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AUDIT REPORT NO. 68-9
DECEMBER 1968

FINANCIAL AUDIT OF THE HAWAII VISITORS BUREAU

FOR THE PERIOD JULY 1, 1967 TO JUNE 30, 1968

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

SUBMITTED BY THE LEGISLATIVE AUDITOR OF THE STATE OF HAWAII

THE OFFICE OF THE LEGISLATIVE AUDITOR

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

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

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

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

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

LEGISLATIVE AUDITOR

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FOREWORD

Act 74, Session Laws of Hawaii 1968, directed this office to conduct an examination of the financial books and accounts of the Hawaii Visitors Bureau for the fiscal year ended June 30, 1968. This is our report on the results of our examination.

We wish to acknowledge the excellent cooperation and assistance extended to our representatives by Dr. Thomas Hamilton, Mr. K. T. Tom and other staff members of the Hawaii Visitors Bureau and by Dr. Shelley Mark and Mr. Edward Greaney, Jr., of the State Department of Planning and Economic Development. We are indebted, too, to Mr. John McDermott, president of Fawcett-McDermott Associates, and the members of his staff for their help during our examination of the HVB's printing expenses.

Clinton T. Tanimura
Legislative Auditor

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INTRODUCTION TO THE AUDIT OF THE HAWAII VISITORS BUREAU

Chapter 1

INTRODUCTION

In January 1968, much public attention was focused upon the fiscal position and administration of the Hawaii Visitors Bureau. Consequently, the Speaker of the House of Representatives, in mid-February 1968, requested this office to conduct a comprehensive examination of the financial administration of the Hawaii Visitors Bureau. The results of that examination were presented in our report, *Financial Audit of the Hawaii Visitors Bureau*, dated March 1968.

The poor financial condition and controls of the Hawaii Visitors Bureau revealed in our report caused the Legislature to direct this office to follow-up on our March 1968 report and to examine the books, records and transactions of the bureau as of June 30, 1968, and again as of December 31, 1968.[1] This is a report on our examination as of June 30, 1968. A supplemental report will be issued at a later date to cover our examination as of December 31, 1968.

Although our findings contained in this report with respect to the bureau's financial statements are as of June 30, 1968, our findings and comments with respect to the bureau's efforts to improve its financial condition and controls cover through the end of October 1968. The supplemental report to be issued at a later date will update certain financial figures as of December 31, 1968, and report on the changes, if any, in the bureau's efforts to improve its financial condition and controls which may have occurred within the last two months of 1968.

In addition to the above request by the Legislature, the House of Representatives adopted a resolution requesting our office to examine the bureau's competitive bidding practices.[2] Our findings of that examination are incorporated in this report in Chapter 5.

Objectives of the Audit

Our audit had the following objectives:

1. To identify and report on the bureau's progress in implementing the recommendations contained in our report dated March 1968.
2. To ascertain the amount of the bureau's deficit balance at June 30, 1968.
3. To examine the bureau's fiscal management and competitive bidding practices and to recommend such actions as appropriate to correct such deficiencies as may exist.

Scope of Audit

Our audit included the examination of the bureau's financial records for and the transactions covering the fiscal year July 1, 1967 to June 30, 1968, and for the period from July 1, 1968 to October 31, 1968. An annual audit of the financial records and statements is performed by an independent certified public accountant

[1] Act 74, Regular Session, 1968.

[2] House Resolution No. 123, dated March 27, 1968.

firm for the purpose of attesting to the reasonable accuracy of the financial statements. Our efforts were not intended to duplicate the work of the independent accountant. Our examination was restricted to reporting the bureau's progress in implementing the recommendations contained in our previous report, to ascertaining the size of the bureau's deficit, to a general review of the financial condition and fiscal management practices of the bureau, and a special review of the competitive bidding practices of the bureau. It should be noted that this examination, as was our previous examination of March 1968, was strictly a financial one and did not include a review of the effectiveness of the bureau in, or the efficiency with which the bureau is carrying out its programs in promoting tourism for Hawaii.

Organization of the Report

This report is organized into five parts. Part I (chapter 1) consists of this introduction.

Part II (chapter 2) describes our March 1968 audit and reports on the progress made by the bureau to implement the recommendations made in our March audit report.

Part III (chapters 3 and 4) contains our findings and comments regarding the bureau's fund management, its financial statements, and its fiscal operations, in general.

Part IV (chapters 5 and 6) contains our findings and comments on the bureau's competitive bidding and imprest fund management practices.

Part V (chapters 7 and 8) contains a summary of our findings and comments and a note on the present status of the bureau's operations.

Background of the Hawaii Visitors Bureau

The bureau's historical background and a description of its programs are contained in our previous report. Therefore, we are not including this information in this report. If such information is desired, the reader should refer to our previous report.[3]

Methods of Accounting

The financial statements of HVB are prepared on the accrual and budget bases of accounting. The HVB's financial records are maintained on the accrual method of accounting and the data from these records are adjusted in order to arrive at the budget-based method of accounting for reporting purposes. The accrual method is an accepted method of accounting and is commonly used by private enterprises. However, for the State, we consider the budget basis of accounting to be more meaningful since it reflects the operational solvency and liquidity of the bureau—something which the accrual method does not readily do.

The principal differences between the accrual method and the budget-based method of accounting and reporting may be summarized[4] thus:

1. **Assets.** The accrual method of accounting includes as assets all property and rights, including furniture, fixtures and equipment, leasehold improvements, and charges, the benefits of which are to be derived in future years. The budget-based method takes into account as assets only cash and those assets, such as receivables, which are readily convertible into cash and which are generally converted into cash in the ordinary course of business. Thus, capital assets, such as furniture and equipment, inventory of materials, prepaid expenses and deferred charges are not considered as assets under the budget-based method.

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

3. **Fund balance.** In the accrual method, the fund balance represents the residual or the net equity of an organization—that is, the excess of *all* assets over *all* liabilities. The deficit balance, on the other hand, represents the amount by which the *total* liabilities exceed the *total* assets. In the budget-based method, the fund balance is the excess of cash and other liquid assets over liabilities and other earmarked funds, and the deficit balance is the excess of such liabilities over such assets. The fund balance or deficit balance in the budget-based method shows the solvency or liquidity of the organization.

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

Definition of Terms

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

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

State refers to the State of Hawaii.

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

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

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

[3] Legislative Auditor, *Financial Audit of the Hawaii Visitors Bureau: A Report to the Governor and the Legislature of the State of Hawaii,* Audit Report No. 68-6, March 1968, chapter 2, pp. 2-6.

[4] For a more detailed description of the accrual method and the budget-based method of accounting, see our previous report on the HVB, Audit Report No. 68-6, March 1968, chapter 3, pp. 7-10.

PART II
LEGISLATIVE AUDITOR'S AUDIT OF THE HAWAII VISITORS BUREAU OF MARCH 1968

Chapter 2

THE MARCH AUDIT AND HVB'S PROGRESS IN IMPLEMENTING THE AUDIT RECOMMENDATIONS

In February 1968, as mentioned in the introduction to this report, our office undertook a comprehensive examination of the financial administration of the Hawaii Visitors Bureau. The results of that audit were presented in our report, *Financial Audit of the Hawaii Visitors Bureau,* dated March 1968. This chapter describes the nature of that report and reviews the progress made by HVB in implementing the recommendations contained in the report.

Description of the March Audit

Our March audit examined the bureau's financial records for and the transactions covering the fiscal year July 1, 1966 to June 30, 1967 and for the period July 1, 1967 to January 31, 1968. The objectives of the audit were as follows:

1. To ascertain the amount of the bureau's deficit.
2. To analyze, identify and report factors which contributed to the bureau's deficit.
3. To examine the bureau's fiscal management practices and to recommend such actions as appropriate to correct such deficiencies as may exist.

Consequently, our examination was restricted to ascertaining the size of the bureau's deficit, to a detailed analysis of selected financial transactions and to a general review of the financial condition and fiscal management practices of the bureau.

Implementation of Audit Recommendations

Our March report disclosed certain deficiencies and made recommendations in the areas of fund management and travel and related expenditures. This section will: first, identify these deficiencies and recommendations and note the corrective actions, if any, taken by the bureau and/or DPED of the State; and second, note other efforts made by the bureau to improve its fiscal management and controls.

Fund Management Practices

At the time of our last report, the bureau's fund management practices appeared faulty in the areas of budget preparation and expenditure controls over budgeted and non-budgeted items. The following is a discussion of these areas.

1. **Budget preparation.** In the preparation of the budget in the past, the bureau used as an estimate of total revenue the total amount of the private subscription *goal* plus the fixed State amount derived from the contract with DPED. Prudent management, as our report explained, would not budget the total amount of the fund-raising goal, since 100 percent of this goal never was attained in the past. Past experience indicated that the bureau received 92 to 94 percent of the subscription goal. In the case of the bureau, the fund-raising goal was never synonymous with expectations.

In the preparation of the 1968–69 budget, the bureau budgeted as the total revenue the following:

State funds, fixed	$1,158,312
Private subscriptions	450,000
Total	$1,608,312

The amount of the private subscriptions above represents the bureau's goal. We understand that this goal, unlike other goals of past years, is *expected* to be attained and does not represent the unattainable *hopes* of the bureau as it did in the past. However, it appears that the above goal may be somewhat conservative when compared to the subscriptions actually received during the last two fiscal years ($470,020 in 1966–67 and $481,826 in 1967–68). While it is generally prudent to be conservative, we would like to caution the bureau that conservatism in estimating the goal should not be carried to an unreasonable degree so as to defeat the purpose of presenting a realistic budget.

In addition to the above, the bureau now provides funds in the budget for the partial elimination of deficits of prior years as evidenced in the bureau's expenditure budget which is a part of the DPED 1968–69 contract. The following tabulation shows how the $1,608,312 is budgeted:

Operating budget, 1968–69 fiscal year .	$1,453,711
Contingency fund	20,000
Bal. to apply to prior years' deficit .	134,601
	$1,608,312

This new practice, which was not in existence in the past, is in line with the recommendations made in our previous report.

2. **Expenditure controls.** Our March report pointed out that expenditure over and above the amount provided for in the budget contributed to the deficit experienced in prior years. We stated that prudent management practice requires that expenditures be examined from time to time throughout the fiscal year to determine what moneys are being spent at what rate and what means in terms of the flow of revenue to the bureau. We, therefore, recommended that appropriate controls over expenditure be established and enforced.

In implementing our recommendation, the bureau now includes encumbrances in its expenditure reports. Inclusion of encumbrances gives management a better view of fund commitments at a given time. A schedule of cash receipts and disbursements is now prepared on a formal and regular basis to show the flow of money during each month. We have noticed that monthly management reports are reasonably timely and various managerial control guides such as graphs and charts useful for an analysis of revenue flow, program expenditures, and certain classes of expenditure are being prepared and utilized. Most important of all, it appears that the bureau recognizes the importance of a budget and is using it to control expenditures. The adoption of these management practices indicates that the bureau is seriously undertaking measures to control expenditures.

3. **Expenditure for non-budgeted items.** Our previous report recommended that expenditure for non-budgeted items be made only (1) if there are funds available to pay for such expenditures

without causing a deficit, (2) where it is absolutely necessary that they be made, or (3) where there is an assurance that the expenditure will be reimbursed by revenue in an equal amount from a non-budgeted source.

Regarding non budgeted items, the bureau now has a policy whereby expenditures for every new program, project, or service not contained in the budget must be approved by the budget and finance committee and DPED before any funds are committed. Also, the policy states that under no circumstance will funds be committed when there are in fact no funds available. The 1968–69 contract between DPED and HVB also contains a provision whereby the bureau must secure prior approval from DPED before committing itself to non-budgeted expenditures. In our examination, we found no violation of the above fiscal policy and contract provision.

4. **State control.** In our March report we expressed the belief that the State should exercise greater control over the financial operations of the bureau. As such, DPED in the formulation of the contract for the 1968–69 fiscal year included several provisions which strengthen its control over the financial operations of the bureau. These provisions were not evident in prior contracts. Some of these provisions are listed below.

a. The bureau will use the budget-based method in accounting for and reporting all financial information required or requested by the State.

b. Accounts payable are to be paid within 45 days of billing, unless the bureau submits to the State justification for the extension of credit terms and receives the State's written approval on such extension.

c. Prior approval must be sought and acquired in writing from the State before the bureau can (1) commit itself to changes in the personnel, position, and pay schedule attached to and incorporated in the contract; (2) apply for or complete any loan; (3) make any expenditures for non-budgeted items; and (4) make any expenditures for budgeted items where there are no funds on hand to pay for such items.

d. Payments under the advertising contract between the State, the bureau, and the advertising agency will be made directly to the advertising agency by the State for services rendered to the bureau by the advertising agency.

To date, we have found no violation of the provisions contained in the 1968–69 contract. We have noticed also that there seems to exist a general feeling of cooperation between the bureau and DPED, a feeling which appeared to be lacking in the past few years.

Travel and Related Expenditures

Our March report contained several comments and recommendations regarding the bureau's travel and related expenditures. The following is a discussion of these items.

Travel Advances

1. **Failure to file reports.** Our previous report indicated that the bureau's policy requiring submission of an expense report 30 days after the completion of the trip was not being observed and enforced. In that report, we noted that, as of January 31, 1968, $14,604 of advances were unreported and delinquent. As of June 30, 1968, expense reports applicable to all of the unreported and delinquent advances at January 31, 1968, had been submitted to the bureau by the employees concerned. However, we noted that these expense reports contained several charges

which were not supported by receipts or other evidence of payment.

A tabulation of the unsubstantiated charges which we felt were readily susceptible to substantiation is as follows:

Nature of Unsubstantiated Charges

Employees' Positions	Meals	Hotel	Car Rental	Entertainment	Total
Managing Director	$ 476	$ 52	$190	$ 953	$1,671
Assistant Managing Director	1,057	10	41	911	2,019
Eastern Regional Manager	—	—	—	—	—
Research Director	122	15	20	127	284
Hawaii Conventional Sales Manager	83	104	53	50	290
Hawaii Regional Sales Manager	43	—	—	—	43
Research Assistant	65	—	—	10	75
Assistant to Director of Advertising, Publicity and Promotion	9	8	30	—	47
Assistant to the Director of Membership	25	—	—	5	30
Total	$1,880	$189	$334	$2,056	$4,459

It should be noted here that the practice of submitting expense reports without substantiating documents has been no different from what it was in the past. The bureau's policy, prior to the adoption of the revised policy (March 29, 1968), stated that "all major expenses listed on the expense reports, which are not supported with documentation, are subject to review." The past policy was not sufficiently specific, so that the degree of emphasis placed on the requirement of submitting supporting documents depended on the strictness of management. It appears that prior to the present policy, the bureau's management did not emphasize nor enforce the requirement of submitting supporting documents as evidenced by its acceptance of expense reports which were submitted without supporting documents. Therefore, the bureau's present management accepted the above unsubstantiated items in view of the liberal practices which existed at the time the advances applicable to those items were made. The bureau also considered it impracticable to secure receipts at a late date and accepted these items in the interest of clearing the old accounts.

The 1968–69 contract between DPED and HVB requires that an expense report be submitted within 30 days after completion of an out-of-state trip and 15 days after completion of an in-state trip. On the other hand, the bureau's revised policy, which was adopted on March 29, 1968, only states that expense reports be submitted within 15 days after completion of travel. We understand that the bureau will change its policy to conform with the contract provision. During our examination, we found no evidence of any serious violation of the above provision. Where an employee was found to be a few days delinquent on the submission of his travel report, insistence on the part of the bureau's management for a strict compliance with the DPED-HVB contract provision was evident.

The revised fiscal policy states that expenses are to be substantiated with receipts and vouchers. This does not include items relatively small in amount that are not readily susceptible to substantiation. The revised policy further states that all expense items over $25 which are not substantiated will not be paid. Although the above policy is now generally being complied with, we found a few instances where expenses that are readily susceptible to substantiation[1] were not substantiated. Upon our inquiry into this matter, we discovered that there was some misunderstanding of the above-mentioned policy among the bureau's staff. The policy was interpreted to imply that only charges over $25 will have to be substantiated. We understand that the bureau will take steps to clarify this policy and to inform its staff that all charges that are susceptible to substantiation will require a receipt or other evidence of payment even if the amount is below $25.

2. **Failure to refund excess advance.** Our previous report revealed that the managing director owed the bureau $2,332 which is the net excess of all advances made to him over actual expenditures. Prior to the termination of the managing director's employment on September 30, 1968, his entire account, including the above excess, advances, and imprest funds, was purportedly reconciled by the bureau and a settlement made with the ex-managing director. However, our review of the ex-managing director's account revealed that the sum of $1,504, which represents the excess of advances over reported expenses applicable to the period prior to June 30, 1966, was inadvertently omitted in reconciling the account. Thus, the ex-managing director still owes the bureau $1,504. We recommend that the bureau attempt to collect the $1,504 from the ex-managing director.

[1] These expenses are primarily meal charges at established diners. It is our opinion that all meal charges should be substantiated regardless of amount, except possibly in a few isolated cases.

Club Dues

In our previous report, we recommended that expenditures, such as the managing director's membership dues to several private organizations, should be seriously reviewed to determine whether or not they are necessary for the bureau's operations. As of March 29, 1968, HVB has discontinued paying for the membership dues of the managing director, except those membership dues in travel-oriented organizations and associations, as provided in the revised fiscal policies.

Plane Fares

Our March audit report suggested that a policy be adopted concerning modes of travel by air, since some of the employees were making frequent trips to the mainland via first class.

The revised policies and procedures adopted on March 29, 1968, states, "Travel shall be by the most economical, convenient, and appropriate means." It further states that "carrier travel, either ocean or air, on the mainland or abroad, shall be by economy or tourist class except as authorized by the Executive Vice-President and Managing Director. If a person wishes to travel first-class he may do so at his own expense by making up the difference. Travel shall be by the most economical means available." During our examination we found no exceptions to the above fiscal policy.

Travel and Lodging Cost of Wives

Our March report suggested that management ought to review its expenditure practices regarding attendance of wives at conferences and to adopt policies with respect thereto.

The March 29, 1968 policy states that these expenses shall be paid by the individual or businesses concerned and not by HVB, *except* when specifically authorized by the budget and finance committee under policies established by the executive committee. Our examination did not reveal any violation of the above policy.

Auto Allowances

Our audit report dated March 1968 questioned the reasonableness of flat monthly car allowances for certain key employees, since no systematic study of auto usage was ever made.

Subsequent to our report, on March 29, 1968, the bureau adopted revised policies and procedures for auto allowances. Under the new procedures, flat monthly car allowances must be authorized by the executive vice-president and approved by the budget and finance committee. In addition, authorization was given to lease staff cars for the executive vice-president, assistant managing director, and comptroller. Mileage allowances for any HVB employee using privately-owned automobiles for bureau business may be authorized by the executive vice-president and managing director and comptroller at the rate of 12 cents per mile for the first 400 miles per month and 10 cents per mile for mileage in excess of the first 400 miles. Reports are to be submitted monthly for reimbursement.

We were informed that no changes in past practices were made until July 1, 1968. The vice-president of finance circulated an inter-office memo eliminating flat monthly car allowances effective June 30, 1968. The memo stated that, as of July 1, 1968, reimbursement for use of private vehicles will be by mileage allowance applying rates established in the March 29, 1968 policy. Reimbursement by mileage is also one of the contract limitations in the 1968–69 contract between HVB and DPED. We noted that the bureau has been in strict compliance with this new practice of reimbursement by mileage rates.

We also noted that discussions at the executive and budget and finance committee meetings on July 18, 1968 revealed that leasing of cars will cost more than flat car allowance or mileage allowance basis of reimbursement. Therefore, both committees decided to approve only the leasing of one passenger car to be assigned to the executive vice-president. We were informed that the use of a staff car was one of the conditions of employment made by the new executive vice-president and managing director.

Other Efforts of the Bureau

A review of the minutes of the meetings of the board of directors, executive committee, and budget and finance committee, a reading of some of the inter- and intra-office memoranda, and discussions with certain key executives indicate that the bureau is attempting to improve its management and controls over fiscal matters by means in addition to implementing our March recommendations. Some of these additional means are as follows:

a. The minutes of the budget and finance committee meetings indicate that this committee has become more active in the financial affairs of the bureau. Our previous report had noted the relatively inactive role of this committee.

b. We have been informed and have observed that management is in the process of preparing a *Manual of Procedures* in which further procedural refinements of the bureau's basic policies are expected to be included.

c. The bureau's membership department was reorganized to strengthen its role in the financial affairs and membership activities of the bureau. This department also submits a monthly membership status report to management which includes monthly subscription totals, cumulative subscription totals for the current period, and data for comparable periods of the preceding year. New membership policies were also adopted by the board of directors and are to be effective as of November 1, 1968. These new policies include increasing the minimum active membership subscription from $25 to $50 per year and making membership a continuing one (annual basis in prior years) until withdrawn by the firm or individual in writing.

d. The bureau has been in a continual process of reorganization subsequent to the March report. The most significant organizational change, as far as fiscal control is concerned, was the creation of a powerful new office, the vice-president of finance and comptroller, which was filled on May 3, 1968. The former comptroller position did not carry much authority, since it did not enjoy the status of an "office" of HVB.

e. A review of the minutes and office memoranda indicates an improvement in the transmittal of fiscal information within the organization.

PART III
FINDINGS AND COMMENTS ON FUND MANAGEMENT AND OPERATIONS

Chapter 3

BALANCE SHEET

The balance sheet of the Hawaii Visitors Bureau, as of June 30, 1968, is shown in Table I. It is presented on both the budget basis and the accrual basis of accounting. A discussion of the major classes of assets and liabilities and a description of the differences in results between the two methods of accounting follow the table.

TABLE I. BALANCE SHEET
June 30, 1968

ASSETS	Actual Amount: Accrual Basis	Actual Amount: Budget Basis
Assets:		
Cash	$ 22,810	$ 22,810
Receivables:		
Subscriptions, less allowance of $2,475 for doubtful subscriptions	36,941	36,941
Other, less allowance of $3,583 for doubtful accounts	31,216	30,402
	68,157	67,343
Inventories of promotional material, etc.	45,491	—
Prepaid expenses	13,092	—
Deferred charges:		
Cost of new film production	24,000	—
Cost of campaign fund drive	19,808	—
	43,808	—
Equipment and leasehold improvements, at cost:		
Furniture and fixtures	116,020	—
Leasehold improvements	44,227	—
	160,247	—
Less accumulated depreciation and amortization	83,514	—
Net equipment and leasehold improvements	76,733	—
Cash held for specific purpose	181,320	—
Total Assets	$451,411	$271,473

LIABILITIES AND DEFICIT	Actual Amount: Accrual Basis	Actual Amount: Budget Basis
Liabilities		
Notes payable	$ 82,000	$ 82,000
Contracts payable	8,897	8,897
Accounts payable	232,201	232,201
Taxes accrued and withheld	44,331	44,331
Prepaid subscriptions	17,814	—
Prepaid other income	8,800	8,800
Other	7,837	7,837
Total liabilities	401,880	384,066
Deferred income	181,320	181,320
Deficit:		
Deficit, beginning of year	72,367	267,299
Excess of expenditures over revenue	59,422	26,614
Deficit, end of year	131,789	293,913
Total liabilities & deficit	$451,411	$271,473

Cash

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

Cash in banks	$15,485
Petty cash fund	1,050
Employee imprest funds	6,275
	$22,810

The bureau currently transacts business and maintains bank accounts with all seven banks in Honolulu. In addition, petty cash funds, which are used to make immediate payments of minor expenditures, are located at the bureau's local and mainland offices. The bureau also maintains employee imprest funds which will be discussed in chapter 6 of this report.

1. **Subscriptions receivable.** The accounting records of the bureau show a balance of $39,416 as the amount of private subscriptions pledged for fiscal year 1967–1968 but uncollected as of June 30, 1968. In an attempt to reflect the total subscriptions that are collectible, the bureau estimated that approximately $2,475 will be uncollectible, and this uncollectible amount is called "an allowance for doubtful subscriptions." As a result of recording this allowance, by a bookkeeping entry, the total amount of receivables is thus reduced by $2,475, leaving a balance of $36,941.

2. **Other receivables.** The $31,216 shown on the balance sheet under the accrual basis is a summary of the following:

	Gross	Allowance	Net
Applicable to the Pacific Tourism Marketing & Research Institute	$18,871	$2,659	$16,212
Sales of promotional material	5,404	924	4,480
DPED – Rockefeller project	7,793	—	7,793
Travel advance	814	—	814
Salary advance	943	—	943
Others	974	—	974
	$34,799	$3,583	$31,216

The allowance amount of $3,583 represents the bureau's estimate of the amounts that appear to be uncollectible.

The difference of $814 between the accrual and budget bases ($31,216 minus $30,402) represents the amount of advances made to employees for travel. As of June 30, 1968, the trips for which these advances were made had already occurred. For budget purposes, therefore, we treat these advances as having been expended. On the accrual basis, this amount would usually be recognized as an expense when expense reports are submitted as evidence of the expenditures.

Cash Held for Specific Purpose

As a part of the *1968–69* advertising campaign, the bureau will publish a preprinted 16-page special magazine insert about Hawaii. This preprinted material will be inserted in regional and national editions of major magazines in 12 metropolitan areas across the mainland during the *1968–69* fiscal year. The cost of this project is estimated at $492,000. Major airlines, hotels, and others selling Hawaii have purchased advertising space in the 16-page magazine insert and will pay approximately $355,000 to the bureau.[1] As of June 30, 1968, the bureau has collected $182,590 of the above $355,000 and has expended $1,270 for travel connected with the project, thus leaving a cash balance of $181,320 which is listed as an asset in the balance sheet.

The actual cash received from the purchasers of advertising space ($182,590) less the amount spent by the bureau for travel ($1,270) represents the net amount of income deferred at June 30, 1968, since these funds are specifically earmarked for the 1968–69 fiscal year. This amount of $181,320 is reflected in the liabilities section of the balance sheet as *deferred income.*

Liabilities

The total liabilities shown on the balance sheet totaled $401,880 on the accrual basis and $384,066 on the budget basis. A discussion of the major liabilities and any differences between the accrual and budget bases follows.

1. **Notes payable.** Ever since the bureau encountered difficulties in liquidating its open accounts, an open line of credit was obtained from the Bank of Hawaii. The bureau has indicated that it will, with the approval of DPED, from time to time, continue to use this line of credit for short-term financing until such time when the bureau improves its financial position. At June 30, 1968, the bureau had an $82,000 loan outstanding. This loan was repaid on October 3, 1968. The total amount of interest paid and accrued by the bureau for the 1967–68 fiscal year totaled $2,926.

2. **Contracts payable.** During the fiscal year 1967–68, the bureau entered into various contracts for the purchase of office furniture and equipment. These contracts were executed on the installment and lease with option to purchase bases. The total unpaid balance on these contracts at June 30, 1968 amounted to $8,897.

3. **Accounts payable.** A summary of the accounts payable as of June 30, 1968, aged according to the month in which the charges were billed to the bureau, is as follows.

Status	Billing Month	Amount	%
Current	June 1968	$ 83,364	36
Past Due:			
1-30 days	May 1968	45,494	19
31-60 days	April 1968	26,758	12
61-90 days	March 1968	21,570	9
91-120 days	February 1968	21,395	9
121-150 days	January 1968	16,191	7
Over 150 days	Dec. 1967 & prior	17,429	8
Total past due accounts		148,837	64
Total accounts payable at June 30, 1968		$232,201	100

The above tabulation indicates that of the total $232,201, as of June 30, 1968, $83,364 or 36% represents charges billed the bureau in June 1968 and $148,837 or 64% represents charges billed in the months prior to June 1968. The above percentages of 36% for current charges and 64% for past due charges are the same as the percentages for the last fiscal year, which ended June 30, 1967. This is understandably so, because the bureau's deficit position at June 30, 1968, had not materially changed since June 30, 1967.

[1] The balance of approximately $137,000 ($492,000 minus $355,000) will be charged to the 1968–69 advertising contract between DPED, HVB, and the advertising agency.

4. **Prepaid subscriptions.** Prepaid subscriptions of $17,814 represents subscriptions, applicable to the fiscal year 1968–69, that were collected in advance from private sources. Under the accrual basis, these advance subscriptions are considered to be deferred at June 30, 1968 and will be included in the operation of the 1968–69 fiscal year because these subscriptions, although collected in the 1967–68 fiscal year are actually applicable to the 1968–69 fiscal year. Although these subscriptions are applicable to the fiscal year 1968–69, the advance subscriptions, under the budget basis, are not recognized as a deferred item but are considered as revenue because these subscriptions represent actual cash received and available for operations during the 1967–68 fiscal year.

5. **Prepaid other income.** The sum of $8,800 of prepaid other income represents the amount of PTMRI and research project incomes that were billed but unearned as of June 30, 1968. This income is deferred at June 30, 1968, because expenditures necessary to perform the services that would be required in order to earn the income had not as yet been made at June 30, 1968.

Deferred Income

The deferred income of $181,320 represents the amount of funds specifically earmarked at June 30, 1968 for the 1968–69 advertising campaign. This matter is discussed under *cash held for special purpose,* above.

Deficit

As of June 30, 1968, the accumulated deficit on the budget basis amounted to $293,913 as compared to a deficit of $131,789 on the accrual basis. The difference of $162,124 ($293,913 minus $131,789) is the net result of the adjustments made to recast the balance sheet from the accrual basis to the budget basis of accounting. A summary of these adjustments follows.

Deficit balance – accrual basis		$131,789
Add items not recognized as assets under the budget basis of accounting:		
Advances for travel and expense account allowance included as an asset	$ 814	
Inventory of promotional material	45,491	
Prepaid expenses	13,092	
Deferred charges:		
Cost of new film production ..	24,000	
Cost of campaign fund drive ..	19,808	
Equipment and leasehold improvement at cost:		
Cost of equipment and leasehold improvements (after deducting depreciation)	76,733	
	179,938	
Deduct prepaid subscriptions not recognized as liability under the budget basis of accounting	17,814	162,124
Deficit balance – budget basis		$293,913

As reflected on the balance sheet, the accumulated fund deficit of $131,789 on the accrual basis essentially represents the difference of all of the assets owned whether it be in cash, inventory or property and all of the liabilities incurred which were outstanding as of June 30, 1968.

On the other hand, the accumulated fund deficit of $293,913 on the budget basis represents the net deficiency in liquid assets required to meet obligations. Liquid assets are those assets which are and can be readily converted to cash ($90,153) to meet current obligation ($384,066).[2]

Of the two, we believe that the deficit figure of $293,913 has greater significance to the State than the deficit figure of $131,789. It is the liquid or cash position which determines whether the bureau can "pay as it goes." It is the amount of cash and the amount of assets readily convertible to cash, on hand, which determine how much additional cash is needed for the bureau to pay its bills. Items such as equipment and leasehold improvements are not readily convertible to cash nor are they expected to be sold in the ordinary course of the bureau's business for the purpose of paying the bureau's bills.

The accumulated budget-based deficit of $293,913 at the end of fiscal year 1967–68 is $26,614 more than the accumulated deficit of $267,299 at the end of fiscal year 1966–67. The reasons for this increase by $26,614 are noted in the next chapter.

[2]The figures presented in this sentence do not include cash held for specific purpose ($181,320) and deferred income ($181,320) as shown on the balance sheet under the budget basis. These figures were omitted for purposes of this illustration because the amounts offset each other thus having no effect on the deficit fund balance.

Chapter 4

STATEMENT OF REVENUE AND EXPENDITURES

This chapter describes generally the nature of the bureau's revenues and expenditures for the fiscal year 1967–68. The bureau's statement of revenues and expenditures for the fiscal year 1968 is in Table II.

TABLE II. STATEMENT OF REVENUE AND EXPENDITURES
Year Ended June 30, 1968

	Actual Amount		Budgeted Amount	Actual Budget Basis Over [Under] Budgeted Amount
	Accrual Basis	Budget Basis		
Budgeted items:				
Revenue:				
Private subscriptions	$ 481,826	$ 481,826	$ 575,000	$ [93,174]
State appropriations	1,406,594	1,406,594	1,406,594	—
Total budgeted revenue	1,888,420	1,888,420	1,981,594	[93,174]
Expenditures:				
Salaries	549,660	549,660	574,207	[24,547]
Taxes	28,300	28,300	24,526	3,774
Employee benefits	14,222	14,222	21,493	[7,271]
Rent	75,352	75,583	77,787	[2,204]
Janitorial	5,624	5,624	8,021	[2,397]
Utilities	5,737	5,737	7,500	[1,763]
Publicity & promotion (Schedule I)	483,460	478,978	558,310	[79,332]
Operating expenses (Schedule II)	189,270	213,391	178,038	35,353
Travel	97,835	96,239	127,412	[31,173]
Advertising	404,300	404,300	404,300	—
Total budgeted expenditures	1,853,760	1,872,034	1,981,594	[109,560]
Excess of budgeted revenue over expenditures.	34,660	16,386	—	16,386
Non-budgeted items: (Schedule III)				
Expenditures	146,561	113,399	—	113,399
Revenue	35,386	35,492	—	35,492
Excess of non-budgeted expenditures over revenue	111,175	77,907	—	77,907
Excess of expenditures over revenue before special items	76,515	61,521	—	61,521
Special items:				
Subscriptions applicable to 1968–69 received in advance	—	17,814	—	17,814
Reimbursement from the State for prior year's costs (R & R)	17,093	17,093	—	17,093
Total special items	17,093	34,907	—	34,907
Excess of expenditures over revenue	$ 59,422	$ 26,614	$ —	$ 26,614

General Description of the Statement

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

The statement shows an excess of expenditures over revenues (deficit) of $26,614 on the budget basis and $59,422 on the accrual basis for the fiscal year ended June 30, 1968. As reflected in the statement and the schedules (which are dispersed throughout the chapter), nearly all of the expenditures (budget basis), except for a few operating expenses, did not exceed the budget amounts. A discussion of the major variances between the actual revenues and expenditures (on the budget basis) and the budget amounts follows.

Budgeted Items

Revenues:

1. **Private subscriptions.** The sum of $481,826 was received as subscriptions from private sources during the fiscal year. This figure represents subscriptions that were pledged and collected in cash; it also includes pledges totaling $40,860 which the bureau had not collected as of June 30, 1968. The latter amount is shown as a receivable on the balance sheet (Table I). The actual subscriptions ($481,826) fell short of the budgeted amount of $575,000, by $93,174. The collection of $481,826 represents 84% of the subscription goal.

2. **State appropriations.** The terms of the contract between DPED and HVB prescribed a quarterly allotment system for the payment of the contract money to HVB by DPED. The following is a detail of the quarterly payments received by HVB in fiscal year 1967–68. It should be noted here that payments under the advertising contract, beginning with the third quarter's payment, were and will continue to be made directly to the advertising agency.

Quarter	Advertising Contract	Basic Contract	Total
1st	$168,858	$ 442,749	$ 611,607
2nd	138,639	325,558	464,197
3rd	58,416	143,276	201,692
4th	38,387	90,711	129,098
	$404,300	$1,002,294	$1,406,594

As reflected above, approximately 90% of the State appropriation of $1,406,594 was disbursed to the bureau by the beginning of the 3rd quarter. Payment of most of the amount appropriated by the State is made by the beginning of the 3rd quarter primarily to equalize the bureau's flow of revenue throughout the fiscal year. Approximately 60% of the private subscriptions is collected in the last four months of the fiscal year. This situation is because the major subscribers' anniversary date for payment generally falls within the months of March to June.

Expenditures:

Actual expenditures for budgeted items were less than the budget by $126,653 under the budget basis of accounting (see Table II). The following explains the nature of the major expenditures and describes the differences between the actual and budgeted amounts.

1. **Salaries.** HVB had approximately 80 full-time employees who were paid $549,660 during the fiscal year ended June 30, 1968 (see Table II). This actual cost was $24,547 less than the budget. The difference was primarily due to unfilled positions at various times during the fiscal year.

2. **Rent.** Expenditures for rent include rentals of in-state and out-of-state offices. In-state offices are rented for the administration and visitor satisfaction programs, while out-of-state offices are rented for sales functions. The total rentals paid by the bureau amounted to $75,352 under the accrual basis and $75,583 under the budget basis. The difference of $231 represents that portion of the rentals that were prepaid at June 30, 1968.

3. **Publicity and promotion.** The publicity and promotion costs totaled $478,978 for the year ended June 30, 1968. The details of this cost are noted in Schedule I.

SCHEDULE I OF TABLE II
SCHEDULE OF PUBLICITY AND PROMOTION
Year Ended June 30, 1968

	Actual Amount			Actual Budget Basis Over [Under] Budgeted Amount
	Accrual Basis	Budget Basis	Budgeted Amount	
Promotion	$ 30,710	$ 30,710	$ 40,000	$ [9,290]
Photography-World Release	6,746	6,674	10,150	[3,476]
Assisting Travel Writers	198	198	3,000	[2,802]
Hawaii Calls	105,129	105,129	102,408	2,721
Distribution-Movies and TV	8,264	8,264	8,500	[236]
Warrior Markers	2,395	2,395	3,000	[605]
Leis and Music	771	771	1,250	[479]
Promotional Literature	118,854	124,258	165,000	[40,742]
Special Events	43,631	43,631	52,679	[9,048]
Ulu Mau Village	2,964	2,964	6,150	[3,186]
Convention Servicing	5,782	5,782	7,500	[1,718]
PATA Dues	19,200	19,200	19,200	—
Aloha Week	85,000	85,000	85,000	—
HVB Bulletin	9,257	9,257	17,379	[8,122]
Development of State Tourism	8,048	4,234	7,500	[3,266]
Marketing Consultation	14,631	14,631	12,000	2,631
New Film Production	6,000	—	—	—
Rest and Recuperation	15,880	15,880	17,594	[1,714]
Totals	$483,460	$478,978	$558,310	$[79,332]

As Schedule I shows, the publicity and promotion costs were under the budgeted amount by $79,332. The major reason for this underexpenditure was due to the bureau's reduction in the purchase and distribution of promotional literature. Other significant areas of reduced spending occurred in promotional activities ($9,290), special events ($9,048), and the publication of the HVB bulletin ($8,122). In regards to the latter, the bureau was able to reduce the expenditure for its bulletin by limiting the number of issues to six rather than the budgeted number of 12 during the fiscal year.

4. **Operating expenses.** Operating expenses for the year ended June 30, 1968 totaled $213,391. They are detailed in Schedule II.

SCHEDULE II OF TABLE II
SCHEDULE OF OPERATING EXPENSES
Year Ended June 30, 1968

	Actual Amount			Actual Budget Basis Over [Under] Budgeted Amount
	Accrual Basis	Budget Basis	Budgeted Amount	
Mail and Postage	$ 52,992	$ 52,974	$ 53,637	$ [663]
Stationery and Supplies	44,521	44,521	27,813	16,708
Telephone and Telegraph	34,215	34,215	28,376	5,839
Equipment and Maintenance	2,014	2,014	2,132	[118]
Dues and Subscriptions	1,083	1,083	2,132	[1,049]
Professional Services	6,787	6,787	8,000	[1,213]
Insurance	1,136	1,689	2,347	[658]
Annual Meeting	—	—	639	[639]
Data Processing Service	34,908	33,728	27,000	6,728
Research Data	7,300	7,300	10,000	[2,700]
Hotel Accommodation	593	593	4,000	[3,407]
Capital Assets	—	24,766	9,200	15,566
Automobile	3,721	3,721	2,762	959
Totals	$189,270	$213,391	$178,038	$35,353

The operating expenses actually incurred exceeded the budget by $35,353. The items contributing heavily to the excess were stationery and supplies and capital assets. A discussion of these items follows.

Stationery and supplies. The cost of stationery and supplies amounted to $44,521, which is $16,708 over the budget amount of $27,813. We understand that this excess was primarily due to an underestimation of the budget and to increases in the cost of renting and in the use of supplies related to a copying machine.

Capital assets. The bureau purchased $24,766 of capital assets during the fiscal year 1967–68. The major capital expenditure consisted of improvements made to the Honolulu, Maui, Hilo and Los Angeles offices. The improvements to the latter three offices were made as a result of changes in the location of these offices. Various office equipment and furniture were also purchased for the neighbor island offices to accommodate their managers. The neighbor island manager positions were newly created during the 1967–68 fiscal year.

The purchase of capital assets exceeded the budgeted amount of $9,200 by $15,566. The bureau's budget for capital assets does not include a listing of specific items to be purchased. Thus, we were unable to determine whether the excess ($15,566) was due to the underestimation of the cost of the capital items and/or to the purchase of items not contained in the budget.

5. **Travel.** Travel expenses include air fares, lodging, local transportation expenses, entertainment and other related expenses. For the fiscal year 1967–68, these travel expenses totaled $97,835 (accrual basis) and $96,239 (budget basis). The latter amount of actual travel expenditures (budget basis) was under the budgeted amount of $127,412 by $31,173. An analysis prepared by the bureau revealed that the reason for this underexpenditure for travel was due to the bureau's overall curtailment of out-of-state travel.

6. **Advertising.** Expenditures for advertising totaled $404,300 for the fiscal year 1967–68. A discussion on the nature of these advertising expenses is contained in chapter 2.

Non-Budgeted Items

All expenditures and revenue items that were not budgeted in the bureau's budget are shown on Schedule III of Table II. The excess of $77,907 of non-budgeted expense over non-budgeted revenue contributed to the bureau's deficit. A brief discussion of the major non-budgeted items follows the schedule.

SCHEDULE III OF TABLE II
EXCESS OF NON-BUDGETED EXPENDITURES OVER REVENUE
Year Ended June 30, 1968

	Actual Amount			Actual Budget Basis Over [Under]
	Accrual Basis	Budget Basis	Budgeted Amount	Budgeted Amount
Non-Budgeted Expenditures:				
Depreciation	$ 13,834	$ —	$ —	$ —
Campaign Fund Drive	59,729	39,921	—	39,921
Pacific Tourism Marketing and Research Institute ..	66,377	65,313	—	65,313
Provisions for Uncollectible Subscriptions and Accounts	3,583	3,583	—	3,583
Interest	3,038	4,582	—	4,582
Total Non-Budgeted Expenditures	$146,561	$113,399	$ —	$113,399
Non-Budgeted Revenues:				
Pacific Tourism Marketing and Research Institute ..	21,698	21,698	—	21,698
Interest	1,594	1,594	—	1,594
Other	12,094	12,200	—	12,200
Total Non-Budgeted Revenues	$ 35,386	$ 35,492	$ —	$ 35,492
Excess of Non-Budgeted Expenditures over Revenues .	$111,175	$ 77,907	$ —	$ 77,907

Campaign Fund Drive

The cost of the bureau's fund drive for the fiscal year 1967–68 totaled $39,921. This fund drive was conducted by HVB's fund raising staff and is not the same one as the professionally conducted fund drive held during the fiscal year 1966–67. The difference of $19,808 between the accrual ($59,729) and the budget ($39,921) bases represents this fiscal year's allocation of the 1966–67 professionally conducted fund drive expense.

Pacific Tourism Marketing and Research Institute

The Pacific Tourism Marketing and Research Institute Program (PTMRI) provides professional, consulting and advisory services in tourism development to countries in the Pacific Basin. For the year ended June 30, 1968, PTMRI realized an excess of expenditures over revenue in the amount of $43,615 ($65,313 minus $21,698). The expenditure and revenue amounts are shown on Schedule III of Table II. Of the $21,698 PTMRI revenue, $12,071 of it had not been collected as of June 30, 1968. This amount is included in the total accounts receivable shown in the balance sheet on Table I. PTMRI was intended to be, among other things, a self-sustaining program. With the results of its operations showing otherwise, the bureau, after a number of discussions among the members of the board of directors, decided to deactivate PTMRI effective August 1, 1968, except for carrying out an existing contractual obligation which is scheduled to terminate on April 30, 1969, at which time PTMRI will be dissolved.

Special Items

The amounts of $17,093 (accrual basis) and $34,907 (budget basis) as shown on Table II under special items represent funds received during the fiscal year 1967–68, but are applicable to other fiscal periods. These special items are (1) cash subscriptions applicable to the 1968–69 fiscal year which were received in advance and (2) reimbursement from the State through DPED for the cost incurred in the previous year by the bureau in connection with its Rest and Recuperation program. The difference of $17,814 between the accrual ($17,093) and the budget ($34,907) bases represents the amount of the advance cash subscriptions which is recognized as a prepaid item on the balance sheet under the accrual basis as discussed in chapter 3.

Excess of Expenditures over Revenue

As reflected in the statement of revenue and expenditures (Table II), the fiscal year 1967–68 ended with a deficit of $76,515 under the accrual method of accounting and with a deficit of $61,521, under the budget method of accounting, exclusive of the special items which are applicable to the other fiscal years. Including these special items, the fiscal year ended with a deficit of $59,422 on the accrual basis and $26,614 on the budget basis. The following summarizes the factors which led to the deficit.

	Method of Accounting	
	Accrual Basis	Budget Basis
Factors contributing to deficit:		
Insufficient private subscriptions to meet budgeted revenue	$ 93,174	$ 93,174
Net expenditure of non-budgeted items	111,175	77,907
	204,349	171,081
Factors reducing deficit:		
Underexpenditure of budgeted expenditures	127,834	109,560
Receipt of special funds applicable to previous and subsequent fiscal years	17,093	34,907
	144,927	144,467
Deficit	$ 59,422	$ 26,614

The above amounts were derived by determining the difference between the actual transactions and the amounts budgeted for the year. Although the bureau ended the fiscal year with a deficit of $26,614, this amount is substantially less than the deficit of $232,919 experienced during prior fiscal year (1966–67). It appears obvious that had it not been for the bureau's retrenchment program to cut back on its expenditures (the program had been instituted by the board of directors at its January 17, 1968 meeting), the bureau would have experienced a deficit as large as that of the prior year.

It should be noted here that the bureau's deficit experienced during the 1967–68 fiscal year is not a true indicator of whether or not the bureau has been or is being successful or unsuccessful in improving its financial position. Since the reorganization, changes in management, and the imposition of sound fiscal controls by HVB, and the tightening of DPED's controls over HVB operations were not fully implemented until the beginning of the 1968–69 fiscal year, the bureau's success or failure in improving its financial position cannot be properly determined until the close of the 1968–69 fiscal year.

PART IV. FINDINGS AND COMMENTS ON SPECIFIC ITEMS

Chapter 5

COMPETITIVE BIDDING PRACTICES

During the regular session, 1968, the House of Representatives expressed some concern over the bureau's competitive bidding practices. As a result, the House adopted resolution number 123 which directed this office to conduct an examination to determine the possibility and propriety of selected expenditures of the bureau being contracted out on a competitive bid basis in order that certain economies might result. This chapter contains our findings and comments arising out of that examination.

The bureau's policy in regards to competitive bidding states that *bids* shall be secured for purchases over $1,000, unless it is not feasible, and/or that the best prices from vendors consistent with services and quality shall be obtained.[1] Therefore, our examination included a scrutinization of the bureau's records for purchases over $1,000 and also purchases which are normally subject to competitive bidding. We noted that the bureau has basically two types of purchases which fit this category—namely, (1) data processing and (2) printing services.

Data Processing Services

As mentioned earlier in this report and in our previous report, the bureau purchases data processing services in preparing various reports and listings. The annual cost for these services was $29,431 in 1966–67 and $33,728 in 1967–68.

Our examination revealed that competitive bids were not solicited for these services during the above periods. We detected nothing indicating that such competitive bids were not feasible. To the contrary, subsequent events have shown that competitive bidding were and are now feasible. To illustrate, in fiscal year 1968–69, the bureau, through its vice-president of finance (a new position created by the bureau in its effort to tighten fiscal controls), secured bids from several firms capable of providing data processing services. Through this bidding process, the bureau was able to purchase data processing services for approximately $22,000 per annum. This means that the bureau will be paying, in fiscal year 1968–69, approximately $10,000 less than it had paid in prior years for essentially the same quality and quantity of data processing services.

We concur with the bureau's present course of securing bids for data processing services and strongly urge its continuation.

Printing Services

In addition to the general purchasing policy mentioned earlier in this chapter, the bureau has a specific purchasing policy for printing services. The policy states (in part):

> *Competitive bids must be obtained on all jobs that exceed $1,000. Job should not be broken down into components for this purpose.*[2]

Contrary to this stated policy, the bureau expended in 1967–1968 the sum of $24,277 for eight different printing services, each exceeding $1,000, for which we could find no evidence that competitive bids had been called. The services included the printing of four different kinds of brochures, two research reports, one kind of forms and one kind of cards. The cost of each was as follows:

Printing Services	Range of Cost
(4) Brochures	$2,204 – $8,736
(2) Research reports	1,318 – 1,889
(2) Forms and cards	2,436 – 2,998

In addition, the bureau expended _n 1967–68, the sum of $41,556 for nine different printing services, consisting of reprints of six kinds of brochures, two kinds of posters and envelopes. Our audit disclosed that competitive bids had been secured several years ago when the items were initially produced, but no competitive bids were secured on the re-run of these items after the quantities specified in the original contract with the printers had been fulfilled. The re-runs were ordered from the same printers who ran the original runs. We believe that the bureau should have called for competitive bids after the original contract was fulfilled. The cost of each of these printing services were as follows:

Printing Services	Range of Cost
(6) Brochures	$3,680 – $8,519
(2) Posters	1,387 – 1,463
(1) Envelopes	3,466

We note that the bureau, towards the end of the fiscal year 1967–68, began to secure competitive bids on the printing of brochures, including re-runs. On these brochures, the bureau did secure lower prices as compared to the prices in the prior years.

State Control

The contracts between the State (through DPED) and the bureau for fiscal years prior to 1968–69, did not contain any provision governing competitive bidding practices. However, DPED, consistent with our belief expressed in our March report that the State should exercise greater control over the financial operations of the bureau, has included a provision in the 1968–69 contract (signed July 3, 1968) which requires the bureau to secure competitive bidding on expenditures over $4,000. Accordingly, the bureau has revised its fiscal policy to reflect this contract provision, but has also included in the policy the requirement that whenever feasible, expenditures between $1,000 and $4,000 shall remain subject to competitive bidding. It appears that the bureau is complying with this revised policy.

Chapter 6

EMPLOYEES IMPREST FUNDS

The employees imprest funds for the fiscal year 1967–68 totaled $6,275 and are included in the *cash* total of $21,216 shown on Table I.

[1] HVB policy, section II, Purchasing Procedures, effective July 26, 1962.

[2] Hawaii Visitors Bureau, Printing Purchasing Procedures, effective September 1, 1963.

These imprest funds are in reality cash advances to various employees for official entertainment, auto and travel expenses. A schedule of these imprest funds is shown below.

SCHEDULE OF EMPLOYEES IMPREST FUNDS
June 30, 1968

	Enter-tainment	Auto and Travel	Total
Mainland and Neighbor Island Employees:			
Western Regional Manager	$ 200	$ 300	$ 500
Convention Director	200	800	1,000
District Manager – S.F.	200	200	400
Assistant Midwest Regional Manager	100	450	550
Managing Director – North America	200	200	400
Public Relations Director	200	300	500
District Sales Manager – L.A.	200	200	400
Assistant District Sales Manager – S.F.	100	150	250
Midwest Regional Manager	200	400	600
Eastern Regional Manager	200	200	400
Kauai Island Manager	75	—	75
Maui Island Manager	75	—	75
Hawaii Island Manager	75	—	75
Total Mainland and Neighbor Island	2,025	3,200	5,225
Oahu Employees:			
Executive Vice-President and Managing Director	250	—	250
Regional Sales Manager	125	—	125
Director of Special Events	50	—	50
Assistant Managing Director	175	—	175
Director of PTMRI	150	—	150
Director of Advertising, Publicity and Promotion	225	—	225
Coordinator of Information Service	75	—	75
Total Oahu	1,050	—	1,050
Total Imprest Funds	$3,075	$3,200	$6,275

It appears that several of the imprest fund amounts are relatively high and the need for these imprest funds, especially for Oahu personnel, is questionable. The bureau, under its present administration, has this matter now under consideration. A memorandum dated September 26, 1968, from the vice-president of finance to the president, recommends, based on the former's review, that imprest funds (cash advances) be limited to the mainland and neighbor island offices and that the amounts of the funds be reduced. After some discussion, the bureau decided to terminate all imprest funds for the Oahu based employees as of November 30, 1968. As to the imprest funds for the mainland and neighbor island employees, the administration is considering their elimination or at least a reduction in the fund amounts. A decision on the mainland and neighbor island imprest funds will be made as soon as discussions with the employees affected are completed. We concur with the action taken to date by the bureau and recommend that it proceed with its review of the possible elimination of the funds or at least a reduction of the fund amounts of mainland and neighbor island employees.

PART V
CURRENT STATUS AND SUMMARY

Chapter 7

CURRENT STATUS

Changes in Organization and Staff Positions

Since our previous report, the bureau has made several changes in its organizational structure and staff positions to effect a streamlining of operations and a reduced budget. The following are the major changes.

1. The by-laws of the bureau were amended on September 5, 1968, changing the former titles of *president* to *chairman of the board* and *general manager* to *president*.

2. The bureau now has two staff vice-presidents, one being vice-president–marketing and the other, vice-president–finance. The former is a reclassification of a former position while the latter, as mentioned earlier in this report, is a newly-created position effective May 5, 1968.

3. Several mainland office staff positions have been reduced and personnel transferred in some cases. The major reduction in personnel involves the elimination of the position of managing director, North America, effective December 31, 1968.

Financial Status as of October 31, 1968

We examined the bureau's accounting records for the first four months of the current fiscal year ended October 31, 1968 in order to obtain some idea as to the bureau's current financial status. No audit was made of these records to determine accuracy. We did, however, gather data as they exist on the books of the bureau, which reflect the bureau's present financial condition. The data gathered indicate the following.

1. **Accounts payable.** A summary of the accounts payable as of October 31, 1968, aged according to the month in which the charges were billed to the bureau, is as follows.

Status	Billing Month	Amount
Current	October, 1968	$17,275
1-15 days past due	Sept. 1-15, 1968	11,549
15-30 days past due	Sept. 16-30, 1968	4,509
Total accounts payable at October 31, 1968		$33,333

Under a provision contained in the 1968–69 contract between DPED and the bureau, the bureau has agreed to pay its accounts payable within 45 days of billing. Based on this provision, $4,509 of the accounts payable at October 31, 1968 should have been paid by the bureau. However, we understand that these bills were not paid because of either a late submission of bills to the bureau by the vendors or pending matters related to these bills, such as questionable items on the bills, or the lack of evidence of receipt of goods or services. All of the $33,333 accounts payable at October 31, 1968 were paid by the bureau by November 13, 1968.

2. **Revenue: Private subscriptions.** As of October 31, 1968, subscriptions, including pledges, totaled $81,560. This is approximately 18% of the subscription goal for the year of $450,000 and approximately $18,500 more than the subscriptions received during the same period the last fiscal year. Although the above percentage appears low, this situation is not unusual based on past experiences which have shown that approximately 60% of the subscriptions is received in pledges as well as in cash during the last four months of the fiscal year.

3. **Revenue: State appropriations.** The sum of $924,150 has been paid by the State to HVB in the first two quarters of the present fiscal year. This is about 80% of the $1,158,312 total State appropriation for the year. It should be noted that portions of the second quarter payment made by the State to HVB are for expenditures to be incurred in November and December, 1968. These charges are not reflected in the expenditure of $503,604 noted in the next paragraph as the total expenditure as of October 31, 1968. The sum of $234,162 remains to be paid by the State to HVB in the last two quarters of this fiscal year for the bureau's operating expenses.

The above-mentioned figures do not include the amounts paid by DPED under the advertising contract. As of October 31, 1968, the amounts paid and payable by DPED under the advertising contract amounted to $239,662 out of the total contract amount of $300,000. As we mentioned earlier in this report, all payments under the advertising contract are made directly to the advertising agency instead of to HVB.

4. **Expenditure.** As of October 31, 1968, the bureau's expenditure for the current fiscal year totaled $503,604, including the excess of non-budgeted expenditures over revenues of $16,080. (The $503,604 does not include the $239,662 paid and payable to the advertising agency.) This expenditure amount of $503,604 is $76,641 below the bureau's budget for the first four months ended October 31, 1968. However, the $503,604 does not include $55,928 in encumbrances. If the encumbrances are taken into account, the expenditure total is approximately $20,713 below the bureau's budget for the four months ended October 31, 1968.

The non-budgeted expenditures consist primarily of expenses for special promotional projects. These projects include the Hawaiian flower show staged at the Rockefeller Center in New York and a Hawaii-oriented *America Weeks* promotion in Spain. The cost of the latter project will be reimbursed to the bureau by the U.S. Department of Commerce (sponsor of the project) sometime after the completion of the project in December 1968.

The foregoing figures do not include a provision of $134,601 set aside from the current fiscal year's budget to be applied to the prior year's deficit. This means that if the bureau remains within its operating budget for the current year (exclusive of the provision) and the subscription goal of $450,000 is obtained, the bureau will have a surplus of $134,601 at the end of the 1968–69 fiscal year, thus reducing the deficit of $293,913 existing at June 30, 1968. Also, it is obvious that any excess of the budgeted amounts over all expenditures and subscriptions received over the subscription goal will further contribute to reducing the prior year's deficit.

It *appears* from the foregoing that the bureau is making progress in its attempt to attain its dual objectives of operating within its budget and eliminating a part of the deficit from prior years by the recent improvements made in the areas of fiscal management and controls. It should be noted, however, that the foregoing financial figures represent only a part of an entire operational year and thus no *definite* conclusions as to the *final* operation of HVB for the current fiscal year can be reached.

Chapter 8

SUMMARY

In mid-February 1968, this office conducted a comprehensive examination of the financial administration of the Hawaii Visitors Bureau. The results of this examination were presented in our report, *Financial Audit of the Hawaii Visitors Bureau,* dated March 1968. Because of the poor financial condition and controls revealed in our report, the Legislature, upon the enactment of Act 74, Regular Session, 1968, directed this office to conduct follow-up examinations of the bureau. In addition, the House of Representatives by the adoption of resolution number 123, dated March 27, 1968, requested our office to examine the bureau's competitive bidding practices.

The audit was conducted to identify and report on the bureau's progress in implementing the recommendations contained in our previous report; to ascertain the size of the bureau's deficit; to examine the bureau's fiscal management and competitive bidding practices and to recommend such actions as appropriate to correct such deficiencies as may exist.

The examination covered the financial records and transactions for the fiscal year July 1, 1967 to June 30, 1968, and for the period from July 1, 1968 to October 31, 1968. Our examination was restricted to reporting the bureau's progress in implementing the recommendations contained in our previous report, to ascertaining the size of the bureau's deficit, to a general review of the financial condition and fiscal management practices of the bureau and to a special review of the bureau's competitive bidding practices. The results of our findings together with our comments are summarized below.

HVB's Progress in Implementing the Audit Recommendations of Our Previous Report

Our previous report, dated March 1968, made a number of recommendations in the areas of fund management and travel and related expenditures.

1. **Fund management.** We reported that the bureau's fund management practices appeared faulty and made some recommendations in the areas of budget preparation and expenditure controls over budgeted and non-budgeted items. The bureau has implemented our recommendations. In addition, in accordance with our belief that the State should exercise greater control over the financial operations of the bureau, DPED in its 1968–69 contract with HVB, has included several provisions which strengthen its control over the bureau.

2. **Travel and related expenditures.** Our report contained several comments and recommendations regarding the bureau's travel and related expenditures. The bureau has revised its fiscal policies in accordance with our comments and recommendations.

In our previous report, we also noted that the managing director owed the bureau $2,332 which is the net excess of all advances made to him over actual expenditures. Prior to his leaving the bureau, a settlement was made. However,

$1,504 was inadvertently omitted in the settlement. Thus, the managing director still owes the bureau $1,504 and we recommend an attempt to collect it.

3. **Other efforts by the bureau.** The bureau is conscientiously attempting to improve its fiscal management and controls. In addition to implementing the recommendations contained in our March report, the bureau has (1) re-asserted the active role of the budget and finance committee over fiscal matters; (2) refined its basic fiscal policies; (3) reorganized its membership department to strengthen its role in the financial affairs and membership activities; (4) created the office of vice-president for fiscal affairs (comptroller); and (5) improved the transmittal of fiscal information within the bureau.

Balance Sheet

As of June 30, 1968, on the accrual method of accounting, the bureau had assets of $451,411 and liabilities (including deferred income) of $583,200, for a deficit balance of $131,789. On the budget-based method of accounting, it had assets of $271,473 and liabilities (including deferred income) of $565,386, for a deficit balance of $293,913. The difference in the amount of assets between the accrual method and the budget-based method is in the inclusion in the accrual method of non-liquid assets, such as promotional materials, furniture, equipment, deferred charges, etc.; the difference in the amount of liabilities between the accrual method and the budget-based method is in the inclusion in the accrual method of prepaid subscription. The budget-based deficit amount of $293,913 is $26,614 more than the deficit amount as of June 30, 1967.

Revenue and Expenditures

Fiscal year 1967–68 ended in a deficit. Expenditures exceeded revenue by $59,422 on the accrual method and by $26,614 on the budget-based method. The following is a summary of the factors which led to this deficit (the figures are on the budget-based method of accounting):

Factors contributing to deficit:	
(1) Amount by which private subscriptions revenue did not attain goal of $575,000	$ 93,174
(2) Excess of non-budgeted expenditures over revenue	77,907
	171,081
Factors reducing deficit:	
(1) Underexpenditure of budgeted amounts	109,560
(2) Receipt of special funds applicable to previous and subsequent years	34,907
	144,467
	$ 26,614

Although the bureau's deficit during the 1967–68 fiscal year ($26,614) was much less than the deficit of 1966–67 ($232,919), this fact is not a true indicator of the success or failure of the bureau in improving its financial position. Since fiscal reforms were not fully implemented until the beginning of the 1968–69 fiscal year, the success or failure in improving the bureau's financial condition cannot be determined until the close of the 1968–69 fiscal year.

Competitive Bidding Practices

The bureau's policy requires that competitive bids be secured for purchases over $1,000, unless it is not feasible to do so, and/or that the best prices from vendors consistent with services and quality be obtained. The bureau has two types of purchases that normally cost $1,000 or more, namely–(1) data processing and (2) printing services.

The annual cost for data processing services amounted to $29,431 in 1966–67 and $33,728 in 1967–68. Our examination revealed that competitive bids were not secured by the bureau for data processing services for the above periods. Subsequent events show that competitive bidding for data processing would have resulted in some economy for the bureau. To illustrate, the bureau under its present management secured competitive bids for data processing services for the fiscal year 1968–69. As a result, the bureau was able to obtain a price of approximately $22,000 per annum for data processing services, approximately $10,000 less than what the bureau paid in prior years. We concur with the bureau's present course of securing competitive bids for data processing services and strongly urge its continuation.

One of the major costs of the bureau is printing services for various promotion materials. The bureau's policy, in addition to the general purchasing procedure mentioned previously, specifically requires competitive bids on all printing jobs over $1,000. Our examination revealed that this procedure was not always being followed by the bureau in obtaining printing services during the past few years. We noted, however, that the bureau did secure competitive bids towards the end of the fiscal year on several brochures which are to be used in the 1968–69 promotional campaign. Consequently, lower prices as compared to prior years were obtained.

Under the 1968–69 contract between the State (through DPED) and the bureau, the bureau is specifically required to secure competitive bids on expenditures over $4,000. Prior contracts did not contain this provision. Consequently, the bureau has revised its policy to reflect the above contract provision, but has also included in its policy the requirement that expenditures between $1,000 and $4,000 will remain subject to competitive bids whenever feasible. It appears that the bureau is currently complying with the above policy.

Employees Impress Funds

Employees impress funds for the fiscal year 1967–68 totaled $6,275. These funds are in reality cash advances to various employees for official entertainment, auto and travel expenses. It appears that several of the individual fund amounts are relatively high and that the need for these imprest funds is questionable. The bureau's present administration has already taken steps to eliminate the imprest funds applicable to the Oahu-based employees as of November 30, 1968, and is reviewing the possibility of eliminating or at least reducing the fund amounts for the mainland and neighbor island employees. We concur with the action taken by the bureau and recommend that it proceed with its review of the imprest funds for the mainland and neighbor island employees.

Current Status

1. **Changes in organization and staff positions.** The bureau has made several changes in its organizational structure and staff positions to effect a streamlining of operations and a reduced budget. The major changes are: (1) title changes of *president* to *chairman of the board* and *general manager* to *president;* (2) the creation of two staff vice-presidents, one for marketing and the other for finance; and (3) the reduction of several mainland office staff positions including that of the managing director, North America, effective December 31, 1968.

2. **Financial status as of October 31, 1968.** To secure some idea as to the bureau's current financial status, we gathered data as they existed on the books of the bureau covering the four-month period from July 1, 1968 to October 31, 1968. The data gathered indicate that (1) accounts payable totaled $33,333, which were all paid by November 13, 1968; (2) private subscriptions totaled $81,560, which is approximately 18% of the subscription goal of $450,000 for the year; (3) State appropriations paid by the State to HVB totaled $924,150, which is about 80% of the total State appropriation for the year; and (4) expenditures (including encumbrances of ($55,928) totaled $559,532, which is approximately $20,713 below the bureau's budget for the four months ended October 31, 1968. The bureau has also set aside $134,601 from the current year's budget to be applied to the prior year's deficit.

It appears from the foregoing that the bureau is, thus far, making progress in its attempt to attain its dual objectives of operating within its budget and eliminating a part of the deficit from prior years. However, *definite* conclusions as to the final outcome cannot be reached until the completion of the current fiscal year.

PART VI. A MEMORANDUM ON THE COMMENTS MADE BY THE AFFECTED AGENCIES

This financial report of the Hawaii Visitors Bureau was completed in November 1968. On December 19, 1968, we distributed a copy of the report to the Department of Planning and Economic Development and the Hawaii Visitors Bureau via transmittal letters, copies of which are attached as Attachment Nos. 1 and 2. The agencies were requested to submit to us their comments, if any, no later than January 3, 1969.

The Department of Planning and Economic Development replied on December 27, 1968, and its comments are attached as Attachment No. 3.

The Hawaii Visitors Bureau submitted its response on January 3, 1969 (see Attachment No. 4). The bureau agrees with the recommendations contained in our report and has indicated that they are being implemented. However, the bureau's response in reference to competitive bidding practices deserves some comment.

Competitive Bidding Practices for Printing Services

Our report stated that various printing jobs were not put out on competitive bids and that the bureau's policy stated that competitive bids must be obtained on all printing jobs that exceed $1,000. The bureau commented thus:

> *With reference to your comments on page 37 and our discussion yesterday relating to the apparent purchasing of literature and other printed materials without benefit of competitive bidding,* **we had obtained competitive bids on the items enumerated at the times they were initially produced or when major revisions had been effected. We felt that we were in compliance with the general intent of the requirements of competitive bidding practices.** *We are most appreciative of your comments and suggestions in this area and I have requested a review of present practices and revision of our policy guidelines to provide for competitive bidding on all reprinting requirements.* [Emphasis added]

Our Comments:

As our report points out, not all of the *reprints* were of items initially let out on competitive bids. Further, we believe that the benefit of competitive bidding should be sought even on reprints, whenever the cost of such reprints exceeds the amount established by written policy. The bureau's stated intent to provide for competitive bidding on all reprints is in keeping with the purpose of the bidding requirements.

CLINTON T. TANIMURA
Auditor

COPY

THE OFFICE OF THE AUDITOR
State of Hawaii
Iolani Palace
Honolulu, Hawaii 96813

December 19, 1968

Dr. Shelley M. Mark, Director
Department of Planning and
Economic Development
State of Hawaii
Honolulu, Hawaii

Dear Dr. Mark:

Enclosed is a copy of our preliminary report on the financial audit of the Hawaii Visitors Bureau. The term *preliminary* indicates that the report has not been released for general distribution. However, copies of this report have been submitted to the Administrative Director of the State, the Speaker of the State House of Representatives, the President of the State Senate, and the President of the Hawaii Visitors Bureau.

I would appreciate receiving your written comments on this report. Your comments must be in our hands by January 3, 1969. The report, which will include your comments, will be finalized and released shortly thereafter.

If you wish to discuss the report with us, we will be pleased to meet with you on or before December 27, 1968. We await a call from your office to fix the appointment. A *no call* will be assumed to mean that a meeting is not required.

We are deeply thankful for the assistance received by our representatives from your staff.

Sincerely yours,

/s/ Clinton T. Tanimura

Clinton T. Tanimura
Legislative Auditor

Encl.

CLINTON T. TANIMURA
Auditor

COPY

THE OFFICE OF THE AUDITOR
State of Hawaii
Iolani Palace
Honolulu, Hawaii 96813

December 19, 1968

Dr. Thomas H. Hamilton
President
Hawaii Visitors Bureau
2270 Kalakaua Avenue
Honolulu, Hawaii 96815

Dear Dr. Hamilton:

Enclosed is a copy of our preliminary report on the financial audit of the Hawaii Visitors Bureau. The term *preliminary* indicates that the report has not been released for general distribution. However, copies of this report have been submitted to the Administrative Director of the State, the Speaker of the State House of Representatives, the President of the State Senate, and the Director of the State Department of Planning and Economic Development.

The report contains some recommendations. I would appreciate receiving your written comments on them, including information as to the specific actions you have taken or intend to take with respect to each of them. Your comments must be in our hands by January 3, 1969. The report, which will include your comments, will be finalized and released shortly thereafter.

If you wish to discuss the report with us, we will be pleased to meet with you on or before December 27, 1968. We await a call from your office to fix the appointment. A *no call* will be assumed to mean that a meeting is not required.

We are deeply thankful for the help and cooperation which you and members of your organization have extended to our representatives.

Sincerely yours,

/s/ Clinton T. Tanimura

Clinton T. Tanimura
Legislative Auditor

Encl.

COPY

DEPARTMENT OF PLANNING
AND ECONOMIC DEVELOPMENT
426 Queen Street · Honolulu, Hawaii 96813

STATE OF
HAWAII

John A. Burns
Governor

Shelley M. Mark
Director

Edward J. Greaney, Jr.
Deputy Director

December 27, 1968

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

Dear Mr. Tanimura:

This will acknowledge your most recent financial audit of the Hawaii Visitors Bureau. We found your earlier audit-report to be extremely valuable in formulating the current State contract with the Bureau and your latest findings are helpful to us in administering it as well. New reporting procedures required in the contract enable us to better monitor the Bureau's fiscal affairs. The report reflects the professional competency and judgment of your staff.

Sincerely,

/s/ Shelley M. Mark

Shelley M. Mark

SMM/bf

COPY

HAWAII VISITORS BUREAU

2270 Kalakaua Avenue / Telephone 923-1811 / Honolulu, Hawaii 96815

January 3, 1969

Mr. Clinton Tanimura
Legislative Auditor
State of Hawaii
Iolani Palace
Honolulu, Hawaii 96813

Dear Mr. Tanimura:

Thank you for letting me see a copy of your preliminary report. In general, I am pleased with what you found, for it indicates that your earlier recommendations are being followed.

As to your additional recommendations, those have been implemented. Attempts have been made to collect the $1,504[a] to which you allude (see attached). The imprest funds have been eliminated on Oahu and reduced elsewhere (see attached).

With reference to your comments on page 37[b] and our discussion yesterday relating to the apparent purchasing of literature and other printed materials without benefit of competitive bidding, we had obtained competitive bids on the items enumerated at the times they were initially produced or when major revisions had been effected. We felt that we were in compliance with the general intent of the requirements of competitive bidding practices. We are most appreciative of your comments and suggestions in this area and I have requested a review of present practices and revision of our policy guidelines to provide for competitive bidding on all reprinting requirements.

Thank you for letting me see the preliminary report.

Sincerely yours,

/s/ Thomas H. Hamilton

Thomas H. Hamilton

[a]See letter (Exhibit A) concerning subsequent settlement of this amount.

[b]This page refers to the page number of our preliminary draft report.

COPY

November 20, 1968

Mr. Robert C. Allen
President
TRAVEL DEVELOPMENT CORPORATION
Suite 1604
Waikiki Business Plaza
Honolulu, Hawaii 96815

Dear Bob:

I was informed by Bob Midkiff this date that he is satisfied that you are entitled to pay for the vacation time initially forfeited by you.

We have just been informed by the Head of the team from the State Auditor's office who has been auditing our books for the last month and a half that there is still $1,504.34 of unsubstantiating advancements made to you in fiscal years 1966 and 1967. He has requested that we secure substantiating documents or effect collection from you. A list of the advancements in question is enclosed for your information.

Upon receipt of your substantiating vouchers, we will immediately take steps to settle your leave account.

Sincerely,

K. T. Tom
Vice President - Finance

Enclosure

bc: Chief Accountant
Personnel File

COPY

December 16, 1968

Mr. Robert C. Allen
President
TRAVEL DEVELOPMENT CORPORATION
Suite 1604
Waikiki Business Plaza
Honolulu, Hawaii 96815

Dear Bob:

Would appreciate receipt of substantiating documents mentioned in my letter of November 20, 1968 at an early date so we can settle this account.

Will you also send me a check in the sum of $42.80 to settle the transportation charge made by you on a trip from Hong Kong in October, 1968 which was mentioned in my letter of December 3, 1968.

Sincerely,

K. T. Tom
Vice President - Finance

bc: Chief Accountant
Personnel file

COPY

All Mainland and
Neighbor Island Offices

President

IMPREST FUNDS

December 20, 1968

After reviewing your comments on the Imprest Funds for entertainment, travel, etc., I feel that we can reduce the Imprest Funds held by you to the sums listed below without undue hardship if you will use the advancement of travel funds' procedure to secure funds required for your routine and scheduled trips. I assure you that the monthly entertainment expenses will be promptly settled upon receipt in the main office.

a) Each Regional Manager and the Director of Convention—North America—$400.

b) Each Neighbor Island Manager—$75.

Please turn in your excess funds by January 31, 1969.

COPY

HAWAII VISITORS BUREAU
2270 Kalakaua Avenue / Telephone 923-1811 / Honolulu, Hawaii 96815

January 15, 1969

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

Dear Mr. Tanimura:

Subsequent to my letter of January 3, 1969, Mr. Robert C. Allen has settled his indebtedness to the Bureau in the following manner:

a) Amount due to the Bureau as per your report	$1,504.34
b) Less vacation leave earned but not paid to Mr. Allen	925.26
c) Due and received from Mr. Allen on 1/15/69	$ 579.08

Sincerely yours,

/s/ Thomas H. Hamilton

Thomas H. Hamilton
President

cc: Robert C. Allen

PUBLISHED REPORTS
OF THE LEGISLATIVE AUDITOR

1965
1. Long and Short Range Programs of the Office of the Auditor, 48 pp. (out of print).
2. A Preliminary Survey of the Problem of Hospital Care in Low Population Areas in the State of Hawaii, 17 pp. (out of print).

1966
1. Examination of the Office of the Revisor of Statutes, 66 pp. (out of print).
2. Procedural Changes for Expediting Implementation of Capital Improvement Projects, 9 pp. (out of print).

1967
1. Overtime in the State Government, 107 pp.
2. Management Audit of Kula Sanatorium, 136 pp.
3. The Large School: A Preliminary Survey of Its Educational Feasibility for Hawaii, 15 pp.
4. State-City Relationships in Highway Maintenance and Traffic Control Functions, 28 pp.
5. Manual of Guides of the Office of the Legislative Auditor, v.p.

1968
1. Financial Audit of the Department of Health for the Fiscal Year Ended June 30, 1967, v.p.
2. Financial Audit of the Department of Planning and Economic Development for the Fiscal Year Ended June 30, 1967, v.p.
3. Financial Audit of the Department of Regulatory Agencies for the Fiscal Year Ended June 30, 1967, v.p.
4. Financial Audit of the Department of Hawaiian Home Lands for the Fiscal Year Ended June 30, 1967, 54 pp.
5. Financial Audit of the Oahu Transportation Study for the Period July 1, 1962 to August 31, 1967, 68 pp.
6. Financial Audit of the Hawaii Visitors Bureau for the the Period July 1, 1966 to January 31, 1968, 69 pp.
7. State Capital Improvements Planning Process, 55 pp.
8. Financial Audit of the Hilo Hospital for the Fiscal Year Ended June 30, 1967, 43 pp.

LEGISLATIVE AUDITOR
IOLANI PALACE
HONOLULU, HAWAII 96813