

A Report to the Governor and the
Legislature of the State of Hawaii

A SUPPLEMENTARY REPORT ON THE
AUDIT OF THE HAWAII VISITORS BUREAU

□ Special report 69-5 □

The Office of the Legislative Auditor
State of Hawaii

April 1969

**TO THE GOVERNOR AND THE MEMBERS OF
THE FIFTH STATE LEGISLATURE:**

We transmit herewith a copy of our report entitled, *A Supplementary Report on the Audit of the Hawaii Visitors Bureau*. Act 74, Session Laws of Hawaii 1968, directed this office to follow-up our report of March 1968 and examine the books, records, and transactions of the Hawaii Visitors Bureau as of June 30, 1968, and again as of December 31, 1968. This report is the result of our second follow-up examination and is submitted as a supplement to our report on the bureau's financial records and transactions for the fiscal year ended June 30, 1968. The scope of the examination was extended to include the financial condition of the bureau as of March 31, 1969.

A preliminary report of the examination was not released by this office, since our findings do not require written comments from the affected agencies.

Overall, the examination disclosed that the corrective actions taken by the bureau in implementing the recommendations made in our two previous reports have been appropriate. Consequently, the bureau's management and control of fiscal affairs have improved.

Clinton T. Tanimura
Legislative Auditor

A SUPPLEMENTARY REPORT ON THE AUDIT OF THE HAWAII VISITORS BUREAU

Covering Period July 1, 1968 to March 31, 1969

INTRODUCTION

In March 1968, our office issued a report entitled, *Financial Audit of the Hawaii Visitors Bureau*. Because of the poor financial condition and controls of the bureau revealed in this report, the legislature upon the enactment of Act 74, Regular Session 1968, directed our office to examine the books, records and transactions of the bureau as of June 30, 1968, and again as of December 31, 1968. The results of our examination for the fiscal year ended June 30, 1968 were presented in our audit report no. 68-9, *Financial Audit of the Hawaii Visitors Bureau*, dated December 1968.

Audit report no. 68-9 contained our findings and comments with respect to the bureau's financial statements as of June 30, 1968 and the bureau's efforts to improve its financial condition and controls through the end of October 1968. In that report, we stated that a supplementary report, covering the period as of December 31, 1968, would be issued later. This report fulfills that promise, except that we have extended the period covered to March 31, 1969.

FISCAL POLICIES AND CONTROL

Our report no. 68-9 reported that the bureau had adopted a number of policy and procedural changes in its efforts to improve its financial condition and fiscal controls. During the period examined for this report, the bureau made no further significant changes in its policies, but it did adopt additional procedural changes. As of March 31, 1969, there appeared to be no violation of the bureau's standing policies and procedures.

FINANCIAL STATUS

Since an annual audit of financial records and statements is performed by an independent certified public accounting firm for the purpose of attesting to the reasonable accuracy of the bureau's financial statements, we excluded this phase from our audit. We did, however, gather data relating to the financial status of the bureau as of March 31, 1969. The data gathered indicate the following:

1. *Accounts payable*. A summary of the accounts payable as of March 31, 1969, aged according to the month in which the charges were billed to the bureau, is as follows:

Status	Billing Month	Amount
Current	March, 1969	\$8,285
1-15 days past due	Feb. 15-28, 1969	<u>511</u>
Total accounts payable at March 31, 1969		<u>\$8,796</u>

Under a provision contained in the 1968-69 contract between the State department of planning and economic development and the bureau, the bureau has agreed to pay its accounts payable within 45 days of billing. All of the accounts payable at March 31, 1969 were within the 45-day provision of the contract. These outstanding liabilities were paid by the bureau by April 8, 1969.

Although the accounts payable balance at March 31, 1969 was relatively low, the balance at the end of the fiscal year (June 30, 1969) is expected to be substantially higher. The reason is that the flow of income from subscriptions and State appropriation will decrease while expenditures will increase during the last quarter of the fiscal year. This means that the bureau will not have sufficient cash resources (unless temporary loans are secured) to meet the current demands of the creditors toward the end of the fiscal year. However, it is not unreasonable to expect this condition to exist at June 30, 1969, in view of the deficit balance (excess of liabilities over assets) of \$293,913 which the bureau faced at the beginning of the fiscal year.

2. *Revenue: Private subscriptions.* As of March 31, 1969, subscriptions, including pledges, totaled \$387,684. This is approximately 86 percent of the subscription goal of \$450,000. The bureau is confident that the goal's balance of \$62,300 will be reached sometime during the remaining three months of the fiscal year.

3. *Revenue: State appropriations.* As of March 31, 1969, the sum of \$1,082,775 had been paid by the State to the bureau. This is about 93 percent of the \$1,158,312 total State appropriation for the year. The balance of \$75,537 will be allotted in the last quarter of this fiscal year.

The above-mentioned figures do not include the amounts paid by DPED for advertising. As mentioned in our previous report, all payments under the advertising contract are made directly to the advertising agency instead of to the bureau. As of March 31, 1969, the amounts paid and payable by DPED under the advertising contract amounted to \$277,512 out of the total contract amount of \$300,000.

4. *Expenditures.* In its budget for the fiscal year, the bureau earmarked the sum of \$134,601 of its projected revenues for the purpose of reducing the prior years' deficit. As of March 31, 1969, the bureau expended (including encumbrances) the sum of \$1,054,716. This expended amount is \$101,224 below the amount budgeted for expenditure in the first nine months ended March 31, 1969. This means that the bureau has "saved" as of March 31, 1969, \$101,224 over and above the \$134,601 it had initially anticipated applying toward its deficit. It should be noted, however, that the \$101,224 includes several items for which expenditures had not been made as of March 31, 1969 but are expected to be made sometime during the remaining three months of the fiscal year. Thus, by June 30, 1969, the amount of "savings" over and beyond the \$134,601 might conceivably be less than the \$101,224 noted as of March 31, 1969. Nevertheless, if the bureau remains within its operating budget for the current year and the subscription goal of \$450,000 is attained, the bureau will have a surplus of at least \$134,601 for the 1968-69 fiscal year. This would have the effect of reducing the deficit balance of \$293,913 (budget basis) existing at the beginning of the fiscal year to no more than \$159,000 (\$293,913 minus \$134,601) at June 30, 1969. The bureau's own *estimate* is that the surplus (the \$134,601 plus added savings) for the current fiscal year will be approximately \$200,000. Should the bureau realize its expectations, the prior years' deficit balance of \$293,913 will be reduced to approximately \$93,000 (\$293,913 minus \$200,000) at June 30, 1969.

CONCLUSION

In view of the current trend indicated by the financial data gathered for the nine months ended March 31, 1969, it appears that the bureau should attain its dual objectives of operating within its budget and eliminating a part of the deficit from prior years.