statutory requirements for a tourism marketing plan.
2. Assess the adequacy of the authority’s monitoring of contract compliance.
3. Make recommendations as appropriate.

Scope and Methodology

This audit focused on the Hawai‘i Tourism Authority’s annual marketing plan efforts and management of contracts and agreements for 2012 and 2013. We reviewed all marketing contracts and the Hawai‘i Convention Center contract, and did not limit our review to major contracts. We did not review the propriety of expenditures, as stipulated

under Section 23-13(a), HRS, since our preliminary audit planning determined that the likelihood of such issues was low.

We conducted interviews with board members, office personnel, and legislators. We reviewed strategic plans, marketing plans, contracts, performance measures, and other documentation as appropriate; and judgmentally reviewed items for compliance with applicable policies, procedures, agreements, and other relevant criteria.

Our audit was performed from June 2013 through September 2013 and conducted pursuant to the Office of the Auditor's *Manual of Guides* and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Chapter 2

State Tourism Marketing Would Benefit From Improved Plans, Reporting, and Oversight

Our *Management and Financial Audit of Hawai‘i Tourism Authority’s Major Contracts*, Report No. 09-02, released in January 2009, found the HTA lacked strategic planning and performance benchmarks for itself and its contractors. During this audit, we found the authority has taken steps to address those deficiencies by adopting a Brand Sustainability and Execution Plan, strategic plan, and measures of effectiveness. These efforts provide a framework for 11 annual plans developed by destination marketers. Authority leadership contends that these documents, combined with the authority’s budget worksheets and key performance indicators (KPIs), constitute a *tourism marketing plan* as required and defined by statute. However, we conclude that this fragmented marketing plan does not satisfy statutory requirements. Further, we found that the authority’s measures of effectiveness do not align with strategic goals, and instead track contractor and industry performance. The HTA is also missing targets, gauges performance against dated benchmarks, and lacks analysis of progress toward achieving its strategic goals.

In addition, a lack of policies, procedures, and formal training has resulted in inconsistent and deficient oversight of \$42.5 million in marketing contracts and \$16.4 million in other contract agreements for 2012. These findings are similar to our 2002 audit (Report No. 02-04), which found that HTA’s lack of written policies and procedures resulted in inadequate contract monitoring. The visitor industry generates \$14.4 billion in economic activity and represents 20 percent of Hawai‘i’s economy. The State dedicates tens of millions of dollars every year to support this important industry; however, the authority’s continued deficiencies in planning, reporting, and contract oversight show poor stewardship of public moneys.

Summary of Findings

1. The Hawai‘i Tourism Authority’s incohesive, self-described “marketing plan” and its poor reporting on measures of effectiveness impede transparency.
2. The authority’s contract monitoring needs improvement to ensure compliance with deliverables and performance expectations.

HTA's Incohesive, Self-Described "Marketing Plan" and Poor Reporting on Measures of Effectiveness Impede Transparency

By law, the authority is responsible for developing and updating annually a tourism marketing plan that identifies marketing efforts and targets, and for establishing measures of effectiveness and documenting progress of the marketing plan in meeting strategic plan goals. This provision—Section 201B-6, HRS—is designed to hold HTA accountable for State tourism marketing efforts and, among other things, requires coordination of marketing plans of all destination marketing organizations that receive state funding prior to finalization of the authority's marketing plan. We found that HTA's "marketing plan" is nearly 600 pages, is spread across more than a dozen documents, and falls short of statutory requirements. In 2012, HTA spent \$42.5 million for marketing efforts to support the State's tourism industry. The authority's failure to adopt a statutorily satisfactory marketing plan, or propose amendments to its governing statute, shows an inattention to responsibilities attached to spending public money.

By law, the authority is also required to develop measures of effectiveness and document progress of its marketing plan toward meeting strategic goals. Our evaluation of HTA's progress against measures of effectiveness required reviewing even more documents and was slowed by missing targets, outdated benchmarks and a lack of analysis by the authority. When HTA's measures were compared with its strategic goals, they did not align.

Exhibit 2.1 summarizes the State tourism marketing plan and measures of effectiveness requirements.

Exhibit 2.1

Section 201B-6, HRS, Tourism Marketing Plan and Measures of Effectiveness Requirements

The authority is responsible for:

1. Updating a tourism marketing plan that includes:
 - a. Statewide promotional efforts and programs;
 - b. Targeted markets;
 - c. Brand marketing efforts that make effective use of cooperative advertising;
 - d. Program performance goals and targets that serve as market gauges and to evaluate the authority's promotional programs; and
 - e. Coordination of marketing plans of all destination marketing organizations prior to finalization of the authority's marketing plan.
2. Developing measures of effectiveness in accordance with the marketing plan and for documenting progress of the marketing plan towards achieving the authority's strategic plan goals.

Source: Hawai'i Revised Statutes (summarized)

Fragmented marketing plan does not satisfy statutory requirements

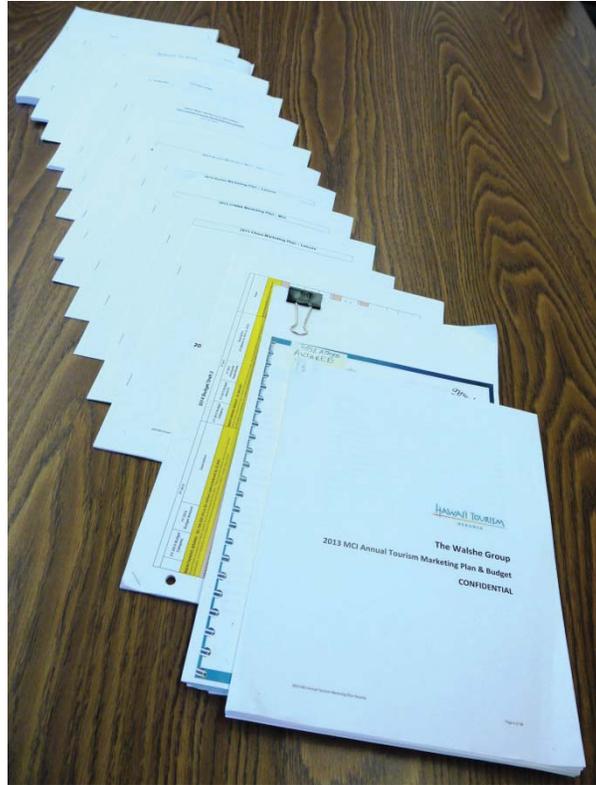
We found that HTA board members and administrators lack policies, procedures, and guidelines for complying with State tourism marketing plan requirements and for documenting HTA’s progress in achieving its strategic goals. We also found that, in general, HTA board members and administrators have misunderstood those requirements. As a result, the authority’s officials mistakenly believe that their diffuse marketing plan documents satisfy these requirements.

Marketing plan is dispersed, unwieldy, and noncompliant with statutory requirements

Section 201B-6, HRS, entitled *Tourism marketing plan; measures of effectiveness*, was enacted when the Hawai‘i Tourism Authority was established in 1998 under Act 156 (SLH 1998). The preamble to the act states: “In light of the State’s dependence on tourism, it is extremely important that the development, marketing and research of this industry be coordinated in a manner consistent with the needs of the State.” Section 201B-6 has since been amended four times, most recently in 2010, in an attempt to clarify marketing plan requirements.

We found that the HTA does not fulfill the marketing plan requirement with a single overarching plan. Rather, HTA officials—including the board chair, chief executive officer, vice president for brand management, fiscal manager, and the chair of a strategic planning committee—each said that HTA’s marketing plan is comprised of numerous documents. These documents include the authority’s Brand Sustainability and Execution Plan; strategic plan; budget worksheets; KPIs; and the annual marketing plans of destination marketing organizations. This so-called “marketing plan” consists of 578 pages spread across 15 different documents. Further, some destination marketing plans are embedded within contractors’ responses to request for proposals (RFPs). For example, the 166-page leisure marketing plan for North America was contained within a 605-page contract proposal; and the 109-page Western Europe leisure marketing plan was contained within a 227-page contract proposal. Exhibit 2.2 depicts the authority’s marketing plan as described by HTA officials.

Exhibit 2.2
Photo of “Marketing Plan”



The HTA “marketing plan” consisted of 15 documents and 578 pages.

Source: Office of the Auditor

The lack of a comprehensive and easy-to-read annual marketing plan frustrates efforts to identify HTA’s statutorily required performance goals, targets, and targeted markets. For example, Section 201B-6(a)(2), HRS, requires the tourism marketing plan to include targeted markets. To identify HTA’s targeted markets, we reviewed key performance indicators, targeted markets within 11 annual destination marketing plans, the Brand Sustainability and Execution Plan, the HTA strategic plan, and budget worksheets. Further, our review of destination marketing plans found that the plans for Japan, North America, Oceania, China, and Korea included numerous targeted markets. For example, the Oceania marketing plan “targets” the following lifestyle segments: avid leisure travelers, including sub-segments of culture and history, golf, outdoor recreation, and health and wellness; the romance traveler; the family traveler; as well as baby boomers and active seniors.

Other components of HTA’s “marketing plan” lacked targets. Although HTA’s budget worksheet complied with Section 201B-6(a)(4), HRS, which requires the tourism marketing plan to include program performance goals and targets that can be monitored as market gauges

and used as attributes to evaluate the authority’s promotional programs, the worksheet does not include goals and targets for numerous programs. For example, there were no targets for eight community product enrichment initiatives, four product development initiatives, nine Signature Events, and all natural resources initiatives. Similarly, we found that the Brand Sustainability and Execution Plan did not include targets for 38 program measures. Exhibit 2.3 shows an excerpt of the Brand Sustainability and Execution Plan, which lists ten measures for assessing the community-based natural resources program. Seven of these measures (highlighted) lack associated targets, making it difficult to determine whether the program achieved intended benefits.

**Exhibit 2.3
HTA Brand Sustainability and Execution Plan Measures Lacking Targets**

Measures
• Number of newly-funded programs/projects.
• Higher mix of projects/programs vs. events.
• Economic impact.
• Visitor to resident mix.
• Community support.
• Increased alliances between the visitor industry and the community.
• Ability to generate positive impact on cultural resources, practitioners, crafters, musicians and other artists.
• Maintain resident and visitor appreciation with Hawaiian culture.
• Ability of the organization to be independent of HTA funding with four (4) years.
• Sustainability of Hawai’i’s natural environment.

Source: HTA Brand Sustainability and Execution Plan

The authority’s chief executive claimed HTA has all of the material needed to comply with the annual marketing plan requirement; however, he acknowledged that the information is not in a comprehensive, easy-to-read format.

Although Section 201B-6(a), HRS, does not explicitly state that HTA’s marketing plan must be in one document, the need for an overarching plan is implied twice within the section, which references the authority’s “marketing plan.” Additionally, HTA’s dispersal of its marketing plan among more than a dozen documents—and in some cases, within larger request for proposal responses—impedes transparency, since the resulting marketing plan is essentially inaccessible. Taxpayers and policymakers alike should not need to acquire, digest, and cross-reference 15 documents in order to assess the State’s tourism marketing plan.

Furthermore, our analysis of each of the 15 documents found that none met all statutory marketing plan requirements. And when relevant attributes of all the plans were combined, they still did not fulfill those requirements. For example, none of the documents satisfy the requirement of including coordination of marketing plans of all destination marketing organizations receiving state funding *prior to* finalization of the authority's marketing plan.

We were told that marketing plans of destination marketers are coordinated *after* finalization of the authority's marketing plan. The HTA's strategic plan and Brand Sustainability and Execution Plan set the structure for destination marketing plans. Destination marketing contractors submit their marketing plans with initiatives and a timeline that conforms with the two previously approved HTA plans. Although this HTA practice may meet the intent of coordinating destination marketing plans, it is contrary to the statutory requirement that marketing plans be coordinated prior to finalization of the authority's marketing plan.

The HTA vice president for brand management was not aware that the law required coordination of destination marketing plans prior to adoption of HTA's tourism marketing plan and said the State marketing plan requirement needs to be changed. He acknowledged that HTA does not follow this practice, but noted that the process as specified in statute would allow contractors to dictate marketing strategies and initiatives to the State instead of the other way around. The Brand Sustainability and Execution Plan creates a brand for Hawai'i and establishes programs to differentiate the Hawai'i experience from other destinations. The Brand Sustainability and Execution Plan was developed following a 2011 reorganization that combined the authority's marketing and product development areas. If the authority's governing law no longer aligns with its approach to marketing plan development, we urge the authority to propose amendments during the upcoming regular session of the Legislature.

HTA officials were unclear of statutory requirements for a marketing plan, even though clarifying language was enacted at HTA's behest

The annual marketing plan requirement was enacted in 2004 at HTA's urging. As originally drafted in 1998, Section 201B-6(b), HRS, called for a plan, but referred to it variously as a *tourism marketing plan*, *strategic tourism marketing plan*, and *marketing plan*. The section also required the coordination of marketing plans of all destination marketing organizations receiving state funding prior to finalization of the authority's own marketing plan. In 2004, the section was amended at HTA's behest to specify that the authority was responsible for developing

a *tourism marketing plan* to be updated annually. This responsibility is recognized in HTA's functional statement, which specifies that HTA, as the State's tourism agency, is responsible for developing and implementing the State's tourism marketing plan and efforts.

Even after this clarification, however, HTA's officials remain unclear on this requirement. The HTA board chair and the chair of the board's Tourism Strategic Plan Investigative Committee both said they were familiar with the section; but both asserted that contractor marketing plans are adopted in conformance with the HTA strategic plan. This approach runs counter to the law. Further, HTA's vice president for brand management was unaware of the marketing plan requirements even though his position description makes him responsible for formulating and maintaining a comprehensive marketing plan for the integrated and coordinated development of the visitor industry. The vice president asserted that the marketing plan referenced in his job description was the Brand Sustainability and Execution Plan. Had he been aware of the statute, he said, he would have added the words "marketing plan" to the title of the authority's Brand Sustainability and Execution Plan. We reiterate, however, that the Brand Sustainability and Execution Plan does not fulfill statutory marketing plan requirements.

The authority's inattention to this provision is unexpected, considering its current chief executive helped draft the original statute that created HTA in 1998, was board chair when it was amended in 2004, and was chief executive when it was again amended in 2010. However, the chief executive said that when he drafted the original language in Chapter 201B, HRS, he did not know much about marketing and that some of the language was unclear or could have been better written. The chief executive, who is the authority's liaison with the Legislature, said he will seek statutory amendments.

Disjointed reporting of progress against strategic goals undermines accountability

Since 2009, the HTA has adopted key performance indicators (KPIs), which are its measures of effectiveness. These KPIs are featured on "dashboard" reports, which the authority prepares for its board. However, we found that the KPIs are actually measures of tourism industry and destination marketer performance and do not align with HTA's strategic goals as required by statute. The HTA does track strategic plan indicators that align with strategic goals in its quarterly report card to the board but these HTA indicators lack explicit targets. Moreover, the report card lacks meaningful analysis and is not the primary means of monitoring strategic goal progress. As we reported in 2009 and again in 2012, the lack of benchmarks and meaningful analysis of progress against strategic goals continue to undermine taxpayers' and policymakers' ability to track and assess HTA's performance.

We also found that HTA has not revisited strategic plan benchmarks as is required by the State Tourism Strategic Plan. The authority measures its performance against visitor arrival and expenditure standards that were set a decade ago. That makes finding and monitoring HTA's measures of effectiveness and documenting the progress of its marketing plan in achieving its strategic goals difficult and impedes transparency and accountability of public funds.

Reporting on measures of effectiveness and documentation of progress do not align with strategic goals

In 2010, Section 201B-6(b), HRS, was amended to require the authority to “develop measures of effectiveness to assess the overall benefits and effectiveness of the marketing plan and include documentation of the progress of the marketing plan towards achieving the authority’s strategic plan goals.” The HTA’s current chief executive testified in support of the change. The authority’s strategic goals are articulated in its strategic plan, which states: “The goal of the HTA Strategic Plan (HTA Plan) is to optimize benefits for Hawai‘i and integrate the interests of visitors, the community and the visitor industry.” Although we determined that HTA does not have a marketing plan that complies with Section 201B-6(a)(5), HRS, we still attempted to determine what indicators HTA uses to assess the benefits and effectiveness of what it calls its marketing plan and how it documents its progress against strategic goals. We found that the authority’s measures of effectiveness monitor the overall performance of Hawai‘i’s tourism market, rather than progress against the authority’s strategic goals.

Four HTA officials we interviewed agreed that HTA’s KPIs were the authority’s means of monitoring its measures of effectiveness. The KPIs establish targets and track total expenditures, per-person-per-day spending, arrivals, length of stay, and visitor days for geographic markets including the U.S. West and East, Japan, Canada, Europe, and Oceania. As such, the KPIs provide an overview of broad visitor industry conditions conducive to documenting progress of a strategic plan goal such as increasing tourism. However, visitor arrivals and spending are blunt measures of progress against the agency’s strategic plan goals, which are “... to *optimize* benefits for Hawai‘i and *integrate* the interests of visitors, the community and the visitor industry [emphasis added].” The HTA monitors KPIs with a nine-page “dashboard,” which includes charts and tables tracking arrivals, visitor spending, visitor days, per-person-per-day spending, and scheduled seats. The dashboard also includes performance year-over-year, and year-to-date, and compares against targets statewide, and by island. The authority also uses visitor expenditures, days, and spending as measures of effectiveness in its Multi-year Program and Financial Plan and Executive Budget.

The HTA monthly dashboard, which by consensus of those officials interviewed, is the means of documenting progress of the marketing plan towards achieving the authority's strategic goals. It also tracks the performance of three of seven objectives and one of 12 performance indicators in the HTA strategic plan. For example, the strategic plan contains return on investment indicators that include cost-per-arrival from each market and marketing-dollar-to-expenditure from each market, which align with measuring the goal of optimizing benefits for Hawai'i. However, the dashboard tracks neither of those indicators—cost per arrival or marketing dollars to expenditure. Instead, the dashboard measures align with market condition targets contained in the HTA strategic plan—2013 and 2014 expenditures, arrivals, and per-person-per-day spending. Therefore, the dashboard monitors contractor and industry performance rather than HTA progress in achieving its strategic goals.

The HTA vice president for brand management, who is responsible for formulating statewide key performance indicator targets and objectives, was unaware of the statutory requirements governing measures of effectiveness and documentation of progress. When we noted the discrepancies, the vice president stated that increased visitor arrivals indicate the optimization of benefits of Hawai'i tourism. He added that visitor numbers would not be increasing unless HTA was satisfying customers.

The HTA does track strategic plan indicators in its quarterly report card, which was cited as a means of documenting progress against strategic goals by one HTA official we interviewed. The report card provides a quarterly review of the measures of success of the HTA strategic plan and the long-range Hawai'i Tourism Strategic Plan 2005–2015. The report card measures ten of 12 performance indicators contained in HTA's strategic plan. Additionally, the report card tracks performance of the HTA strategic plan's experience indicators, which include visitor satisfaction and consumer sentiment expressed in online and social media. Those indicators measure progress against the strategic goal of integrating the interests of visitors, the community, and the visitor industry. The report card also tracks strategic plan quality-of-life indicators that include resident sentiment of tourism and other measures relating to income, educational attainment, environmental pollution, and affordable housing. Those indicators align with measuring progress against the strategic goal of integrating the interests of visitors, the community and the visitor industry. However, the report card primarily contains charts with current and historical figures that do not demonstrate performance against strategic goals. Exhibit 2.4 is an excerpt from an HTA report card showing a return on investment chart that details total visitor spending versus marketing dollars from 2007 to 2012. However, the chart has no accompanying analysis explaining why the ratio has

declined for North America and whether the results are in line with strategic plan targets.

**Exhibit 2.4
HTA Strategic Plan Indicator Chart Reflecting Return on Investment**

Return on Investment - Fiscal (Efficiency)
Table 12: Total Visitor Spending to Marketing Dollars

	2007	2008	2009	2010	2011	2012
North America	338:1	235:1	207:1	216:1	213:1	311:1
Japan	223:1	219:1	180:1	252:1	305:1	311:1
Oceania	270:1	251:1	193:1	283:1	320:1	392:1
Other Asia	198:1	82:1	75:1	112:1	116:1	245:1
Europe	240:1	249:1	1066:1	694:1	629:1	571:1

Source: HTA March 2013 Report Card

In addition to the dashboard and report card, authority officials said documentation of progress against strategic plan goals is contained in monthly visitor statistics, various surveys, and grant reports. Surveys include a visitor satisfaction survey, marketing effectiveness study, resident survey, and general sentiment survey, according to the vice president for brand management. Further, in FY2012 alone there were 17 cooperative marketing agreements and 36 Signature Events, but no consolidated report on the results of these agreements. As with marketing plan review, we found that tracking progress against strategic plan goals involves reviewing and analyzing numerous documents.

The vice president for brand management told us the results of all these documents cannot be included in one report because of the timing of some reports. For example, the resident sentiment survey is annual, while the visitor satisfaction survey is bi-annual. “We report on all of these things to the board,” but not all are included in the dashboard, he said.

However, HTA’s scattered reporting is contrary to best practices. The Destination Marketing Association International’s *Handbook for CVBs* advocates that any convention and visitor bureau that accepts public funds as a portion of their funding has a fiduciary responsibility to be consistent and transparent when reporting its performance to stakeholders. The association represents nearly 600 destination management organizations in more than 30 countries.

Missing or outdated goals for strategic plan performance indicators make it difficult to track progress

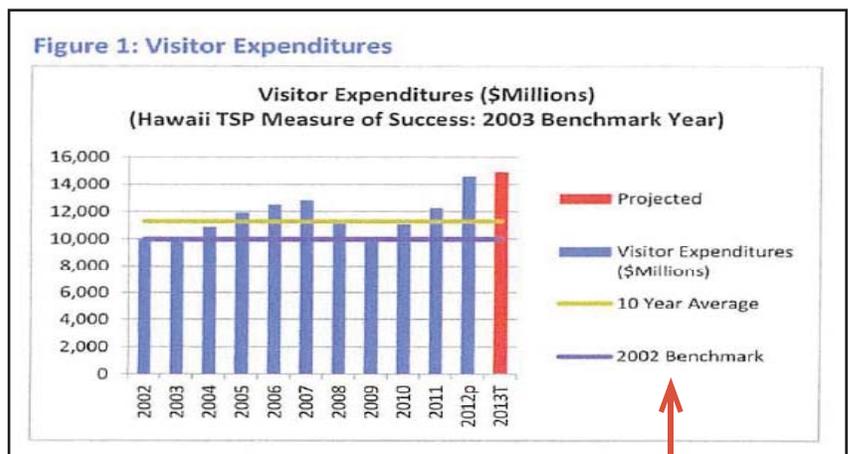
The HTA strategic plan identifies 12 performance indicators that include number of jobs, unemployment rate, tax collections, visitor satisfaction,

resident satisfaction towards tourism, quality-of-life measures, and cost per arrival. Although some of these indicators can be linked to HTA’s strategic goals, the strategic plan does not establish targets against which to assess the performance of each indicator.

The HTA’s quarterly report card, which measures Hawai‘i’s visitor industry and its progress against the strategic plan, also does not specify targets for these indicators. The vice president for brand management said the strategic plan did not set targets for its performance indicators, but added that the authority’s unstated goal is to increase results for each performance indicator on a year-over-year basis. In a subsequent interview, the vice president said that targets are set for certain indicators within PowerPoint presentations, reports to the Legislature, quarterly report cards to the board, and in the dashboards.

Further, seven report card indicators compare performance against benchmarks that are a decade old. These include charts that show historical trends and performance against a specific benchmark for visitor expenditures, state tax revenues, TAT collections, jobs generated from tourism, resident sentiment, visitor satisfaction, and 12 quality-of-life indicators. Each of these charts uses benchmarks set between 2000 and 2003. For example, a quality-of-life indicator in the report card compares 2011 per capita income against a 2003 benchmark year, resulting in a 37.6 percent increase. The actual, unstated year-over-year increase is 4.8 percent. Exhibit 2.5 shows a report card visitor expenditure chart that compares results against a 2002 benchmark.

**Exhibit 2.5
Visitor Expenditures With 2002 Benchmark**



Source: HTA March 2013 Report Card

Agency still compares performance against decade-old benchmark.

The HTA report card also contained outdated KPIs and other data. For example, report card data on public safety and social participation, which were HTA strategic plan quality of life measures, were at least six years old, and the report card's data on environmental pollution were from 2008. As of March 2013, the report card also did not track HTA strategic plan performance indicators, including work hours, and native Hawaiian culture investment and progress. We were told by HTA's director of tourism research that the statistics in the report card were the most recent available.

When we asked why HTA compares its performance against benchmarks established in 2002 and 2003, we were told that the use of those benchmarks is stipulated in the Tourism Strategic Plan. That plan states:

For each strategic initiative, general and specific indicators have been identified to help measure the degree of collective success in achieving the vision. Using benchmarks from previous years, Hawai'i must determine whether to work towards raising the benchmark up (as in the case of tax contributions to the State) or lowering it (as in the case of reducing resident concerns about tourism).

The plan directs periodic review of benchmarks to determine whether they should be revised up or down. The vice president for brand management acknowledged that benchmarks should be reevaluated, but did not know why this has not been done. We were also told that HTA is in the process of reviewing and updating the benchmarks as part of creating an updated state Tourism Strategic Plan for the years 2015 to 2020.

Contract Monitoring Needs Improvement to Ensure Compliance With Deliverables and Performance Expectations

In 2012, HTA spent \$58.9 million on contracts and agreements. We found that without improved contract monitoring, HTA cannot ensure that contractors are held accountable for the use of those taxpayer funds. The \$58.9 million spent includes \$42.5 million spent on marketing contracts for five major market areas (North America, Japan, Other Asia, Oceania, and Europe) and the Hawai'i Convention Center and \$7.1 million spent on contracts for the Access program, which is designed to work with airlines and travel agencies to stimulate travel to Hawai'i during historically slow periods. The authority spent another \$9.3 million on Signature Events programs supporting major festivals and Hawaiian cultural and sporting events to provide new products and attractions, maintain visitor satisfaction levels, and stimulate economic development. However, we found that the HTA lacks policies, procedures, and training needed to ensure consistent and efficient monitoring of its marketing contracts and Access and Signature

Events programs. For example, HTA does not ensure that contractors submit final reports and does not routinely conduct final evaluations of contractors. Contract files were also missing key reports.

Oversight of contracts and agreements is inconsistent and deficient

Marketing contracts for the five major market areas and convention center require that contractors provide an annual marketing plan that describes in detail all programs, campaigns, activities, and initiatives that will be conducted within the contract year. The HTA tourism brand managers work directly with contractors in their assigned markets and are responsible for monitoring annual tourism marketing plans and key performance indicators. Brand managers are also assigned to administer and monitor the Access and Signature Events programs. Both programs require contractors to submit final reports with an overall evaluation of their programs. However, we found that some tourism brand managers do not hold contractors accountable for fulfilling annual marketing plan obligations or for submitting final reports. We also found that final evaluations are not done consistently. As a result, HTA cannot ensure that contract money is effectively spent or that Access and Signature Event programs meet established criteria.

Contractors are not held accountable for fulfilling annual marketing plan activities

The HTA's marketing contractors are required to submit monthly, quarterly, and annual reports on their progress in carrying out annual marketing plans. Contractors are also evaluated by HTA on a quarterly and annual basis. We found that annual marketing plans are monitored differently among tourism brand managers even though the vice president for brand management expects brand managers to use the annual tourism marketing plan as a guide and compare them with contractors' monthly and quarterly reports. However, most brand managers do not routinely reference the annual marketing plans.

We reviewed contractors' annual marketing plans for calendar year 2012 and judgmentally selected activities and key performance indicators. Six of 34 activities and key performance indicators (18 percent) were not addressed by contractors in their monthly, quarterly, and annual reports. Also, there was no evidence in contractors' files that tourism brand managers had followed up with contractors on the status of unreported activity. Nor was there documentation by HTA in contractors' quarterly and annual evaluations. For example, one activity in a contractor's annual marketing plan included organizing groups of Taiwanese hula students accompanied by Taiwanese media to participate in the 2012 Hula Town Hilo festival. The brand manager overseeing that contract told us the organizer cancelled the event. However, when we asked whether such information was documented in any of the contractor's

reports or email, she responded “no,” adding that much of her information and communication via emails and telephone calls are not filed in the contract files. Thus, her response was based on recollection alone.

In another example, a contractor’s annual marketing plan contained key performance indicators calling for development of a new potential area, “Voluntourism,” with a goal of 500 passengers or visitor arrivals. However, we found no record of this activity in the contract file. When we inquired about the status of this key performance indicator, HTA relied on the contractor to provide a response. The contractor reported that discussions regarding the event started in 2012, but that the initiative did not begin until 2013 and was not reported until the July 2013 monthly report. Although the vice president for brand management confirmed he had discussed this activity with the contractor, these discussions had not been documented.

According to the National State Auditors Association’s *Contracting for Services*, monitoring is an essential part of the contracting process. Monitoring should ensure that contractors comply with contract terms, achieve performance expectations, and identify and resolve problems.

Requirements for Access agreement final reports are not enforced

Twice each year, during the spring and fall, HTA accepts applications for the Access co-op program from the five major destination marketers, airlines, and travel agencies. Included in these applications are proposed measures of success, which are specific goals to validate incremental activity representing new or expanded programs. In FY2012, ten of the 17 co-op contracts were executed through the major marketers, while the remaining seven were executed directly between HTA and airlines, travel agencies, and consultants.

For direct co-op agreements, HTA generally makes an initial payment upon execution of a contract, followed by a second installment upon submission of a progress report, and a final payment upon receipt of a final report from a contractor. For co-op agreements made through major marketers, HTA makes full payment to the major marketer following receipt of an amended annual tourism marketing plan budget and execution of a supplemental agreement to the existing contract.

According to HTA’s evaluation criteria for cooperative marketing agreements, contractors are responsible for submitting a final report within 45 days after the scheduled conclusion of a program. The form requires contractors to, among other things, describe how a project met HTA’s objectives for the program, provide targeted goals, and report

actual results for each measure of success indicator identified in the proposal, and describe whether or not the expected outcomes were achieved. However, we found instances where major marketers did not submit final reports, and some final reports did not address some or all of the measures of success indicators listed in the proposals.

For example, two out of five final reports from major marketers were not submitted as required. The first was not submitted because the airline sub-contractor ceased operations in February 2012 before the final report was due. However, the campaign period for this particular co-op program ran from August 14, 2011 to December 17, 2011, and therefore had already ended before the airline ceased operations. Further, the notice of intent between HTA and the major marketer that oversaw the contract required the marketer to submit a final report reviewing the results of the program and confirming compliance with evaluation criteria. Accordingly, the major marketer should have filed the required report regardless of the airline's shutdown.

In another instance, a major marketer entered into co-op agreements with 15 travel agencies in the fall of 2012. The agreements were valued at \$788,456, but the marketer did not submit a final report to HTA as required. The wholesalers submitted to the marketer proof of performance, including screenshots of website advertisements and promotions, and the marketer compiled monthly data of room nights booked by the wholesalers; HTA accepted these documents as the final report. However, screenshots provided by the wholesalers and data compiled by the marketer did not meet final report requirements. The HTA vice president for brand management was unaware that the marketer did not file a consolidated final report and agreed that this was a requirement.

We also found that five of the seven final reports submitted did not include a comparison of the measures-of-success indicators reflected in the proposals against the actual results in final reports. Missing indicators or target goals included:

- Number of incremental room nights sold;
- Cost per arrival;
- Number of consumer inquiries (call volume);
- Number of unique visitors to website;
- Advertising value equivalency; and
- Estimated revenue to the state.

One final report from an airline with a direct co-op contract was actually an interim report submitted three months prior to the program's conclusion and did not include any of the eight measures of success indicators reflected in the proposal. Another final report for a co-op contract with an airline only included details of how HTA funds were spent and did not address any of the eight measures-of-success indicators reflected in the proposal. Other final reports for destination marketer co-op contracts were missing one or more success indicators contained in proposals. According to the HTA vice president for brand management, as long as contractors provide basic incremental arrival numbers, HTA staff are able to fill in missing indicators. He further noted that procedures will be developed requiring tourism brand managers to either calculate and fill in missing numbers, or return final reports to the contractors for completion. Lastly, we found that three final reports submitted by contractors did not include an overall evaluation of the program nor whether the program was a success.

Failure to hold contractors accountable for their final reporting obligations fosters a belief that contractors' performance results have little or no bearing on future co-op contracts. Unless final reporting is enforced, there is no means for HTA to identify and prevent underachieving or underperforming contractors from continuing to receive Access program funding year after year.

The authority cannot ensure contractors are meeting established criteria and taxpayer funds are well-spent

The tourism brand manager responsible for handling all direct co-op agreements prepares a final evaluation upon completion of each contract. That evaluation form contains a checklist of deliverables, including the date the final report was received. It also includes information on whether the project met or exceeded HTA objectives, and whether the authority should continue to fund the program and work with the contractor in the future. Completed final evaluations are reviewed and signed by the vice president for brand management and the chief executive officer. However, as shown in Exhibit 2.6, only three of the nine Access agreements we reviewed included final evaluations prepared by HTA staff. According to a brand manager, final evaluations are not prepared for major marketer co-op agreements and have never been required. In contrast, final evaluations are prepared for direct co-op contracts, although one final evaluation was prepared by the brand manager after we informed her that it was missing.

Exhibit 2.6

Analysis of Access Agreement Final Evaluations, FY2012

Company	Contract Price	Final Evaluation Conducted?
1. a.link LLC Delta Air – Fukuoka JTB HIS Delta Air – 21 charters	\$560,400	No
2. Allegiant Airlines	\$200,000	No
3. AVIAREPS Marketing Garden Asiana Airlines “Fly Asiana, Fly Hawai‘i” Asiana Airlines “Meet Aloha with Asiana”	\$587,000	No
4. AVIAREPS Tourism GmbH Meier’s Weltreisen FTI Touristik	\$119,000	No
5. Hawai‘i Visitors and Convention Bureau* Expedia Travelocity Orbitz Pleasant Holidays Flight Center USD Blue Sky Tours Thomas Cook All About Hawai‘i Classic Vacations Costco MLT Travel Impressions Funjet Apple Vacations Flight Centre CAD	\$788,456	No
6. Hawaiian Airlines	\$500,000	Yes
7. Japan Airlines	\$1,850,000	Yes
8. Rakuten Travel USA	\$33,000	Yes
9. The Walshe Group Pty Ltd Strategic Airlines	\$350,000	No

*FY2013

Source: Office of the Auditor based on HTA data

We also reviewed 20 Signature Events contracts and found that a final evaluation was not prepared by HTA staff following completion of each project. According to the two HTA staff members responsible for Signature Events, HTA refers to contractors’ previous year final reports when considering new applications for funding. The vice president for brand management was initially under the impression that final evaluations were conducted by HTA staff for Signature Events, but later confirmed this is not the case. The vice president said that a committee has been appointed to establish policies and procedures requiring final evaluations.

Lastly, we found that no quarterly or annual evaluations are performed for the marketing contractor overseeing the Taiwan market. The vice president for brand management was unaware of this oversight and said the end-of-year review should have been done. According to the National State Auditors Association's *Contracting for Services*, proper contract monitoring involves preparing contractor performance evaluations against a set of pre-established, standard criteria after contract completion. Agencies should retain these records for future use. Without such evaluations, HTA does not have adequate assurance it received what it contracted for. Final evaluations for each contract and agreement would provide HTA with critical information for determining whether to continue funding these programs and demonstrating that taxpayer funds are well spent.

Formal policies, procedures, and training need to be adopted and implemented to ensure adequate oversight of contracts and agreements

A lack of policies, procedures, and training has contributed to the problems we noted above. In our 2002 Report No. 02-04, we recommended that formal written policies and procedures to address contracting, personnel, and organizational management be developed, implemented, and enforced. We also recommended that HTA implement a training program. The HTA board approved policies in 2012 and HTA adopted procedures in 2013. However, at the time of our fieldwork, HTA still had no policies or procedures specifically relating to contract monitoring of marketing contracts nor Access or Signature Events programs; nor had a training program been implemented.

According to the U.S. Government Accountability Office's (GAO) *Standards of Internal Control*, internal controls are an integral component of an organization's management that provide reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations. Internal controls comprise the plans, methods, and procedures used to meet missions, goals, and objectives. They serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Internal controls help government program managers achieve desired results through effective stewardship of public resources. In turn, internal control activities help ensure that management's directives are carried out and are effective and efficient in accomplishing an agency's control objectives. Control activities are the policies and procedures, techniques, and mechanisms that enforce management's directives. They help ensure that actions are taken to address risks.

The GAO also points out that effective management of an organization's workforce—its human capital—is essential to achieving results and an important part of internal control. Only when the right personnel for the job are on board and are provided the right training tools, structure,

incentives, and responsibilities is operational success possible. Training should be aimed at developing and retaining employee skill levels to meet changing organizational needs.

Without formal policies and procedures and training, HTA cannot ensure the transparency and accountability for State money spent annually on its marketing contracts or Access or Signature Event agreements. In addition, without complete contract files that contain key deliverables, HTA cannot demonstrate its proper stewardship of government resources. Implementation of policies and procedures would reduce the occurrence of missing final reports from contractors, and ensure HTA staff reject deficient final reports that fail to address all measures of success indicators reflected in contract proposals.

No formal policies or procedures exist for monitoring marketing contracts and agreements

The HTA's lack of formal written policies and procedures has contributed to weaknesses and inconsistencies in its contract monitoring process.

The vice president for brand management stated that there are no policies and procedures for contract monitoring of marketing contracts. Instead, brand managers utilize a document entitled "HTA Report Requirements and Deliverables—Destination Marketing Management" as their guide in reviewing annual marketing plans. However, this one-page checklist does not contain procedures directing brand managers to review annual marketing plans against the contractor's monthly, quarterly, and annual reports. The checklist, shown in Exhibit 2.7, only lists the types of deliverables and reports, such as monthly performance report, data sheet for KPIs, month- and year-to-date variance analysis and report of expenditures, quarterly report, promotional literature, year-end report, and due dates that should be used. This may explain why some activities and key performance indicators contained in annual marketing plans were not reported by contractors or followed up by the tourism brand managers, as noted in the previous section.

**Exhibit 2.7
HTA Report Requirements and Deliverables Checklist**

2012 HTA Report Requirements & Deliverables – Destination Marketing Management			
Deliverable/Report	Description	Notes	Due
Monthly Performance Report – Narrative	Refer to section 4.1.b.iii in Agreement.	<i>HTA will provide template</i>	5th day of the subsequent month
Data Sheet for KPIs		<i>HTA will provide template</i>	12th day of the subsequent month
Monthly & Year-to-Date Variance Analysis and Report of Expenditures	Refer to section 6.4 (b) in Agreement.	<i>HTA will provide suggested template.</i>	No later than 45 days after the month covered
Quarterly Report	Refer to section 6.4 (c) in Agreement.	<i>HTA will provide template</i>	May 15, 2012 August 14, 2012 November 14, 2012 Feb 14, 2013 <i>Within 45 days after the end of each calendar quarter</i>
Planning, analytical, and promotional literature	Copy of each planning, analytical, and promotional literature, including brochures and posters funded by HTA on a quarterly basis		Quarterly Basis
Year End Report	Refer to section 6.4 (e) in Agreement.	<i>HTA will provide template and questions</i>	March 1, 2013 <i>Within 60 days after the end of each contract year</i>
Market Research	5 copies of any and all tourism market research study or report funded by HTA		Within 10 business days after the preparation of the study or report
Annual Tourism Marketing Plan	2013 Annual Tourism Marketing Plan for January 1-December 31, 2013.	<i>HTA will provide template</i>	June 30, 2012

Source: Hawai'i Tourism Authority

We also found that the HTA does not have any formal policies and procedures for either the Access or the Signature Events program. Instead, staff refer to the respective application forms for each program, the HTA Brand Sustainability and Execution Plan, and the HTA Contract/LOA Checklist. Application forms include program evaluation criteria and proposed results or expected outcomes of the program. The Brand Sustainability and Execution Plan provides goals, timelines, criteria, and measures for the program. The HTA Contract/LOA Checklist is used for direct Access agreements and Signature Events to track deliverables, installment payments, and the final report. However, even when combined, these documents do not provide specific monitoring procedures for use by brand managers to close out contracts. Consequently, we found that final reports for the Access program submitted by some contractors did not address all target measures indicated in their proposals; and in two cases, contractors did not submit

final reports at all. In addition, because of a lack of formal policies and procedures, final evaluations are prepared by HTA staff for direct Access agreements, but not for major marketer co-ops or Signature Events.

Lastly, we found that HTA lacks formal training for brand managers who are charged with overseeing marketing contracts, and Access and Signature Events programs. The vice president for brand management provides informal training to brand managers. He has made several presentations to staff; however, the last presentation, entitled *Tourism 101*, was on August 26, 2009. Other training is conducted on-the-job.

Marketing and co-op agreement files were missing reports

Marketing contractors must submit monthly, quarterly, and annual reports as required by their contracts. According to the vice president for brand management, all reports should be filed in contractors’ files. However, we found that the majority of contractors’ files were incomplete. Only one of eight contained all required reports. For example, the Oceania contractor’s file contained no monthly or annual reports and only two quarterly reports. Missing reports were found on tourism brand managers’ computers or in their offices. In one case, a monthly report was provided to us directly from the marketing contractor because HTA could not find it. Exhibit 2.8 shows the number of missing reports during 2012 for the major market areas and the convention center contractors that we reviewed.

**Exhibit 2.8
2012 Marketing Files With Reports Missing**

Major Market Area / Convention Center	Number of Missing Reports		
	Monthly	Quarterly	Annual
1. Oceania	12	2	1
2. Europe	10	4	1
3. Japan	3	1	0
4. Other Asia – Taiwan	3	0	0
5. Other Asia – China	2	0	0
6. Other Asia - Korea	0	0	0
7. North America – Leisure	0	2	1
8. North America – MCI	0	0	1
9. Convention Center	0	2	0

Source: Office of the Auditor

The vice president for brand management said he assumed all brand managers were filing reports in contractors’ files and was unaware this is not being done. He agreed that the cause for the missing reports is a lack of policies, procedures, and training.

We also found that annual marketing plans are not filed in contractors' files. Some marketing plans were contained within separate request for proposals files or maintained by a tourism brand manager. The vice president for brand management acknowledged that annual marketing plans should be included in contractors' files and was aware that some marketing plans were filed separately, with request for proposal responses.

Lastly, we found that five of the nine co-op contract files we reviewed were missing final reports. However, one of the reports was located on the tourism brand manager's computer, and copies of two others were subsequently obtained from the contractors. The remaining two final reports were never submitted by contractors.

According to GAO's *Standards of Internal Control in the Federal Government*, all transactions and other significant events need to be clearly documented and readily available for examination. All documentation and records should be properly managed and maintained. Without complete contract files that contain key deliverables, HTA cannot ensure the stewardship of government resources and transparency of marketing dollars spent on contracts. The HTA's inability to compile and retain complete contract files is troubling, given that we found similar problems in our 2002 audit. That review also found contract files were missing key documents.

Japan contract lacks segregation of duties

The Japan contract has been managed solely by the vice president for brand management since 2007. No other staff oversee the Japan contract deliverables or attend the quarterly and annual evaluation meetings held with the contractor. The vice president for brand management is aware he should involve other staff to ensure completeness of the contract deliverables. He also told us he is planning to give the Japan contract to a tourism brand manager to manage in the future, and that he has already interviewed someone to do so. According to the GAO's *Standards of Internal Control in the Federal Government*, duties and responsibilities need to be divided, or segregated, among different people to reduce the risk of error or fraud. This should include separating responsibilities for authorizing transactions, processing and recording them, reviewing transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event. Lack of segregation of duties increases the risk of errors that may remain undetected.

Conclusion

In this, our third audit of the Hawai‘i Tourism Authority conducted pursuant to Section 23-13, HRS, we found the authority has taken steps to address many of its previous deficiencies by adopting a strategic plan and measures of effectiveness. The authority also has adopted a Brand Sustainability and Execution Plan that helps establish a framework for annual marketing plans developed by destination marketers. However, more progress needs to be made. The authority’s leadership mistakenly believes these plans satisfy statutory requirements for a tourism marketing plan aimed at holding the authority accountable for the \$58.9 million in taxpayer funds it spent in 2012. Additionally, the authority’s measures of effectiveness do not align with its strategic goals, and track contractor and industry performance rather than its own performance. The HTA’s measures also lack targets and use dated benchmarks. Similarly, HTA’s contract and grant management lack policies, procedures, and formal training, which results in inconsistent and deficient oversight. We urge the authority to improve its planning, reporting, and oversight of its State tourism marketing efforts.

Recommendations

1. The Hawai‘i Tourism Authority Board of Directors should:
 - a. Ensure compliance with annual marketing plan requirements contained in its functional statements and in the job description of its vice president for brand management;
 - b. Adopt and implement policies to ensure compliance with Sections 201B-6(a) and -6(b), HRS;
 - c. Ensure that the authority’s measures of effectiveness align with its strategic goals;
 - d. Establish and periodically review the appropriateness of HTA’s strategic plan targets and benchmarks; and
 - e. Develop and implement policies governing marketing contract monitoring to ensure tourism brand managers are consistent in performing reviews of annual marketing plans and that all contract files contain key deliverables.
2. HTA administrators should:
 - a. Ensure that documentation of progress of the authority’s tourism marketing plan is consolidated and includes analysis of whether strategic goals were achieved;

- b. Evaluate whether Section 201B-6, HRS, should be amended, and if so, propose such amendments to the Legislature;
 - c. Develop and implement procedures to ensure compliance with Sections 201B-6(a) and -6(b), HRS;
 - d. Develop and implement procedures for monitoring marketing contracts to ensure tourism brand managers are consistent in performing reviews of annual marketing plans and that all contract files contain key deliverables;
 - e. Adopt formal training procedures for tourism brand managers; and
 - f. For Access and Signature Events contracts, ensure that brand managers:
 - i. Use a checklist to document all deliverables, contract payments, and final reports for all Access and Signature Events program contracts;
 - ii. Establish a quality assurance process for reviewing final reports to ensure all deliverables stated in contract proposals are addressed and reported to management. If final reports fail to address measures of success or other evaluation criteria, they should be returned to contractors for correction;
 - iii. Withhold a portion of the final payment to major market area contractors for co-op agreements pending submission of a complete final report; and
 - iv. Prepare a final evaluation for all Access and Signature Events program contracts for potential use as an evaluation element when deciding future contract awards.
3. The Legislature should consider:
- a. Clarifying the intent and requirements of Section 201B-6(a) and -6(b), HRS; and
 - b. Requiring HTA to report on the progress of its marketing plan in achieving its strategic plan goals in the authority's annual report required under Section 201B-16, HRS.

Response of the Affected Agency

Comments on Agency Response

We transmitted a draft of this report to the Hawai'i Tourism Authority's Board of Directors and the Hawai'i Tourism Authority on November 20, 2013. A copy of the transmittal letter is included as Attachment 1. The authority's response, received on December 2, 2013, is included as Attachment 2. The authority said our feedback was appreciated and that it would incorporate our recommendations into its ongoing planning efforts.

The authority did not disagree with nor dispute any of our findings. It said it would analyze and request changes to relevant governing statutes; align, update, and evaluate benchmarks and goals; and improve contract oversight. The authority did not specifically address how it plans to address all of our findings, but said it would integrate our recommendations into a work plan with specific actions and timelines to be presented to its Board of Directors on December 19, 2013.

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917



JAN K. YAMANE
Acting State Auditor

MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

November 20, 2013

COPY

Mr. Mike McCartney
President and Chief Executive Officer
Hawaii Tourism Authority
1801 Kalākaua Avenue, 1st Floor
Honolulu, Hawaii 96815

Dear Mr. McCartney:

Enclosed for your information are three copies, numbered 6 to 8, of our confidential draft report, *Audit of the Hawaii Tourism Authority*. We ask that you telephone us by Friday, November 22, 2013, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than 12 noon on Monday, December 2, 2013.

The Board of Directors of the Hawaii Tourism Authority, Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this confidential draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Jan K. Yamane
Acting State Auditor

Enclosures



HAWAII TOURISM

AUTHORITY

Hawai'i Convention Center
1801 Kalākaua Avenue, Honolulu, Hawai'i 96815
kelepona tel 808 973 2255
kelepa'i fax 808 973 2253
kahua pa'a web hawaiiitourismauthority.org

Neil Abercrombie
Governor

Mike McCartney
President and Chief Executive Officer

December 2, 2013

RECEIVED

2013 DEC -2 AM 11:43

OFF. OF THE AUDITOR
STATE OF HAWAII

Jan K. Yamane
Acting State Auditor
Office of the Auditor
465 S. King Street, Room 500
Honolulu, Hawai'i 96815

Re: Agency Response to State Auditor Report

We have reviewed your report and are evaluating ways to implement your recommendations. We understand the value of independent feedback from those who are outside of our organization and we appreciate your recognition of the progress we made since the last audit. The Hawai'i Tourism Authority Board of Directors and staff are actively engaged in ongoing efforts to improve our operations and fulfill our statutory obligations.

The Authority continues to evolve as we face new challenges. Over the last five (5) years we have not only addressed a very challenging global tourism market but also simultaneously undertaken a complete redesign of how we operate as an Authority. The HTA is well on the way to redesigning our systems and processes, including rewriting the state Tourism Strategic Plan, revising the HTA Strategic Plan and the Brand Sustainability and Execution Plan, and developing new contracts and more effective contract oversight procedures and management systems. We will need to improve our training, talent and tools to improve our execution.

As we evolve, it is important to re-evaluate our statutory mandates to ensure our compliance as well as to recommend needed changes. Your report highlighted Hawai'i Revised Statutes Sections 201B-6(a) and (b) as areas of concern. We will further analyze the statute and request some changes to the law during this legislative session.

Your report also makes several recommendations regarding aligning, updating and evaluating plans, benchmarks and goals. Our planning process is constantly refined to ensure alignment across several documents. We expect to see some major changes this year. The HTA Board of Directors is currently evaluating the state Tourism Strategic Plan including measures of effectiveness. In May 2012, the Board appointed a Strategic Planning Investigative Committee to prepare for the Hawai'i Tourism Strategic Plan for 2015-2020. The committee and staff are working with planning experts and representatives from the tourism industry and the

community to prepare a new Tourism Strategic Plan for Hawai'i. We expect the plan to be ready in spring of 2014. The revised state plan will drive revisions to our internal HTA Strategic Plan and related documents, including our marketing plan. Your input regarding measures of success for the authority has helped inform this crucial planning process.

The report noted deficiencies in contract oversight. We are also well underway in tightening and improving our implementation and oversight of formal processes and procedures. In March 2012, the Board adopted a comprehensive set of policies to guide the authority. The staff developed supporting procedures which were finalized in June of 2013. Your analysis will assist us in focusing on some of the key policies and procedures that need more specific internal controls, increased training and better quality assurance oversight.

Finally, the report indicated concern that our marketing plan was too voluminous and not sufficiently cohesive. Over the last few years, the HTA marketing plan has evolved into the Brand Sustainability and Execution Plan. The current plan is fifty-seven (57) pages long and provides execution strategies and execution plans for all of our major marketing activities in support of the HTA Strategic Plan. The Brand Sustainability and Execution Plan is used to further develop supporting plans, such as the annual tourism marketing plans of our contractors here in Hawai'i and in markets throughout the world. The Brand Sustainability and Execution Plan is updated every year to reflect lessons-learned, best practices and current challenges and opportunities. Your input regarding the complexity and transparency of our marketing plan will be helpful as we go through our next revision.

Our staff will integrate your recommendations into our work plan. Staff will present the updated work plan to the Board of Directors at the next board meeting on December 19, 2013. The plan will include specific actions and timelines and we will track the items to completion.

As you have seen, we are committed to continuous improvement as an Authority. We are not where we want to be, but we are well on the way. We will incorporate your report and recommendations into our ongoing planning cycle as we strive to be more efficient, effective and productive.

Very truly yours,



Ronald Williams
Board Chair



Mike McCartney
President and Chief Executive Officer