Audit of the Hawai‘i Tourism Authority

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

Report No. 18-04
February 2018

OFFICE OF THE AUDITOR
STATE OF HAWAI‘I

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STATE OF HAWAIʻI

Constitutional Mandate

Pursuant to Article VII, Section 10 of the Hawaiʻi State Constitution, the Office of the Auditor shall conduct post-audits of the transactions, accounts, programs and performance of all departments, offices and agencies of the State and its political subdivisions.

The Auditor's position was established to help eliminate waste and inefficiency in government, provide the Legislature with a check against the powers of the executive branch, and ensure that public funds are expended according to legislative intent.

Hawaiʻi Revised Statutes, Chapter 23, gives the Auditor broad powers to examine all books, records, files, papers and documents, and financial affairs of every agency. The Auditor also has the authority to summon people to produce records and answer questions under oath.

Our Mission

To improve government through independent and objective analyses.

We provide independent, objective, and meaningful answers to questions about government performance. Our aim is to hold agencies accountable for their policy implementation, program management and expenditure of public funds.

Our Work

We conduct performance audits (also called management or operations audits), which examine the efficiency and effectiveness of government programs or agencies, as well as financial audits, which attest to the fairness of financial statements of the State and its agencies.

Additionally, we perform procurement audits, sunrise analyses and sunset evaluations of proposed regulatory programs, analyses of proposals to mandate health insurance benefits, analyses of proposed special and revolving funds, analyses of existing special, revolving and trust funds, and special studies requested by the Legislature.

We report our findings and make recommendations to the Governor and the Legislature to help them make informed decisions.

For more information on the Office of the Auditor, visit our website:
http://auditor.hawaii.gov

COVER PHOTO: HAWAII TOURISM AUTHORITY (HTA) / TOR JOHNSON

Foreword

Our audit of the Hawai‘i Tourism Authority was conducted pursuant to Section 23-13, Hawai‘i Revised Statutes, which requires the Auditor to conduct a management and financial audit of all contracts or agreements in excess of $15 million awarded by the Authority at least every five years.

We express our appreciation to the officials and staff of the Hawai‘i Tourism Authority and other individuals whom we contacted during the course of our audit, for their cooperation and assistance.

Leslie H. Kondo
State Auditor

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Audit of the Hawai'i Tourism Authority

Report No. 18-04

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

What problems did the audit identify?

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

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

Why Did These Problems Occur?

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

Why Do These Problems Matter?

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

PHOTO: HAWAII TOURISM AUTHORITY (HTA) / TOR JOHNSON

More Autonomy, Less Accountability: Audit of the Hawai‘i Tourism Authority

Introduction

SINCE IT BEGAN OPERATIONS in 1999, the Hawai‘i Tourism Authority (HTA or the Authority) has been responsible for creating a vision and a long-range strategic plan for tourism in Hawai‘i, and is charged with promoting, marketing, and developing the Islands' tourism industry. It's a vital mission, given that tourism is one of the industries most responsible for the State's economic growth and standard of living. Though emerging industries, such as technology, film, and others, show promise for the future, Hawai‘i's economy will depend heavily on visitor-generated activity for years to come. In 2017, Hawai‘i's tourism industry experienced its sixth consecutive year of record visitor spending ($16.78 billion), visitor arrivals (9.38 million), and tax revenue ($1.96 billion), according to preliminary year-end statistics released by HTA in January.

Because the visitor industry is so critical to the State's economy, the Legislature has given HTA great freedom in how it operates: HTA is exempt from the administrative supervision and oversight that are required of other boards and commissions, allowing HTA to operate as

a semi-autonomous State agency; HTA can provide its chief executive officer with a compensation package of more than $440,000, which is more than 2-1/2 times the governor's salary; HTA has a permanent source of funding, receiving through statutory mandate more than $108 million annually from the Transient Accommodation Tax (TAT); and it is exempt from the State Procurement Code and other requirements for competitive bidding, giving HTA greater leeway in contracting for goods and services. However, HTA is a State entity and, as such, must be accountable for its performance, including its use of public money.

As a check against the semi-autonomy that HTA is afforded, the Legislature has directed the Office of the Auditor to conduct an audit of HTA, including the contracts valued over $15 million, at least every five years.

We assessed HTA's oversight of two contracts valued at more than $15 million (collectively the major contracts): one with AEG Management HCC, LLC (AEG) to manage, operate, and market the Hawai‘i Convention Center; and the second with Hawai‘i Visitors and Convention Bureau (HVCB) to market Hawai‘i in the United States and Canada.[1] We also examined HTA's procurement of service contracts and its compliance with the statutory limit on HTA's administrative expenses.

In all three areas, we found that HTA's autonomy has resulted in lax oversight, deficient internal controls and, ultimately, less accountability. HTA has consistently failed to enforce contract terms that require HTA's consent to subcontract and others that protect against wasteful spending. HTA has disregarded its own procurement procedures, awarding sole source contracts based on questionable justifications, voluntarily waiving ownership of intellectual property, and extending contracts without first evaluating contractor performance. HTA has complied with a statutory reduction of the limit on its administrative expenses by shifting expenses to HTA programs and other budget lines, rather than reducing costs.

We report those and other related findings herein. It is beyond the scope of our audit to examine every procurement, contract, and payment to assess whether the issues we found are systemic or outliers. However, we did find actual financial harm caused by HTA's lax approach to enforcing contractual requirements. And the contracts and other information we reviewed during this audit suggest that these situations may not be isolated.

[1] Effective January 1, 2017, the market areas of the United States and Canada were separated into two different contracts. HVCB retained the contract for the United States, while Canada was awarded to Vox International.

Overall, we found that HTA's semi-autonomy and its exemption from the State Procurement Code has led the Authority to be less accountable and less prepared, with operations lacking the rigor necessary to oversee its contracts and to ensure that its own policies and procedures are followed. We recommend that both HTA and the Legislature reexamine these issues to ensure that the Authority is best able to promote Hawai'i's tourism industry going forward, while remaining accountable and ensuring appropriate stewardship of public funds.

Impetus

This audit is pursuant to Section 23-13, Hawai'i Revised Statutes (HRS). Section 23-13 requires the Auditor to conduct, at least every five years, a management and financial audit of HTA, including a review of all "major contractors," which is defined as "any contractor to whom a contract or agreement has been awarded that is valued in excess of $15,000,000." This is our fourth audit of HTA; we last audited HTA in 2013.

Mission, Organization, and Programs

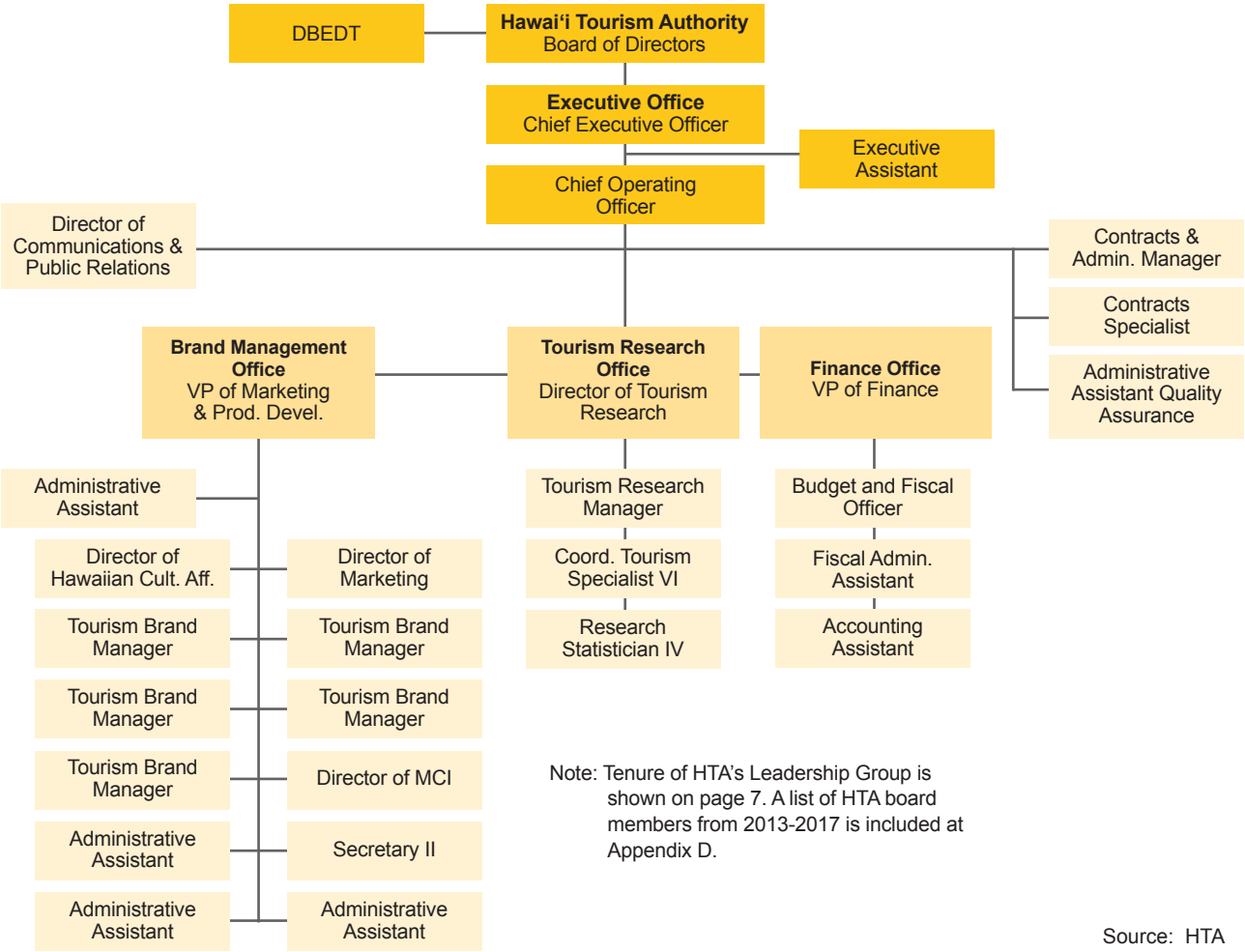
HTA is responsible for creating a vision and developing a long-range strategic plan for tourism in Hawai'i and for promoting, marketing, and developing the tourism industry. The Authority may, among other things, execute contracts and set and collect rent or other payments for the lease and use of the Hawai'i Convention Center. The Authority's President and Chief Executive Officer (CEO) is empowered to engage the services of qualified persons to implement the State's tourism marketing plan.

Exhibit 1 illustrates the Authority's organizational structure.

Board of Directors

The Authority is headed by a 12-member policymaking Board of Directors appointed by the Governor. Members include at least one representative each from the City and County of Honolulu and the counties of Hawai'i, Kaua'i, and Maui; the remaining members are appointed at-large. Members are appointed for terms of four years. At least six members must have knowledge, experience, and expertise in the areas of accommodations, transportation, retail, entertainment, or attractions; and at least one in the area of Hawaiian cultural practices. No more than three members can represent, be employed by, or be under contract with any sector of the industry represented on the board. The board elects a chairperson from among the members. Members serve without compensation but are reimbursed for expenses, including travel expenses necessary for the performance of their duties.

Exhibit 1
HTA Organization Chart



Source: HTA

Organization

The Authority is attached to Department of Business Economic Development and Tourism (DBEDT) for administrative purposes. There are 29 positions, operating under four divisions, which HTA refers to as offices: Executive, Brand Management, Tourism Research, and Finance.

The **Executive Office** provides overall administration and management of HTA. The board appoints a President and CEO who oversees HTA staff and is responsible for assisting the board in fulfilling its duties. The Executive Office is responsible for procuring HTA's contractors and vendors.

The **Brand Management Office** is responsible for developing and implementing Hawai‘i's brand as a visitor destination for leisure and

business, including developing and promoting Hawai‘i’s tourism product; marketing the Hawai‘i Convention Center; and communicating with stakeholders, including the visitor industry, government entities, and visitors. Brand Management efforts include tourism product development and supporting transportation services, such as to develop airline and cruise ship routes. Brand Management also promotes the Hawaiian Islands through the support of events that emphasize the Hawai‘i brand.

The **Tourism Research Office** is responsible for providing research to educate and empower stakeholders and facilitate data-driven decision-making. All research, planning, and monitoring functions for HTA fall under this office. The office’s responsibilities also include reporting on the strategic plan, program evaluation, in-market studies, and competitive destination research projects.

The **Finance Office** is responsible for providing oversight and management of financial aspects of HTA. The office manages and maintains all finance, accounting, administrative, financial services, budgets, and contracts consistent with applicable laws, rules, policies, and procedures. The office also provides general office support to the Authority.

HTA’s Special Funds

HTA is entirely special-funded, meaning that its funding comes from non-general fund sources. In contrast to many other State agencies, which must request and justify annual moneys from the Legislature, HTA enjoys dedicated funding, with its revenues derived from a portion of the TAT. Over the past five years, HTA’s annual appropriations averaged $141 million, with approximately one-third of the budget dedicated to the Hawai‘i Convention Center and one-third to geographic market areas.

The Authority has three special funds: the Tourism Special Fund, the Convention Center Enterprise Special Fund, and the Tourism Emergency Special Fund. As provided by Chapter 237D, HRS, revenue for these funds comes from a portion of the TAT. The tax is assessed at 9.25 percent of the gross rental proceeds derived from providing transient accommodations.[2]

The **Tourism Special Fund** receives $82 million from the TAT, any additional appropriations by the Legislature, and any other gifts, grants or funds, as accepted by the Authority. Some money in the Tourism

HTA Leadership Group

This list includes position and start date with HTA.

President and CEO
May 28, 2015

Chief Operating Officer
June 9, 2015

VP of Finance (previously Fiscal Manager)
May 23, 2011

VP of Marketing & Product Development
January 5, 2016

Director of Tourism Research (previously Tourism Research Manager)
July 3, 2014

Director of Communications
January 5, 2016

Director of Hawaiian Cultural Affairs
June 6, 2016

[2] Act 1 of the 2017 First Special Legislative Session raised the TAT to 10.25 percent beginning January 1, 2018, through December 31, 2030.

PHOTO: HAWAII TOURISM AUTHORITY (HTA)/DANA EDMUNDS

Hawai‘i Convention Center

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

Special Fund is used for HTA's administrative expenses, which by statute, must not exceed 3.5 percent of that amount, including a $15,000 protocol fund primarily for CEO expenses.

The **Convention Center Enterprise Special Fund** receives $26.5 million from the TAT, all revenues or moneys derived from the operations of the Hawai‘i Convention Center, private contributions, appropriations from the Legislature, as well as funds to market the facility.

The **Tourism Emergency Special Fund** is maintained with a balance of $5 million to be used when the Governor declares a tourism emergency (such as a natural disaster or other catastrophic event). The fund is also supported by TAT revenues.

Geographic Markets

HTA contracts with marketing organizations to promote Hawai‘i in 10 geographic areas around the world, called major market areas[3] (market areas). Currently, HTA has contracted with vendors to service the following market areas: the United States, Canada, Japan, China, Hong Kong, Korea, Taiwan, Southeast Asia, Oceania (Australia, New Zealand), and Europe (Germany, the United Kingdom, France, Switzerland, and Italy). Contractors are responsible for developing annual marketing plans and cooperative programs, including advertising, public relations, promotions, travel trade marketing, education and training, and stakeholder communications and relations. Exhibit 2 on page 10-11 details the amount of funds spent on market area contracts for calendar years 2013 through 2017.

Audit Objectives, Scope & Methodology

1. Evaluate HTA's major contractors, as required by Section 23-13, HRS.
2. Evaluate HTA's procurement process for service contracts.
3. Assess HTA's compliance with the administrative expense limit of 3.5 percent of the Tourism Special Fund.
4. Make recommendations, as appropriate.

[3] For marketing purposes, HTA divides the world tourism market into "major market areas." Each of these individual market segments display generally similar travel characteristics, visitor characteristics, state of marketing development, and competitive environment.

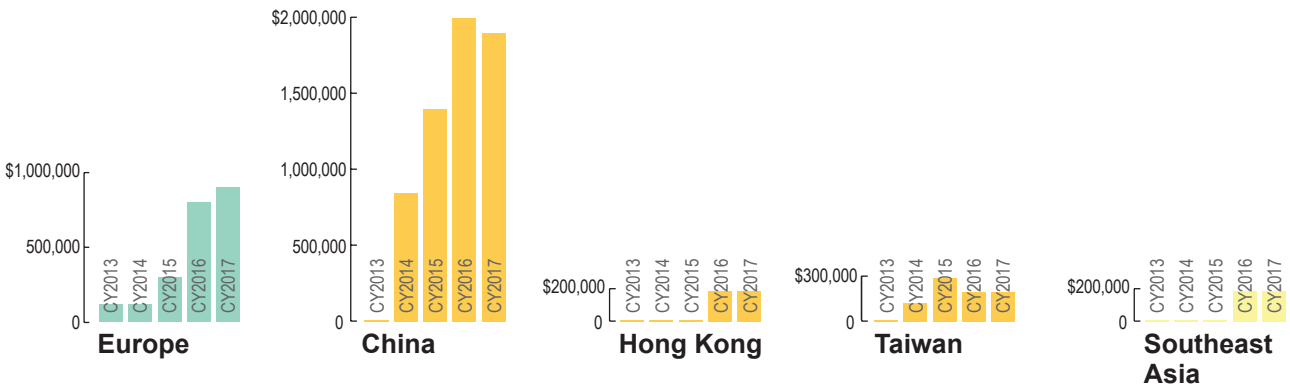
Our audit period focused on FY2015 and FY2016; however, we also reviewed contracts, agreements, and transactions outside of that period where relevant. We conducted interviews with HTA management, staff, the board chair, HTA's deputy attorney general, and certain contractors. We reviewed laws, policies and procedures, board minutes, and other documentation. We judgmentally tested contracts and transactions for compliance with applicable policies, procedures, agreements, and other relevant criteria. Additionally, for the major contractors, we examined the contracts, the contractors' applicable policies and procedures, reports submitted to HTA by the contractors, and other relevant documents to assess the Authority's oversight of the contractors. We also reviewed the contractors' general ledgers, journals, invoices, and other supporting documentation to assess appropriateness of financial transactions.

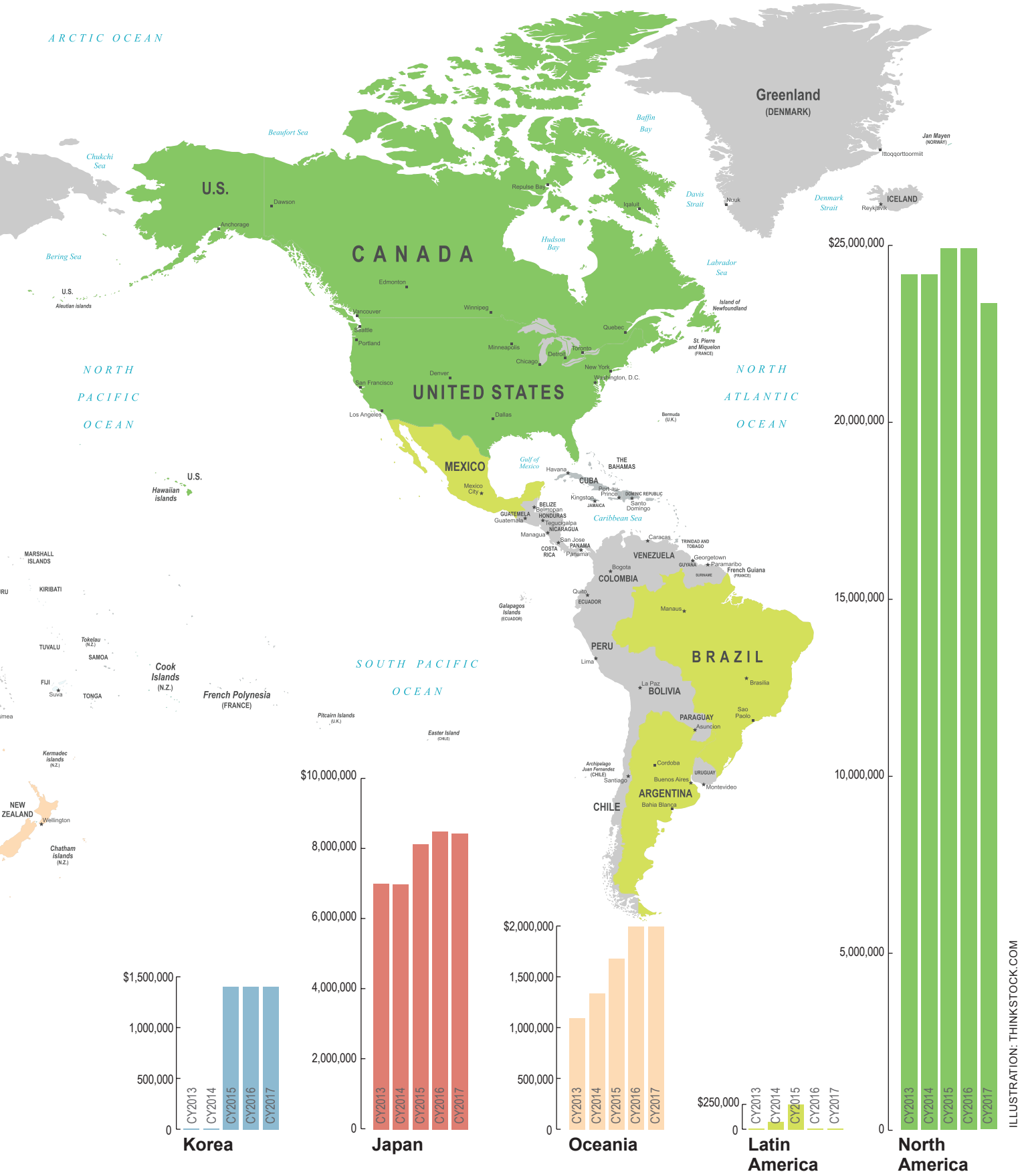
Our audit was performed from July 2017 through January 2018 and conducted according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence we obtained provides a reasonable basis for our findings and conclusions in this report.

Summary of Findings

1. HTA's lax oversight of its major contractors does not ensure that public funds are being used effectively and efficiently.
2. HTA's deficient procurement and contracting practices undermine accountability and do not ensure best value.
3. HTA has shifted expenses previously classified as administrative to other budget lines to comply with the reduced statutory limit.

Exhibit 2
HTA Market Area Contracts, Calendar Years 2013-2017




ARCTIC OCEAN
Greenland
(DENMARK)
Baffin Bay
Beaufort Sea
Chukchi Sea
U.S.
Dawson
Anchorage
Repulse Bay
Iqaluit
Davis Strait
Nuuk
Jan Mayen
(NORWAY)
Ittoqqortoormiit
Denmark Strait
ICELAND
Reykjavik
Hudson Bay
CANADA
Bering Sea
Labrador Sea
Edmonton
Winnipeg
Vancouver
Seattle
Portland
Quebec
Island of Newfoundland
St. Pierre and Miquelon
(FRANCE)
Minneapolis
Chicago
Detroit
Toronto
New York
Washington, D.C.
Denver
San Francisco
UNITED STATES
Los Angeles
Dallas
Bermuda
(U.K.)
NORTH PACIFIC OCEAN
NORTH ATLANTIC OCEAN
MEXICO
Mexico City
Gulf of Mexico
Havana
CUBA
THE BAHAMAS
Port-au-Prince
DOMINIC REPUBLIC
Santo Domingo
Kingston
JAMAICA
BELIZE
Belmopan
HONDURAS
Tegucigalpa
GUATEMALA
Guatemala
NICARAGUA
Managua
Caribbean Sea
Caracas
TRINIDAD AND TOBAGO
San Jose
COSTA RICA
PANAMA
Panama
VENEZUELA
GUYANA
Georgetown
Paramaribo
SURINAME
French Guiana
(FRANCE)
Bogota
COLOMBIA
Quito
ECUADOR
Galapagos Islands
(ECUADOR)
Manaus
PERU
Lima
BRAZIL
Brasilia
Sao Paolo
La Paz
BOLIVIA
PARAGUAY
Asuncion
Cordoba
URUGUAY
Buenos Aires
Montevideo
Archipelago Juan Fernandez
(CHILE)
Santiago
ARGENTINA
Bahia Blanca
CHILE
U.S.
Aleutian islands
U.S.
Hawaiian islands
MARSHALL ISLANDS
KIRIBATI
TUVALU
Tokelau
(N.Z.)
SAMOA
FIJI
Suva
TONGA
Cook Islands
(N.Z.)
French Polynesia
(FRANCE)
SOUTH PACIFIC OCEAN
Pitcairn Islands
(U.K.)
Easter Island
(CHILE)
Kermadec Islands
(N.Z.)
NEW ZEALAND
Wellington
Chatham Islands
(N.Z.)
$25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
0
CY2013
CY2014
CY2015
CY2016
CY2017
North America
$10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
0
Japan
$2,000,000
1,500,000
1,000,000
500,000
0
Oceania
$250,000
0
Latin America
$1,500,000
1,000,000
500,000
0
Korea
ILLUSTRATION: THINKSTOCK.COM

Source: HTA

Major Contractors

HTA's lax oversight of major contractors does not ensure that public funds are being used effectively and efficiently

We are directed by statute to conduct an audit of HTA's contracts that are over $15 million in value at least every five years and, as part of that review, to examine HTA's management and oversight of those contractors.[4] During the period of our review, 2013 through 2016, HTA had two contracts valued at more than $15 million in value: a contract for more than $83 million with AEG to manage, operate, and market the Hawai‘i Convention Center; and another for more than $98 million with HVCB to market Hawai‘i in the United States and Canada.

AEG Transition Contract Terms

Type of Contract:
Cost Reimbursement

Scope of Service:
Work with the incumbent to transition the management, operations, and sales and marketing of the Hawai‘i Convention Center

Contract Period:
August 15, 2013–January 31, 2014

Contract Amount:
$300,000

No Management Fee

Although the contracts are very different, we discovered similar issues with HTA's management of the contracts and oversight of the two contractors. We found that, generally, HTA did not provide adequate oversight of either contractor. With both contracts, HTA did not enforce – and often was unfamiliar with – material terms that benefit the State and other provisions intended to allow HTA to monitor contractor performance. More alarming is that HTA ignored provisions in the AEG contract – an agreement under which HTA reimburses all of AEG's costs and other expenses incurred to perform the contract – that were intended to provide assurance that HTA paid for only those costs that were allowed, necessary, and reasonable.

HTA does not have an effective and defined process to adequately manage its contractors and monitor their performance. According to his position description, HTA's Chief Operating Officer (COO) is responsible for developing systems to review contracts and to direct the management of those contracts. However, HTA's existing policies and procedures relating to procurement and contract management were developed before the COO position was created and therefore do not reference the COO's responsibilities. And, perhaps more importantly, those policies and procedures lack sufficient detail to adequately guide HTA staff in overseeing the contractors and ensuring compliance with standard contract provisions.

[4] Section 23-13, HRS, requires us to review: (1) the responsibilities, services, and activities of all major contractors; (2) the propriety of HTA's expenditures under the contracts; (3) the major contractors' compliance with State laws and applicable rules; (4) HTA's management and oversight of the contractors; and (5) additional issues we deem appropriate. We examined each of the listed factors and report on them within the context of our assessment of HTA's management and oversight of the contracts.

Contract monitoring is an essential part of any contracting process. At a minimum, appropriate monitoring should ensure that HTA's contractors comply with contract terms, performance expectations are achieved, and problems are identified and resolved in a timely manner.

Without appropriate procedures, HTA is unable to hold the contractors accountable for their performance and to gain adequate assurance that public money is being spent reasonably, effectively, and appropriately.

We report below our findings relating to HTA's management and oversight of the two major contracts. However, we first report about HTA's "transition contract" with AEG. That contract was for a period of about five months, immediately preceding the start of AEG's contract to operate the Hawai'i Convention Center. We found numerous issues with HTA's management of the transition contract that illustrate and highlight HTA's lax oversight and waste of public funds. Although the incidents we identified involve relatively small dollar amounts, similar situations involving the major contracts, especially AEG's contract to operate the Hawai'i Convention Center, may result in similar or greater harm to the State.

AEG Transition Contract to Take Over Management and Operation of the Convention Center

AEG took over the management and operation of the Hawai'i Convention Center on January 1, 2014, from SMG, which had held the contract since the Hawai'i Convention Center opened in 1998. To transfer the management of the Hawai'i Convention Center to AEG, HTA awarded AEG a transition contract to, among other things, recruit a general manager and other key staff, evaluate the Hawai'i Convention Center staff, assess the operations, and transfer financial records.[5] HTA agreed to reimburse AEG for its actual costs for "services and programs directly related to the transition," not to exceed $300,000. AEG was not paid a management fee or other compensation for its performance of the transition contract.

While the contract did not further define the costs eligible for reimbursement, it specifically limited the allowable costs for per diem and transportation expenses:

- Reimbursement for air transportation shall be for actual cost or coach class air fare, whichever is less.
- Reimbursement for ground transportation costs shall not exceed the actual cost of renting an intermediate-sized vehicle.

Cost-Reimbursement Contracts

UNDER COST-REIMBURSEMENT contracts, the government agrees to pay those costs of the contractor that are allowable, reasonable, and allocable to the extent prescribed by the contract. The contractor is required to provide its best effort to meet contract objectives within the ceiling price. If this cannot be done, the government can provide additional funds to complete the effort, decide not to provide additional funds, or terminate the contract. The government should assess whether the contractor's accounting system is adequate for determining costs applicable to the contract. Further, appropriate government monitoring during contract performance, i.e., review of contractor invoices, will provide reasonable assurance that efficient methods and effective cost controls are used.

[5] The term of Transition Contract was August 15, 2013 to December 31, 2013, and was extended to January 31, 2014, by Supplemental Agreement No. 1.

- Unless prior written approval of the CEO (or designee) is obtained, reimbursement for subsistence allowance (i.e., hotel, meals, etc.) shall not exceed the applicable daily authorized rates for inter-island or out-of-state travel that are set forth in the current Governor's Executive Order authorizing adjustments in salaries and benefits for state officers and employees in the executive branch who are excluded from collective bargaining coverage.[6]

AEG was required to submit invoices to HTA to qualify for payment of its incurred costs, "together with receipts and other supporting documentation." Payments to AEG were "contingent upon and subject to" AEG providing the required supporting documentation for all invoices.

We found that the first three invoices submitted to HTA included a list of reimbursable expenses for airfare, lodging, car rental, taxi, mileage, and meals, and attached travel expense reports for some, but not all, of the employees who traveled to Hawai‘i. Although the transition contract required AEG to submit receipts and other supporting documentation, AEG submitted none. Nevertheless, HTA reimbursed AEG for all invoiced expenses, including airfare to and from Los Angeles, Dallas, and Australia (at a cost of more than $8,000); lodging at the Royal Hawaiian Hotel, JW Marriott Ko Olina Resort, and Hyatt Regency Hotel; and meals at Morimoto's, Alan Wong's, and The Beachhouse at the Moana.

The fourth and final invoice related to the transition contract did include some receipts; however, we found some expenditures appeared to be not only extravagant but also contrary to the allowable per diem costs:

- Approximately $50,000 in first-class airfare.
- Over-$400-per-night hotel rooms, compared to other employees' lodging at an average of $266 per night.
- One-day chauffeur service for $369.

When we questioned HTA's reimbursement of those costs, HTA's Vice President of Finance (VP of Finance) recalled discussing the first-class airfare and hotel costs with HTA management, but he said HTA did not address the issue with AEG. According to the VP of Finance, HTA management came to a consensus that, because AEG successfully completed the transition within the $300,000 budget, HTA would reimburse the travel expenses. We note that **HTA paid AEG $299,990** under the Transition Contract – **i.e., just $10 less than the contract's not-to-exceed amount of $300,000**.

[6] The rate effective June 23, 2016 is $145 per day, plus $85 for excess lodging costs, for a total of $230 per day.

As we noted, the Transition Contract was a cost-reimbursement agreement. HTA paid AEG only for costs that were ***actually incurred*** by AEG to perform its work under the contract. If AEG's allowable costs under the Transition Contract were less than $300,000, that remainder would have been retained by HTA. Without receipts or other supporting documentation – as specifically required by the Transition Contract – HTA had no basis to know that the costs submitted by AEG for reimbursement were actually incurred, were related to the Transition Contract, or were reasonable and necessary. Nevertheless, we found that HTA paid the invoices, in essence waiving contract terms intended to instill accountability and to provide assurance that public funds are being spent appropriately.

HTA's reimbursement of per diem and airfare costs that HTA management ***knew*** were not allowed under the Transition Contract is more troubling. HTA's payment for those travel and lodging expenses did not meet even the minimal level of prudence required of State agencies when disbursing public funds. By deciding to reimburse costs that were clearly prohibited, HTA needlessly expended excess public funds.

AEG Contract to Manage and Operate the Hawai'i Convention Center

AEG's contract to manage and operate the Hawai'i Convention Center is for five years, running through December 31, 2018, and is based on an average annual budget of more than $20 million. AEG is paid an annual management fee of $240,000 (which increases by $4,800 each year of the contract) and is eligible for an incentive bonus of up to the amount of the management fee if it meets certain performance measures. The contract includes an Operating Budget of almost $14 million and a Sales and Marketing Budget of more than $4 million. Those amounts can be expended only for services and programs approved by HTA, and are intended to fully reimburse AEG for its professional and technical services and all costs and expenses that it incurs to operate and market the Hawai'i Convention Center.

HTA must reimburse AEG for ***actual costs*** that AEG incurs for items in the approved Operating and Marketing budgets based on invoices AEG submits for those costs. Similar to the Transition Contract, this contract specifically requires AEG to submit invoices to HTA "together with receipts and other supporting documentation" and makes payment of those costs contingent upon AEG providing the "proper supporting documentation for all invoices."

AEG Contract Terms

Type of Contract
Cost Reimbursement

Scope of Service:
Management, Operations, and Marketing of the Convention Center

Major Repair & Maintenance and Capital Improvement

Contract Period:
January 1, 2014 – December 31, 2017

Contract Amount:
$83,620,160

The Missing Management Agreement

WHEN HTA AND AEG executed the contract, they expected that a number of material details regarding both HTA and AEG's duties and responsibilities would be included in a Management Agreement. The contract prominently notes that expectation:

> 8. Management Agreement. ***This Contract is prepared in anticipation of a negotiated Management Agreement ("Management Agreement") between the parties relating to the management of the Hawai‘i Convention Center ("HCC").*** Following execution of the Management Agreement, in the event of any conflict between this Contract and the Management Agreement, the Management Agreement shall control."

Throughout the contract, there are numerous references – at least 15 – to terms and requirements in the Management Agreement. For example:

- AEG is responsible for its subcontractors and concessionaires, *"as set forth in the Management Agreement"*;
- Subcontracts are subject to HTA's approval, *"subject to the terms of the Management Agreement"*;
- AEG is required to maintain the appearance of the Hawai‘i Convention Center "in strict accordance with the applicable laws, ordinances, rules, and regulations as well as *the requirements of the Management Agreement*";
- AEG must develop procurement policies for goods, services, and construction, "adhering to applicable state laws and regulations as well as to *any applicable HTA policies attached to the Management Agreement*";
- HTA is required to approve all "Material Contracts" necessary for the operations of Hawai‘i Convention Center, "*as such term is to be defined in the Management Agreement.*"

However, there is no Management Agreement. According to HTA's COO, HTA management felt that the scope of services as stated in the contract and the existing controls were appropriate and opted to forego a Management Agreement. AEG also told us that no Management Agreement was ever executed, citing a similar rationale that both parties felt the agreement was unnecessary.

Many of the terms and requirements that would have been in the Management Agreement appear to be material and necessary for performance of the contract. We found issues with AEG's procurement of its concession contract as well as its failure to obtain HTA's written consent of subcontracts. Both of those contract requirements appear "*subject to the terms of the [non-existent] Management Agreement.*"

We reviewed a sample of monthly requests for payment that AEG submitted to HTA. However, we found those documents were financial statement reconciliations with adjustments for costs paid through the Repair and Maintenance Fund, not "receipts and other supporting documentation" required by the contract. AEG said that it does not provide supporting documentation, such as detailed receipts, with those monthly payment requests.

Like the Transition Contract, HTA is obligated to pay or reimburse all of the costs AEG incurs to operate and market the Hawai‘i Convention Center. And, based on the approved operating and marketing budgets, those costs are estimated to be more than $18 million, annually. The structure of the contract shifts significant cost risk to HTA: Rather than AEG assuming the risk that its actual costs, including salaries and other administrative expenses as well as subcontracts, will not significantly exceed its budgeted costs, HTA has accepted the risk by agreeing to reimburse AEG for those costs. AEG has less incentive to reduce its payroll, to cut its operating costs, or to aggressively negotiate with subcontractors. In fact, HTA has ample evidence of AEG's spending appetite from the costs AEG incurred to perform the transition contract. As we reported above, AEG submitted invoices for costs that were prohibited by the explicit terms of the transition contract and without the required documentation.

The form of the contract requires HTA to have clearly defined policies, procedures, and controls to assure that all expenses are necessary, reasonable, and consistent with the contract. At a minimum, HTA must review check registers to confirm payments for which reimbursements are sought and periodically conduct an in-depth review of a sample of transactions. Beyond the reviews, HTA must enforce contract terms. However, we found that actual oversight is minimal. HTA and AEG reported to us that HTA approves AEG's annual budgets and reviews financial statements. HTA may question or seek clarification of certain items, but AEG has never been asked to provide check registers, invoices, or other documentation to support more detailed reviews. Without periodic, detailed reviews, HTA has minimal assurance that the costs for which AEG requests reimbursement are reasonable and solely for Hawai‘i Convention Center operations, sales and marketing, and repair and maintenance, as set forth in the contract.

In addition, we found that certain HTA responsibilities specified in the contract are not being fulfilled. For example, the AEG contract provisions require HTA to:

- Approve total compensation including the annual bonus-pool amount for the Hawai‘i Convention Center General Manager and key personnel;

- Monitor the General Manager and staff performance through an annual performance audit; and
- Approve Hawai‘i Convention Center pricing, policies, and other arrangements necessary for the operations of the HCC.

The compensation and bonuses that AEG pays to its General Manager and key employees are reimbursed by HTA. For 2016 and 2017, the total maximum allowable compensation (including bonuses) for those individuals was approximately $1.45 million and $1.63 million, respectively. When asked about the specific responsibilities above, the COO, who is responsible for overseeing and managing the AEG contract, said that HTA only approves the appointment of the Hawai‘i Convention Center general manager, and that bonuses and commissions are employment issues not within the purview of the Authority.[7] He further stated that AEG is in some respects running the operations of the Hawai‘i Convention Center "free and clear" from HTA involvement. This appears to be in disregard of HTA's responsibilities to manage public funds. By reimbursing significant costs to AEG without review or approval, there is minimal assurance that the amounts paid to AEG are reasonable or appropriate.

Another key deficiency we found was that AEG has not obtained HTA's prior written consent for its subcontracts. The contract requires that AEG obtain HTA's approval for all subcontracts, specifically stating:

> Subcontracts and Assignments: The Contractor shall not assign or subcontract any of the Contractor's duties, obligations, or interests under this contract and no such assignment or subcontract shall be effective unless **(i) the Contractor obtains the prior written consent of the State, and (ii) the Contractor's assignee or subcontractor submits to the State a Vendor Certificate of Compliance.**

We found that AEG had not submitted any of its 45 subcontracts to HTA for approval. Exhibit 3 lists AEG's subcontractors for 2015 and 2016.

HTA's decision to allow AEG to subcontract certain of its contractual duties and responsibilities without prior approval is one more example of HTA's inadequate administration of a major contract and, more generally, shows the need for clearer and more defined procedures. HTA should approve the subcontractors that AEG uses to operate and market the Hawai‘i Convention Center, i.e., to perform AEG's duties and responsibilities under the contract. HTA should continuously

[7] According to AEG's Director of Finance, total employee compensation, including the annual bonus pool, is included in the budget and reviewed and discussed with HTA twice each year.

Exhibit 3

Listing of AEG Subcontracts, 2015-2016

Contractor	Description of Services	Amount
Deide Construction	R&R of trough draining system and roof waterproofing	8,660,000
Hawaii Employment, Inc. dba HIEmployment	Front of house staff, housekeeping staff, steward kitchen support staff for F&B services, staff to supplement HCC security, traffic control	3,482,000
Ralph Inouye, Ltd.	Replacement of Lobby Waterfall Feature	1,282,000
Kelly Services	Culinary cooking support staff for F&B services	1,030,000
Ganir & Company	Staff for event facility set-up	346,000
Projection Presentation	Audio visual services	288,800
ATTCO	"Electrical services, equipment and labor. (Producers select from an approved vendor list. A percentage of gross billing is paid to HCC)"	254,000
EggShell Light Company, Inc.		
Global Experience Specialist, Inc.		
Hawai'i Stage & Lighting Rentals, Inc.		
ICES		
Schenks Specialized Services		
Theatrix Hawai'i, Inc.		
Thyssen Krupp Elevators Americas	Preventative maintenance on the equipment, repairs, and inspections	189,000
Pacific Direct Connect	Internet, live web streaming audio, internet kiosks and cyber-cafes	106,000
Patrick Blangy	Sales & Marketing - Eastern Seaboard/Europe	84,000
Johnson Controls, Inc.	Preventative maintenance on the system and repairs	78,000
Levy Restaurants *	Food & Beverage services	75,000
Honolulu Disposal Service, Inc	Trash removal	64,000
Rochelle Uechtritz	Oceania - AEG Ogden Employee	54,000
Hawai'i Stage & Lighting Rentals, Inc.	Rigging services, equipment and labor	50,000
HBM Acquisitions LLC dba Hawaiian Building Maintenance	Cleaning services as scheduled	44,000
Worldwide Window Cleaning	Cleaning services as scheduled	35,000
Orkin Pest Control	Insect and animal treatments of facility and kitchen	29,000
New Cingular Wireless (AT&T DAS)	Distributed Antenna System	23,000
Phoenix Pacific	Quarterly fire alarm system testing	20,000
HTM Contractors, Inc.	Tree pruning	15,000
Toshiba	Copy, print machines	13,000
Xerox Hawai'i	Copy machine	12,000
Elevator Consulting Services, Inc.	Vertical Transportation Consulting Services	11,400
Van Deusen & Associates	Vertical Transportation Consulting Services	11,300
ALSCO	Provide linen rental to service events	10,000
Imua Landscaping Co., Inc.	Tree pruning	8,000
Manpower	Contract labor services for janitorial, housekeeping and landscaping	4,000
Straub Clinic & Hospital	First aid services for events	4,000
Youngs Laundry	Laundry services	3,000
Video Vend, Inc dba ATM Pacific	ATM services	2,000
Securitas Security Services USA, Inc.	Staff for event security	1,000

Source: AEG Management HCC, LLC

monitor AEG's performance of the contract, especially given the importance of the Hawai‘i Convention Center to the State's tourism strategy.

HTA Did Not Enforce Required Competitive Procurement Over Convention Center Concessionaires

In 2009, the Legislature repealed an exemption from competitive bidding for operation of the Convention Center's concession and concession spaces. Accordingly, State law requires that the concession services at the Convention Center be procured through a competitive process.

However, we found that, on January 8, 2014 – *just 8 days after the start of its contract to manage and operate the Convention Center* – AEG entered into a non-bid concession "agreement" with Levy Premium Foodservice Limited Partnership (Levy) to provide food and beverage, restaurant, and concession services at the Convention Center.[8] Under the agreement, AEG pays Levy an annual fee of $75,000 and 50 percent of the annual performance incentive bonus fee that AEG receives from HTA. AEG also agreed to reimburse Levy for the costs and expenses that Levy incurred in performance of the agreement.

In addition to the concession services not being competitively procured, AEG never obtained HTA's approval of the concession agreement, as AEG's contract with HTA seems to clearly require. AEG's Director of Finance said that the concession agreement was never submitted to HTA for approval because HTA was not a party to the agreement. However, the form of the AEG-Levy agreement was similar to other AEG subcontracts that we reviewed, all of which include a section on the signature page that reads: "Agreed and Approved: Hawai‘i Tourism Authority." There is no signature or other notations in that section of the AEG-Levy agreement.

AEG paid Levy $881,177 and $1,208,767 in 2015 and 2016, respectively – and HTA fully reimbursed AEG those amounts as part of AEG's operating costs. Concession-related costs were the third-largest expense incurred by AEG in its management and operation of the Convention Center – and therefore the third-largest cost reimbursed by HTA.

[8] State of Hawai‘i Department of Commerce & Consumer Affairs business registration records disclosed that Levy registered to do business in Hawai‘i on December 4, 2013, three months *after* it signed the agreement with AEG.

As with the other subcontracts discussed previously, because HTA reimburses all of AEG's costs to operate and maintain the Convention Center, HTA's approval of AEG subcontracts is a critical and necessary review to ensure that the subcontracted services and associated costs are appropriate and reasonable. Without such review, HTA can provide little assurance that public money is being expended responsibly, effectively, or efficiently. And, in the case of the Levy concession agreement, those concerns are magnified: **Levy is owned by the same conglomerate that owns AEG**.

HTA management and the board chairman told us they were unaware of the statutory requirement that the Convention Center's concession services be competitively procured. They were also unaware of the relationship between AEG and Levy. The COO informed us that HTA management discussed the issues with the Hawai'i Convention Center Planning Investigative Committee, one of the HTA board's committees, on January 25, 2018, after we raised those issues during our audit. As of the end of our fieldwork, the committee had not offered a recommendation to the board.

HVCB: Contract for Leisure and Destination Marketing for United States and Canada

HTA promotes Hawai'i tourism through a number of contractors responsible for marketing the State in different areas of the world, which HTA calls "major market areas." One of those contractors, HVCB, markets Hawai'i in North America, both the continental United States and Canada. HTA pays HVCB more than $24 million annually.

Under the contract, HVCB is required to provide HTA with a monthly invoice or billing statement, and a complete and detailed statement of its performance to date, including financial reports, monthly performance reports, and a narrative describing the services performed. HTA told us it reviews HCVB's monthly financial reports and budget variance reports, and the assigned Brand Manager reviews all deliverables and variance reports, and compares the reports against the submitted brand management plan, which includes key performance indicators. According to HTA, it primarily monitors the contract via regular meetings and discussions with HVCB.

HVCB Contract Terms

Type of Contract:
Fixed Fee[9]

Scope of Service:
United States & Canada Leisure Market

Contract Period:
January 1, 2013 – December 31, 2016 (Two-year initial contract, with 3 additional 1-year options, exercised twice)

Contract Amount:
$98,295,992

[9] Effective January 1, 2017, HTA executed a new agreement with HVCB for the United States market area as a cost-reimbursement contract.

However, we found that HTA has not ensured that HVCB is complying with all contract provisions. For example, the contract requires that all HVCB subcontracts be pre-approved by HTA, plainly stating:

> Sec. 3.6(a) Subcontracts[10]
>
> (a) Subcontract Approval. Contractor warrants that it will not use any persons to perform Services under this Agreement or the SOW other than its employees without **the prior express written consent of the HTA.**

According to HVCB, only subcontracts over $75,000 require HTA's approval; however, the plain language does not make such a distinction, and neither HTA nor HVCB could provide documentation or other evidence of a $75,000 threshold for approval. Regardless, we found that 21 out of 29 HVCB subcontracts submitted to HTA for approval in 2015 and 2016 were signed/approved by HTA **after the contracts' effective dates**, in some cases more than six months later. Some of these contracts were also less than the $75,000 threshold mentioned by HVCB yet submitted by HVCB for approval. As with the AEG contract, by not providing this information in advance, HVCB deprives HTA of any ability to express concerns or otherwise challenge the quality of what HTA may deem to be a questionable subcontractor and to ensure that the State's interest is protected. Exhibit 4 details HVCB subcontracts for calendar years 2015 and 2016. Highlights indicate contracts that HTA approved after the contracts' effective date.

[10] "Subcontract" is defined in the HVCB contract as performance of services, at any tier of the subcontract chain, but not to include use of any space or equipment; any agreement that is ministerial or administrative wherein "ministerial or administrative" means the purchase of any good or service that is not directly related to a specific program and the total cost does not exceed $75,000.

Exhibit 4

Listing of HVCB Subcontracts, 2015-2016

Subcontractors	Description of Services	Amount
Dana Communications	Travel Trade Media and Production	426,620
Billy Casper Golf LLC	Golf Marketing Cooperative	75,000
Anthology Marketing	Public Relations & Advertising - KVB	211,626
Golf Channel	Integrated Cable Network TV/Digital Promotion	300,000
OMD	Media Planning and Buying Services	300,000
MVNP	Advertising Agency Services	480,000
Net Results	IT & Help Desk Services	126,250
Northstar Travel Group	Hosting & Maintenance and Database Management	132,833
Anthology Marketing	Public Relations - HVCB	470,400
Montpac Pacific	Accounting Services	150,000
TNS	Hawai‘i Marketing Effectiveness Study	99,500
Spredfast	Social Media Management, Aggregation and Analytics	216,282
Aipu‘upu‘u LLC	Content Production and Distribution	55,000
Shift Communications	Social Media Services	72,075
Smart Travel	Travel Trade External Agent Newsletter	12,200
Myriad Travel Marketing	Island MAPs Production	46,296
Net Results	Webmaster Services / GoHawaii Calendar Admin	36,660
Guide.Net Inc.	Sharing Aloha Program	3,000
Travel Channel	Feature Sponsor for Travel Channel Programming	1,082,500
MVNP	Meet Hawai‘i Advertising Services	36,000
MVNP	Advertising Services - HVCB	510,000
McNeil Wilson	Public Relations Services - KVB	131,937
Stryker Weiner Yokota	Public Relations Services - OVB	282,500
Anthology	Public Relations Services - HVCB	410,400
Anthology	Public Relations Services - IHVB	220,785
Laird Christianson	Advertising Services - HVCB	79,689
OMD	Media Buying Services - Online and Offline	300,000
TNS	Hawai‘i Marketing Effectiveness Study	180,000
Anthology	Advertising Services - HVCB	80,000
Billy Casper Golf	Golf Marketing Co-op - KVB	70,000
Net Results	IT & Help Desk Services	126,000
Zeta Interactive	Lead Capture and Fulfillment	466,776
Golf Channel	Integrated Cable Network TV/Digital Promotion	300,000
Hawai‘i Direct Telephone, LLC	Call Center Services	168,000

Source: HVCB

Procurement of Service Contracts

HTA's deficient procurement and contracting practices undermine accountability and do not ensure best value

HTA contracts with external parties to perform much of the Authority's work. Because HTA has been afforded an exemption from the State Procurement Code, Chapter 103D, HRS, the Authority has adopted its own policies and procedures intended to direct its procurement and contracting practices. According to HTA, their procurements should maximize value and maintain the highest standards of quality and integrity. In practice, however, HTA has an alarmingly undisciplined approach to procurement. We found that HTA did not consistently follow its own policies and procedures, has not provided regular training to personnel involved with procurement, and has allowed personnel to engage in improper procurement practices.

HTA Procurement Framework

HTA has established policies and procedures for its procurement process, which address procurement planning and research, methods of procurement, requirements, and training, among other things. Relevant policies and procedures include:

1. HTA Procurement Policy #400-01 (Dated March 29, 2012)
2. HTA Procurement Worksheet Procedure #400-01.01 (Dated June 28, 2013)
3. HTA Internal Requisition Procedure #400-01.02 (Dated June 28, 2013)
4. HTA Contract/Letter of Agreement Execution Procedure #400-01.03 (Dated June 2013)
5. HTA Procurement Integrity Procedure #400-01.04 (Dated Jan 28, 2014)
6. HTA Agreements Policy #400-02 (Dated April 2014)
7. HTA Contract Management Policy #400-20 (Dated March 2012)
8. HTA Contract Monitoring Procedure #400-20.01 (Dated June 2013)
9. HTA Contract Deliverables Procedure #400-20.02 (Dated June 2013)
10. HTA Contract Closeout Procedure #400-20.03 (Dated June 2013)
11. HTA Contract Amendment Procedure #400-20.04 (Dated June 2013)
12. Memo titled "Ethics in Procurement Scoring" (Dated September 27, 2015)

Contracts, Contracts, Contracts

IN THE PAST FEW YEARS, HTA has more than tripled the number of contracts it executes. In FY2014, there were 72 contracts and supplemental agreements executed, overseen by two Contracts Specialists and the then-Vice President of Administrative and Fiscal Affairs. In FY2017, HTA's volume of contracts had grown to 269; however, the Vice President and one Contracts Specialist were no longer employed with HTA, leaving just one Contracts Specialist to oversee HTA's procurement.

Much of that increase in the number of contracts relate to HTA's Product Enrichment Programs. Through those programs, HTA provides more than $3 million to approximately 120 organizations throughout the State that are committed to supporting Hawai'i's legacy:

- The **Kukulu Ola program** provided $1.3 million to support 31 community projects perpetuating Hawaiian culture.
- The **Aloha 'Aina program** provided $1.2 million to support 30 community projects in their efforts to protect and preserve Hawai'i's natural environment.

From March 2013 to March 2017, those projects were administered by the Hawai'i Community Foundation under contract with HTA. The total contract amount for those four years was $7,826,560, which included approximately 10 percent in administrative fees. In August 2016, HTA informed the Hawai'i Community Foundation that the contract would end because HTA wanted to strengthen its relationships with the community-based awardees. HTA has also maintained that bringing these contracts in-house has increased direct funding to the programs.

By directly awarding and administering these enrichment program contracts, HTA has more than tripled the volume of work for its one Contracts Specialist, as well as increased the workload on the Brand Managers who manage those contracts. And although intended to decrease administrative fees and provide more funds directly to the programs, bringing the contracts in-house resulted in HTA adding two temporary employees, thereby increasing personnel costs to administer the enrichment programs.

13. Memo titled "Procurement Officer Pre-and Post-Presentation Routine (Dated March 15, 2017)
14. HTA Procurement Procedures (2012 draft)
15. HTA Ethics in Public Contracting (No Date)
16. HTA Procurement Planning Worksheet (Implemented on July 05, 2017)
17. PPW Instructions (Implemented on July 05, 2017)

Despite having such guidance, we found that HTA handles procurement haphazardly, with minimal consideration for procuring services in the State's best interests. Exhibit 5 describes some of HTA's procurement policies and procedures contrasted with the actual practices we observed during our audit.

In addition to our observations described in Exhibit 5, we found that HTA's policies governing procurement training, quality assurance, and internal controls had not been updated, despite significant organizational and personnel changes affecting HTA's procurement

Exhibit 5
HTA Procurement Process Missteps

Procurement Planning

- HTA's Procurement Planning Worksheet is filled out by the Brand/Program Managers for all expenditures of $50,000 or more. It ensures that the method of procurement being used is in the best interests of the State and is based on reliable information.
- The VP of Marketing is the Program Manager responsible for pre-solicitation of market research. The amount of research should be consistent with HTA's knowledge of the market, the need to develop competition, and the amount of funds involved.

Market research often is not conducted. Many planning worksheets we reviewed were missing any documentation that market research was performed.

Sole Source Procurement

- Sole source procurement is not permissible unless a good or service is deemed available only from a single source.
- No award shall be made without written confirmation and justification that the price is reasonable.
- A record of sole source procurements for each fiscal year shall be maintained and available for public inspection.

Planning worksheets for 18 contracts lacked assertions that the goods/services acquired were available from only one source.

There are no written justifications of price reasonableness.

There is no list of sole source procurements available for public inspection.

Contracting

- A proposal is required to draft the contract, since the proposal typically contains detailed information regarding project scope and performance, and serves as written evidence of the prospective contractor's offer.
- If a contractor wishes to amend any of the State's General Conditions, the HTA Contract Specialist submits the request to HTA's Deputy Attorney General for approval. If accepted, the exception to the General Condition will be documented in a Special Provisions section of the contract.
- A valid Certificate of Vendor Compliance (CVC) is used as proof of compliance with 103D-310, HRS, and should be obtained from the contractor prior to contract execution. No payment can be issued to the contractor without a valid CVC.
- If, after a contract has been executed, the need arises to change something in the contract, it is done via a supplemental contract. HTA procedures require a written evaluation to be done before any contract change or modification is executed. Written evaluation should also be done before any option to extend is exercised.

Proposals frequently are not required for initial and follow-on contract awards.

HTA regularly includes a Special Provision granting intellectual property ownership to the contractor, even where there was no evidence the contractor requested such a provision.

HTA executed contracts with, and even paid, contractors that had not demonstrated compliance and may have been ineligible to do business with the State.

Contracts were amended or extended without a prior written evaluation of the contractor's performance.

Source: HTA procurement policies and procedures

process. Of particular note, existing polices cite the Vice President of Administrative and Fiscal Affairs as responsible for implementing and overseeing those activities; however, that Vice President left HTA in December 2014 and that position no longer exists. The CEO said that the COO is now responsible for implementing the policies that were formerly the responsibility of the VP of Administrative and Fiscal Affairs. Other HTA personnel told us that an administrative assistant is now responsible for updating HTA policies, developing training, training staff, auditing internal operations for compliance, and other quality assurance duties, although her position description does not mention those responsibilities. Perhaps because of the confusion and lack of clarity regarding those responsibilities, we found that in practice, such quality assurance duties were not being consistently performed.

We note that the CEO is HTA's Chief Procurement Officer and signs all HTA contracts. The COO is responsible for contract planning, review, and coordination. The VP of Finance is responsible for ensuring public funds are spent efficiently and effectively. And the VP of Marketing and Product Development (VP of Marketing) is responsible for overseeing and evaluating HTA's marketing programs, which are largely performed by contractors. However, based on our discussions with them, as well as with other HTA personnel involved with procurement and contract administration, none of these HTA executives have taken responsibility for implementing HTA's procurement and quality assurance functions. Instead, oversight of the procurement and contracting of HTA's multitude of contracts has in effect been delegated to the Authority's one Contracts Specialist, who is ***not*** an HTA executive or manager.

We also observed a lack of coordination regarding procurement and related responsibilities among HTA Program/Brand Managers and other levels of personnel involved with HTA contracts. This confusion appears to have contributed to a seemingly prevalent lack of accountability at HTA for compliance with statutory and internal procurement requirements.

During our audit, we initially selected a sample of 25 HTA service contracts from FY2015 and FY2016 for testing. Over the course of our fieldwork, we expanded our sample to a total of 53 contracts and contract amendments. We found a wide range of issues ranging from instances in which sole source procurement was not justified, to instances of contractors working without contracts, to a lack of required progress reporting. Each of these scenarios not only violate state laws and/or HTA's internal procedures, they also result in reduced transparency, increased risk to the State, and a failure to ensure that HTA is spending public funds efficiently and effectively.

Market Area Contracts

OUR AUDIT INCLUDED a review of four market area contracts.

- The Walshe Group – Oceania (2016)
- Brandstory – China and Hong Kong (2016)
- iConnect – Korea (2015)
- Aviareps Marketing Garden – Korea (2016)

In general, we found that these contracts were executed in accordance with HTA policies and procedures.

However, all four contracts we tested did not have the required insurance coverage. Standard contract provisions require that, within seven days of execution, contractors must provide HTA with certificates of insurance for the following insurance coverages: $500,000 in employer's liability (workers' compensation); $2 million in commercial general liability;
$1 million in automobile liability; and $3 million in professional errors and omissions. The contracts require that those policies name HTA as an additional insured.

We inquired with the Brand Managers assigned to the respective contractors and learned that they were all unaware of this contract requirement. In failing to enforce this contract provision, HTA is exposed to substantial financial liability for injuries and damages that may arise from work performed by the contractors on HTA's behalf.

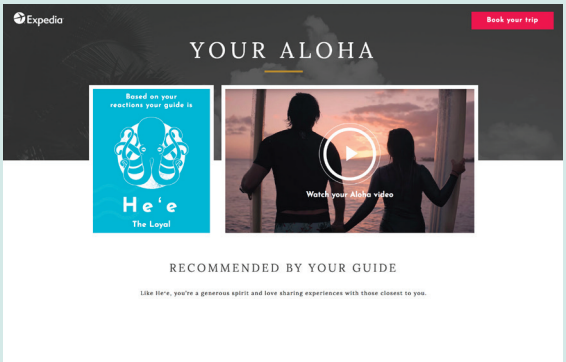
Expediting Expedia: Hasty Planning, Questionable Results

IN MAY 2016, HTA awarded a sole source contract to Expedia Media Solutions (Expedia) in the amount of $3.5 million for a one-minute online video and a global marketing campaign. The contract required Expedia to provide $3.5 million in matching advertising spending within its online travel network, develop facial recognition technology to interpret viewer reactions, and create a portal where prospective travelers could interact with drone footage of Hawai‘i taken from the air, land, and sea.

We found that the agreement appeared to have been hastily arranged and lacked the diligence required, particularly considering the significant output of public funds. We found that HTA awarded Expedia the contract based on an undated PowerPoint slideshow that contained no price proposal, performance measures, reporting stipulations, or timeframe for completion. HTA then justified a sole source award on the basis that Expedia was a “unique” supplier. HTA personnel did not validate that the price paid was reasonable, nor conduct market research to assess, among other things, whether the agreement should account for commissions that Expedia would earn as a result of the contract. Moreover, HTA amended the State’s General Conditions to give Expedia ownership and control of intellectual property created under the contract; however, there was no evidence that Expedia requested such an amendment.

Weeks after the contract was executed, HTA personnel were still discussing via email how to fund the contract and evaluate Expedia’s work. Ultimately, HTA reallocated moneys from a mix of budget lines to fund the Expedia contract: $485,000 from Oceania Legislative Access Funds[1]; $627,000

[1] These Legislative Access Funds were established by Section 237D-6.5, HRS, which specified funding for initiatives to take advantage of expanded visa programs “beginning on July 1, 2012, and ending on June 30, 2015.” We inquired with the VP of Finance regarding the time period set forth in the statute. He told us that “it was not intended, nor did we interpret, the date specification to be a limitation on the period to conduct or contract programs.” Both the COO and VP of Finance further explained that



from Japan Legislative Access Funds; $1.4 million from North America Leisure[2]; and $988,000 from market development funds.

We noted that the interactive website that Expedia was supposed to create allowing users to view drone footage was not launched. Instead, the drone footage was integrated into the 60-second online video.

In addition, HTA did not confirm that Expedia was eligible to do business in Hawai‘i prior to contract execution. In fact, Expedia completed its entire $3.5 million contract, which expired on May 31, 2017, without a valid Certificate of Vendor Compliance. Expedia obtained a valid Certificate of Vendor Compliance on July 25, 2017, almost two months after its contract term expired.

HTA asserts that Expedia's work generated $361.5 million in visitor spending, which is based on final reported numbers from Expedia. However, it has also been estimated that Expedia received $70 million in commissions generated from travelers who viewed the "Discover Your Aloha" video prior to booking through Expedia. HTA's CEO said that he was unaware of the amount of commissions received by Expedia, and acknowledged he did not fully understand the project. HTA executives also acknowledged that they did not factor in the likelihood of significant profit for Expedia when negotiating the price of the contract.

The campaign received pushback from hoteliers who felt the "Discover Your Aloha" video was cannibalizing hotel bookings by travelers who would have visited Hawai‘i regardless of the video; HTA thus subsequently declined to renew Expedia's contract. However, as of January 2018, the video remained on Expedia.com, and as such, the company may continue earning commissions from the HTA-funded video. Because HTA waived its ownership of the intellectual property, HTA's VP of Marketing did not know whether they could prevent Expedia from running the campaign. HTA's COO told us that it made sense for Expedia to continue to use the video.

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using "legislative access funds" was appropriate because the Expedia contract created brand awareness, which was part of the larger goal to increase the number of visitors to Hawai‘i.

[2] These funds came from the contract with HVCB, which was executed in 2012. As a result, on May 27, 2016, HTA executed supplemental agreement no. 17 to decrease the contract value by $2.15 million.

Below, we describe the more significant issues we found and some of the specific contracts we reviewed. A full listing of the contracts tested, including the number and types of violations found, is included at Appendix B.

HTA Sole Source Awards Lack Adequate Justification and Analysis

The sole source method of procurement should be used when it is determined that there is **only one source** for a required good or service. HTA's procurement procedures specifically state that using sole source is only permissible when an item or service is deemed to be available from a single supplier. When the sole source method is used, the assigned contracting officer must justify in writing that the price negotiated is reasonable. The required justification should be documented using HTA's Procurement Planning Worksheet. In addition, HTA procedures require that market research be conducted to ensure competition and price are commensurate with the scope of a project, and state that the amount of market research should be consistent with HTA's knowledge of the market, the need to develop competition, and the amount of funds involved.

HAWAI'I TOURISM AUTHORITY

N&K CPA's Inc. Updating Policies and Procedures and Temporary Financial Services

HTA EXECUTED TWO CONTRACTS with N&K CPA's Inc. (N&K) in 2017. The first contract for $26,000 called for N&K to assist in "updating HTA's current written policies and procedures." The contract was procured via sole source, but lacked justification. The Procurement Planning Worksheet did not list any sole source rationale, but rather explained that HTA had contacted three accounting firms, and only N&K responded. HTA also cited the "timing and urgency to complete the work before state audits begin next year" in their sole source justification for this contract.

The second contract for $64,000 called for N&K to provide "temporary financial staffing services to the Hawai‘i Tourism Authority." The contract stated: "[E]xtension of existing services (Phase I) that began in April. We procured Phase I under IR [Internal Requisition]. The services include filling an emergency need that was created with the sudden departure of HTA's Fiscal Officer."

One and Only? Sole Source Procurements

First Daughter Mediaworks, Inc. was awarded a sole source $177,150 contract for an online public information campaign. The justification: "Sole source because of the team has unique experience and track record. Experience working with one billion plus page view sites per month. Created campaigns for YouTube, Google and Facebook. Narrative documentary expertise that is synced with expertise in live digital streaming."

A contract to manage the gohawaii.com website was given to this former HTA employee on the basis that she previously managed the project while employed by HTA.

Milici Valenti Ng Pack was awarded a sole source contract to redevelop HTA's logo, provide brand guidelines, and develop tourism conference videos, "... because they did the logo in the past and just to keep consistency...," according to HTA's brand manager for the United States and Europe Markets. That initial half-year $287,958 agreement was subsequently expanded at an additional cost of $196,182.

In 2016, a contract was executed between HTA and Winfred Pong, a former employee. This $39,000 contract called for Pong to "provide administrative services to the state related to the drafting of regular and executive session minutes from monthly board and committee meetings…" as well as various other tasks, including drafting of contracts. The sole source justification stated: "Contractor has the established knowledge about our organizational structure and contracts as well as relationships with our staff and Board members."

Contractor Name	Amount
Anthology "Kamaʻāina Finds" Educational video campaign	$80,000
Cades Schutte, LLP Development and implementation of 2016 Legislative regular session strategy	74,240
Community Marketing, Inc. LGBT survey	71,750
Community Marketing, Inc. Same as above	10,250
Expedia Online tourism video and global marketing campaign	3,500,000
First Daughter Digital strategy and mobile campaign	177,150
First Daughter Same as above	-
High Performance System, Inc. IT services	37,948
High Performance System, Inc. Same as above	75,895
HVCB Neighbor Island convention bureau support	621,200
HVCB Same as above	800,000
HVCB Supplemental staffing, website and social media service, and an intellectual property bank #1	2,492,709
HVCB Same as above, bank #2	540,181
HVCB Same as above, bank #3	865,420
HVCB Same as above, bank #4	349,256
Ikayzo GoHawaii smartphone app	61,633
Ikayzo GoHawaii smartphone app (phase 2)	51,597
Ikayzo GoHawaii smartphone app (phase 2)	33,948
Lynn Surayan Overseeing Miles Marketing Destinations contract to develop new gohawaii.com website	4,680
Lynn Surayan Same as above	33,800
Lynn Surayan Same as above	35,360
Milici Valenti Ng Pack Branding and marketing services	287,958
Milici Valenti Ng Pack Same as above	196,182
N&K CPA's Inc. (P&P) Updating HTA's current written policies and procedures manuals	26,000
N&K CPA's Inc. (Temp. Fin.) Temporary financial staffing services	64,000
Net Results IT services	9,175
Non-Profit Technologies Software	28,916
Winfred Pong Board minutes/contract support	39,000

Cades Schutte LLP
Legislative assistance

HTA EXECUTED A $75,000 CONTRACT with the law firm Cades Schutte LLP (Cades) effective December 15, 2015. The contract was for services related to "the development and implementation of HTA's legislative package and strategy for the 2016 Legislative Regular Session." Although there are a number of law firms and lobbyists in Honolulu who could likely provide the requested services, the contract was not competitively procured. Instead, HTA contracted with Cades using the sole source method, using the following justification: "Strong foundation with legislation require[d]. Time sensitivity also considered as the planning for 2016 Legislative Session must commence." In 2016, HTA executed another contract with Cades for the same services to be provided for the 2017 legislative session. That contract was also procured via sole source with nearly identical justification. HTA then extended that contract to cover the 2018 legislative session. We question the use of the sole source method to procure services for the annual legislative session in three consecutive years. We also note that as recently as 2015, HTA contracted for lobbying and other legislative support with another organization.

We reviewed Procurement Planning Worksheets and related procurement documents for 47 of HTA's contracts with 22 different contractors covering the period of FY2015 and FY2016. We found that 18 contracts lacked required assertions that the goods and services sought were available from only one source. Further, there was no evidence that market research was performed prior to 23 sole source awards. Just three of those contracts amounted to $9.2 million in sole source awards and contract extensions made during the period reviewed.

Page 31 lists the contracts and agreements we tested that did not meet HTA's sole source procurement requirements.

Contractors Working For HTA Without Contracts

Contracts are agreements between parties and typically identify costs, timeframes, deliverables, and other performance criteria. A publicly solicited contract engenders an opportunity for those seeking to do business with the State to compete in a fair and open environment. However, we found two instances in which HTA paid for services without a pre-existing contract, or paid for them prior to a contract's effective date. We also found two instances in which HTA paid nearly $700,000 for support services rendered outside the scope of

HAWAI'I TOURISM
AUTHORITY

Anthology Marketing Group dba Anthology Public Relations

HTA AWARDED an $80,000 contract to Anthology Marketing Group (Anthology) to create "Kama'aina Finds" videos that were meant to communicate the value of tourism to Hawai'i residents. That contract was effective on April 8, 2016; however, we found that the first invoice for work done pursuant to the contract was dated January 31, 2016 – more than two months earlier – and sought payment of $18,520.41. According to an internal HTA email, staff had yet to decide whether to process the invoice as a new contract, an internal requisition, or an extension of an existing public relations contract with Anthology. We also found that the proposal for the "Kama'aina Finds" video campaign had an HTA acceptance date of May 5, 2016, approximately one month after the contract effective date. Because the proposal did not include a price for the campaign, and the contract file did not justify use of the sole source method, HTA has no written documentation that the contract's $80,000 price was reasonable.

the corresponding contracts. Allowing contractors to work without a contract increases potential risk and liability for both parties, in addition to being contrary to HTA policy and public procurement principles.

Extending and Amending Contracts Without a Required Performance Evaluation

HTA's contract amendment procedures require that HTA evaluate a contractor's performance prior to amending a contract, specifically stating: "A contractor evaluation is generally conducted after a contract has ended; however, **contractors subject to amendment must be reviewed prior to deciding whether to amend the contract**." (emphasis added) However, we found that HTA amended or extended 18 contracts without a written evaluation of the contractor's performance. HTA personnel involved with the contracts were unaware of the requirement until we raised concerns that required evaluations were not being conducted. HTA Brand Managers told us that such evaluations are conducted when work on a project is completed, rather than when a contract is extended or amended.

Page 33 lists the contracts and agreements we tested that were amended or extended without a required evaluation.

Results Don’t Matter: No Contractor Evaluations

Ikayzo Inc. was hired in January 2016 to develop a mobile application for the gohawaii.com website. The contract’s initial value was $53,372 and work was to be completed before May 2016. However, Ikayzo was overpaid $8,261.25 because of payments made after the contract lapsed, but before the execution of a second contract in June 2016 to complete the original project. That overpayment was paid under the initial contract, but was included in the value of the second contract for $42,209. Then in September 2016, HTA executed an extension of the initial contract that had ended five months earlier, and provided Ikayzo an additional $51,597. The additional contract and amendments were executed prior to any written evaluation of Ikayzo.

Miles Marketing’s contract to develop gohawaii.com, which ended June 30, 2017, was extended by one year to include continued development without an evaluation of how the contractor performed. The extension included $200,400 for content and creative development.

Contractor Name	Amount
Anthology PR 1 For communication and outreach services	$352,688.00
Anthology PR 2 For communication and outreach services	371,000.00
ClearPath Entertainment Contract for event planning for the 2016 Hawai‘i Tourism Conference	321,712.50
ClearPath Entertainment Same as above	150,000.00
Community Marketing, Inc. Contract for 2016 LGBT tourism study	71,750.00
First Daughter To develop a digtal strategy and mobile campaign	177,150.00
High Performance System, Inc. Contract for HTA in-house IT services	37,947.63
HVCB To support Neighbor Island convention bureau programs and services (4/13/16 to 12/31/16)	621,200.00
HVCB Supplemental staffing and service for websites, social media, and an intellectual property bank (6/7/16 to 12/31/16)	2,492,708.84
HVCB Same as above (12/29/16 to 12/31/17)	540,181.00
HVCB Same as above (2/22/17 to 12/31/17)	865,420.48
Ikayzo For development of a GoHawaii mobile application	61,632.96
Lynn Surayan To oversee development of a new gohawaii.com website (developed by Miles Marketing Destinations)	4,680.00
Lynn Surayan Same as above	33,800.00
Miles Marketing To develop and support the global GoHawaii website	600,460.00
Repucom To conduct event impact evaluations (5/26/16 to 6/30/17)	214,181.00
SMS To conduct domestic visitor arrival surveys (2015-2018)	1,113,080.00
WCIT Architecture, Inc. Center for Hawaiian Music and Dance	850,000.00

HTA May Be Needlessly Waiving Rights to Copyright Ownership

HTA's contract template should incorporate the State's standard contract language. The General Conditions for Contracts for Goods, Services and Construction issued by the State of Hawai'i Department of the Attorney General, which should serve as the starting point for contract terms, include a provision regarding ownership of intellectual property created by the contractor paid for with State funds. The General Conditions provide that "[t]he state will have complete ownership of all material…developed, prepared, assembled…pursuant to this contract." However, HTA often replaces that provision – even when not requested by the contractor – with a Special Condition stating, "…any intellectual property created by the contractor pursuant to this contract will be solely and exclusively owned by the contractor."

We found that HTA included that Special Provision, thereby waiving intellectual property and copyright ownership, in 28 of 45 contracts we examined. In all of those cases, HTA could not furnish evidence that the contractor required the term as a precondition to contract, or even requested it. HTA's Contract Specialist initially stated that the waivers were granted on a case-by-case basis, with the approval of HTA's deputy attorney general. However, we were later told that HTA routinely includes the Special Provision waiving ownership and the State only retains intellectual property rights in rare instances.

In one instance, HTA's VP of Marketing was unaware that gohawaii.com website developer Miles Marketing received a waiver, and thus owned intellectual property and copyright for materials created for the State's primary Internet tourism portal. When told of the waiver, the VP asserted that HTA owned the rights, saying: "We paid for the content development. We paid for the photography, and the videographer, so they can't possibly own any of that."

By HTA waiving ownership of such intellectual property, contractors enjoy both legal ownership *and* control of the property paid for with public funds. Moreover, it limits HTA's ability to use, and control usage of, such intellectual property once the contract has ended. A key example of this is Expedia's "Discover Your Aloha" campaign, discussed on page 28.

Contracts Lack Contractor Proposals, Progress Reporting, Performance Measures, and Other Requirements

According to the HTA Contracts Specialist, a formal contract proposal is required and should include justification of price, scope, deliverables, a timeline, and performance criteria. Proposed pricing should include the overall price, a payment schedule and cost breakdown, and time period of

performance. We found no formal proposals for 11 original contracts and 16 amended or extended contracts. This was the case with HVCB, Cades, and Winfred Pong, as discussed earlier.

HTA procedures also require contractors to provide specific, regular progress reports for the Authority's use in determining whether performance measures and objectives are being met. At a minimum, such reports should require information on outcomes and should compare results against performance criteria in the request for proposals, contractor's proposal, and the contract. We found that HTA contracts lacked key performance criteria and failed to require contractors to provide information to determine whether project goals and objectives were actually being achieved. The omission of performance benchmarks and reporting in contracts fosters contract monitoring practices that focus on obtaining administrative deliverables, such as status reports, rather than ensuring the achievement of actual outcomes and objectives.

We found 24 contracts that had no regular contractor progress reporting requirements. In 19 instances where contracts required progress reports, there was no demand that the contractor's performance be compared

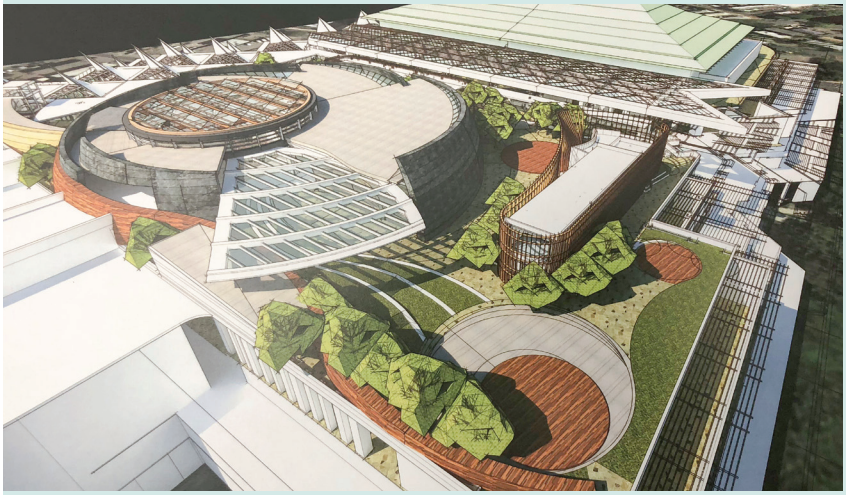
HAWAI'I TOURISM AUTHORITY

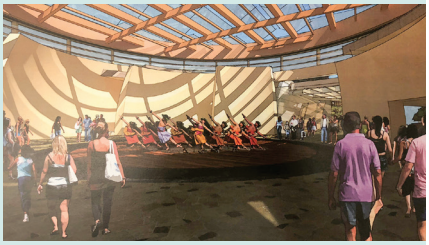
HVCB
Supplemental Services

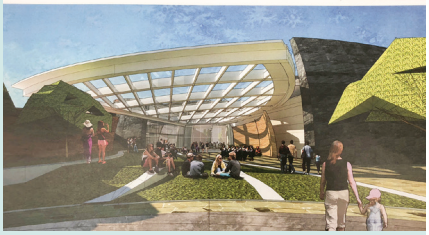
IN JUNE 2016, HTA awarded HVCB a six-month, $2.5 million contract for staffing, online marketing, and maintenance of an intellectual property data bank, among other things. HTA said the sole source award was justified because, "As the state's marketing arm, the Hawai'i Visitors & Convention Bureau has the staffing and resources to assist HTA in the implementation of the airline/route development research, the gohawaii.com website, and Knowledge Bank."

Six months later, HTA granted HVCB a one-year, $540,181 contract extension. Ultimately, the contract amount would grow to $4.2 million and cover services provided through 2017. However, there is no evidence that HTA performed required performance reviews or re-evaluated whether a continued sole source award was warranted, prior to extending this exclusive relationship with HVCB.

Additionally, there was no evidence of formal proposals for the initial contract or for the three follow-on extensions. Rather, we found the contract was based on an undated worksheet with pricing for various services valued at nearly $2.5 million. The worksheet lacked specific deliverables, milestones, and performance metrics.







Off-Centered Planning – Center for Hawaiian Music and Dance

IN JULY 2014, HTA executed an $850,000 contract with WCIT Architecture Inc. (WCIT) to develop plans for a Center for Hawaiian Music and Dance (the Center). The initial scope of services included 15 specific services to be provided in five major areas: Community Outreach; Planning; Content Development and Management; Facility Planning and Capital Cost Estimating; and Governance and Staffing. The 15 services were closely tied to the contract's compensation and payment schedule, with specific requirements that WCIT had to meet to be paid. The largest single payment of $145,000, for example, was to be paid upon "the State's prior receipt and approval of a project presentation, a minimum of 15 presentations given throughout all the major Hawaiian islands, and a minimum of 15 presentations given to targeted audiences, and of a written report of the results/recommendations gathered from those presentations, submitted with an invoice."

The WCIT contract was in direct response to Act 161, Session Laws of Hawai'i 2013, which directed HTA to use $1 million of its $82 million annual TAT allocation for the "operation of the Hawaiian center and museum of Hawaiian music and dance at the Hawai'i Convention Center."

Halfway through the contract, in January 2015, one of WCIT's subcontractors, DTL Limited Liability Company (DTL), submitted a dramatically revised scope of services and compensation and payment schedule for the contract. HTA and WCIT executed a supplemental agreement making those amendments. As part of those amendments, all aspects of Community Outreach as well as the 15 meetings with stakeholders, were removed from the contract and replaced with other services, including a lineal descendant plan, a results and recommendations report, and a partial schematic design for the proposed building.

The compensation and payment schedule changed as well. The supplemental agreement removed the original 15 payments tied to the project's deliverables and replaced them with three lump-sum payments of $330,000, $220,000, and $220,000. Those payments were instead tied to the delivery of two drafts and one final plan, to "address the strategic vision, branding and business operations of the Center projects … ," as well as the partial schematic design, among other things. The rationale behind these major changes was not documented, and the only documentation was an email originating from DTL advising HTA of the scope change. HTA personnel we spoke with admitted that, given the dramatic revision to the scope of services, the contract should have been put back out to bid rather than simply amended.

Finally, HTA's contract files for this project were incomplete, making it difficult to evaluate the contract's deliverables. For example, there is no evidence that the lineal descendent plan was ever submitted to HTA. In the end, the building plans that WCIT delivered provided an estimated cost of more than $90 million. Various internal HTA emails noted that "WCIT did not fully deliver a product that we could use…" and discussed the "need to counteract a possible perspective that the $ [HTA] paid for this study was a bust."

RENDERINGS: WCIT

against performance criteria specified in the RFP, contractor's proposal, and the contract.

HTA's procurement policy further states that the Authority shall develop and incorporate into its contracts objectively derived key performance indicators for use in evaluating contractor performance. However, none of the 47 non-market area contracts we reviewed contained such key performance indicators. In a few instances, we found that performance measures and reporting requirements were identified as contract requirements when the Procurement Planning Worksheet process was initiated within HTA; however, such requirements were not then included as terms in the final contract.

Contractors Are Not Required to Demonstrate Eligibility To Do Business With the State

Section 103D-310, HRS, as well as HTA's standard contract terms, require contractors to provide a Certificate of Vendor Compliance (CVC) demonstrating an eligibility to do business with the State as certified by State and Federal agencies, including the Hawai‘i Department of Taxation and Department of Labor and Industrial Relations. However, we found that HTA contracted with – and even paid – contractors that had not demonstrated such compliance and were potentially ineligible to do business with the State. We found 32 instances in which HTA could not demonstrate that it received a valid CVC within six months of the start of work on a contract, as defined by the date of first payment. The HTA Contracts Specialist said that, in some instances, valid CVCs were obtained prior to payments, but were missing from contract files because of confusion as to who was responsible for filing the documents. However, HTA personnel acknowledged that there were occasions when HTA executed contracts without a valid CVC.

In addition, HTA did not evenhandedly enforce the CVC requirement, and consequently treated contractors in an inconsistent manner. For example, HTA reduced the value of a $94,930 contract with Digital Mediums for social media services by $3,906 because the contractor could not provide a valid CVC in a timely manner. In contrast, HTA contracted with Repucom America in May 2016 to provide events and festivals evaluations. HTA paid Repucom $40,392 on December 22, 2016, then withheld subsequent payments and did not decrease the contract value for services performed prior to CVC submission on May 24, 2017.

IT Woes

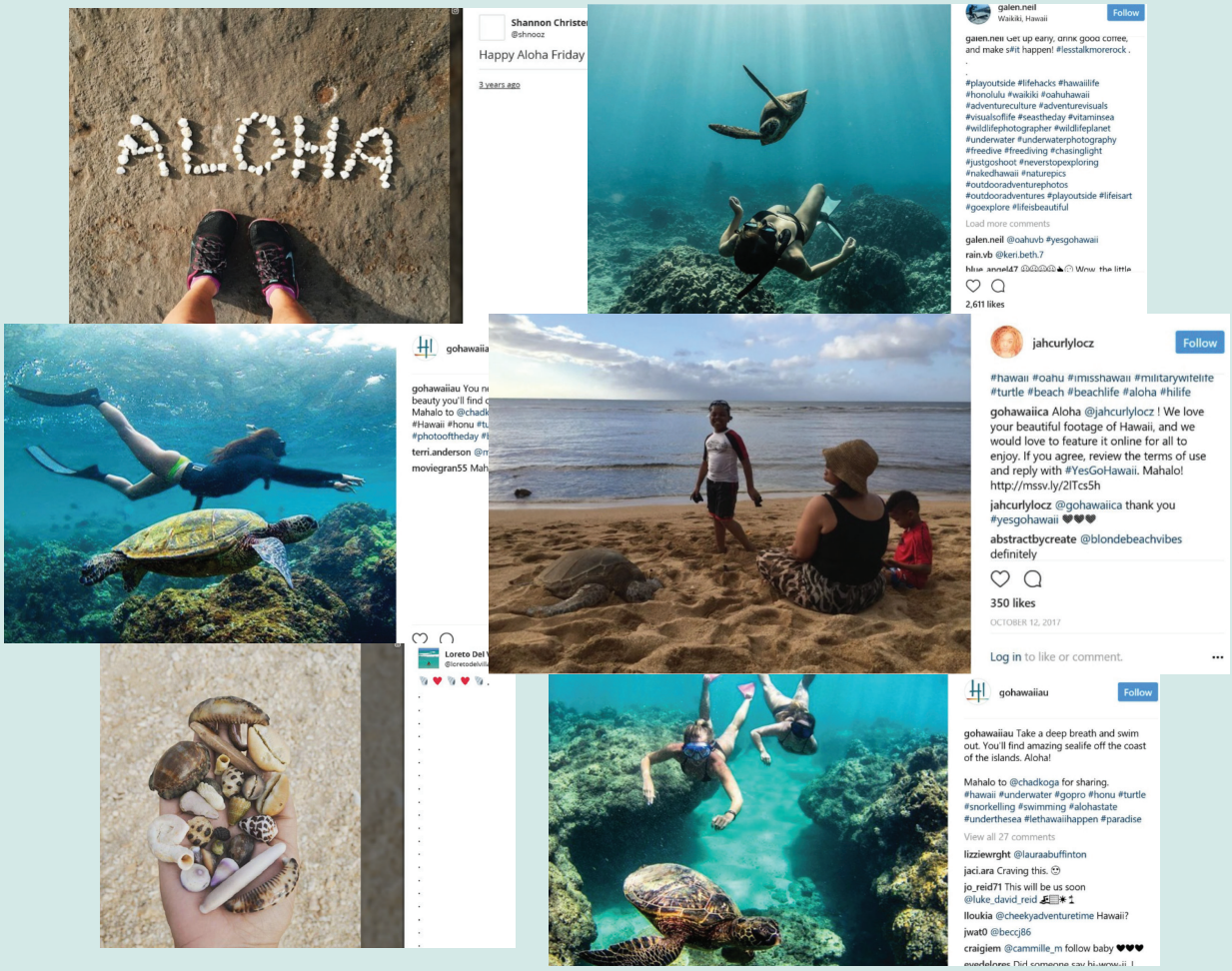
HTA DOES NOT HAVE its own IT personnel. Instead, HTA relies on an offsite private contractor, High Performance Systems, Inc. (HPSI), for IT support. Although HTA is required by statute to have an IT Strategic Plan and Budget, HTA management told us they do not. The Authority has many internal IT-related policies, but they do not appear to be enforced. Perhaps most notable, no one at HTA seemed to know who was responsible for HTA's IT strategy and policies. Some personnel said it was the COO's responsibility, while the COO said it was the responsibility of HTA managers who oversee the HPSI contract.

We also observed many instances where HTA's IT software and hardware were not compatible. For example, during audit fieldwork, it was noted that HTA's recently acquired accounting software, Microix, cannot currently communicate with HTA's contract management software, meaning many items must be manually inserted or updated between the systems.

HTA spends significant dollars on tech-related projects, which are primarily outsourced to vendors. For example, as shown below, HTA has contracted with HVCB, Miles Media, and other vendors to develop and maintain the Authority's website. However, the HTA personnel who oversee those outsourced IT projects admit to having minimal technical expertise, much less the level of knowledge required to properly manage such contracts. Given the statutory requirement for HTA to have an IT Strategic Plan, and the amount of money HTA spends on external IT-related services, HTA should evaluate whether to hire an IT manager or other personnel with adequate technical knowledge and experience to manage the Authority's technical projects, as well as to develop an IT strategy that meets HTA's current and future anticipated needs.

HTA Website Expenses

CONTRACTOR	AMOUNT
HVCB	375,181
Milici Valenti Ng Pack, Inc	659,945
Internal requisitions	12,000
TOTAL, FY15	**1,047,126**
HVCB	498,832
Internal requisitions	1,168
TOTAL, FY16	**500,000**
Miles Media	585,820
HVCB	813,918
Lynn Surayan	73,840
TOTAL, FY17	**1,473,578**
Lynn Surayan	39,322
Hosting & Maintenance (estimate)	350,000
Website SEO (estimate)	250,000
Account management (estimate)	100,000
Content development (estimate)	300,000
Upgrading media & trade site (estimate)	200,000
TOTAL, FY18 (to date & estimates)	**1,239,322**



Following the Crowd

AS PART OF ITS MISSION to promote tourism in Hawai‘i, HTA maintains a presence on social media. One of its pages, gohawaii.com/social, re-posts photographs of Hawai‘i from Instagram to show off the Islands' many attractions. According to HTA's own Social Media Content Guidebook, photos should not depict people in close contact with protected wildlife, including turtles and dolphins. HTA's Style and Resource Guide states that sea turtles will not nest at beaches where they have been disturbed and that they should be observed from at least 100 feet away. Photos should identify them as endangered and refrain from showing human interaction. The guide also warns that visitors should not stack, move, or remove rocks, take rocks as souvenirs, or arrange rocks to spell names or symbols.

HTA also maintains a "do not promote" list of locations which notes that photos of people touching, harassing, or getting too close to protected species are strongly discouraged. It further states that the removal of rocks, lava, coral, sand, plant materials, etc. should never be portrayed.

We reviewed HTA's social media website at gohawaii.com/social as well as related postings on Instagram with hashtags #gohawaii, #gohawaiiau (HTA's Australia marketer), and #gohawaiica (HTA's Canada marketer) on January 10 and 11, 2018. Despite its own policies, we found HTA had posted photos of people getting close to protected species, removal of rocks and seashells, and depictions of areas throughout Hawai‘i that HTA classifies as "do not promote," "do not show image's location due to access," or "prefer not to promote." These photos appeared on the HTA gohawaii.com website and as Instagram posts, which in certain instances included requests by HTA or its contractors to use the images for tourism promotion.

Administrative Expense Limit

HTA shifted expenses previously classified as administrative to other budget lines to comply with the reduced statutory limit

The amount that HTA is allowed to spend on administrative expenses is limited by statute. Section 201B-11(c), HRS, provides:

> Moneys in the tourism special fund shall be used by the authority for the purposes of this chapter, provided that:
>
> *(1) Not more than 3.5 per cent of this amount shall be used for administrative expenses*, including $15,000 for a protocol fund to be expended at the discretion of the president and chief executive officer. . . .

(Emphasis added).

The "cap" on administrative expenses was originally established with the creation of HTA in 1998 at 3 percent of the Tourism Special Fund. In 2002, the cap increased to 3.5 percent and was raised to 5 percent in 2004. However, the increase in 2004 was temporary; the Act that increased the administrative expense cap included a repeal date, after which the cap would revert to its 2005 amount of 3.5 percent.

HTA Appeared Unprepared For the 2015 Decrease In the Administrative Expense Cap

The "sunset" (or end) date of the 2004 Act that increased the cap was extended twice – first in 2006 and then again in 2010 – ultimately ending on June 30, 2015. During the 2015 legislative session, the Legislature proposed to, among other things, "increase Tourism Special Fund allowance for HTA administrative expenses." HTA supported the proposed measure, House Bill No. 1259 (HB 1259), and asked that the cap be raised to 6.5 percent. However, HB 1259 did not pass, and the Legislature did not extend the repeal date of the 5 percent cap. Consequently, the cap on administrative expenses reverted to 3.5 percent on June 30, 2015. However, HTA was unprepared for the pending decrease of the administrative expense cap to 3.5 percent.

At its meeting on April 30, 2015, the HTA board of directors was informed by HTA staff that the administrative expense cap would revert to 3.5 percent on June 30, 2015. HTA's then-CEO told the board that "HTA would need to move forward with a 3.5 percent allocation for administrative expenses." In response to that information, one board member remarked that he does not have any "sense of how many people should or should not be working at HTA" and suggested that HTA return to the Legislature to request additional funding after HTA examined its

staffing requirements. Another board member expressed his immediate concern that the reduced administrative expense cap would adversely impact HTA's ability to retain staff.

At that same board meeting, a State senator offered her thoughts about HTA's funding and expressed her opinion that HTA should not be spending more than the established limit for administrative expenses. She questioned whether the board was aware that six HTA staff salaries were, instead, allocated to the Convention Center Enterprise Special Fund. She noted that the Legislature had placed a "cap" on administrative expenses because the TAT revenues should be used to support programs and the environment.

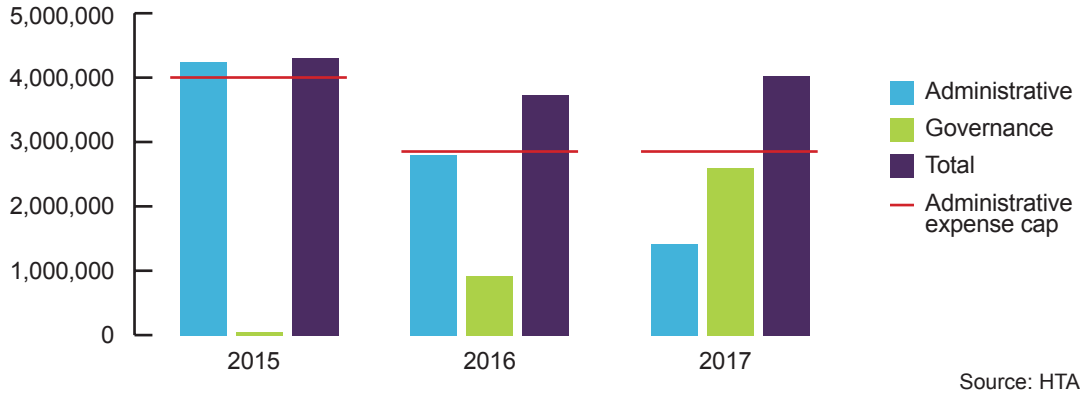
A board member remarked that "[t]he 'coasting is over for the Board'" and requested assistance from the legislator to "ameliorate" the impact of the reduced administrative expense cap.

HTA Shifted Previously Classified Administrative Expenses To a "Governance" Line Item

HTA's response to the reduction of its administrative expense cap was to begin shifting salaries and other expenses that were previously classified as "administrative" in HTA's budget to a "governance" line item. From FY2015 to FY2017, HTA moved more than 75 percent of its "Salaries & Fringe" costs, totaling more than $2 million, that were previously characterized as administrative expenses to governance. These budget shifts resulted in HTA increasing the "Salary & Fringe" allocation for the "governance" line item by more than 360 percent from FY2016 to FY2017.

Exhibit 6 below shows HTA's movement of expenses between administrative and governance from FY2015 to FY2017.

Exhibit 6
HTA Administrative Expense and Governance Budget Line Items, FY2015-2017



Source: HTA

According to HTA, in July 2015, they revised the definition of "administrative expenses" in consultation with their deputy attorney general. In a letter dated July 1, 2015, the day *after* the administrative expense cap decreased from 5 percent to 3.5 percent, HTA's CEO asked the deputy attorney general if he concurred with HTA's "refined" definition of administrative expenses and HTA's intent to move certain expenses that were previously characterized as administrative to other areas of HTA's budget:

1. Administrative expenses are defined as operating costs that are necessary to run day-to-day operations, including administrative staff salaries and general office expenditures.
2. Administrative expenses do not include payroll for HTA staff whose primary responsibilities are HTA program-oriented.
    a. Brand Management and Research staff's responsibilities are program-oriented.
    b. The HTA's President and Chief Executive Officer (CEO), and its Chief Operating Officer (COO), oversee Brand Management, Research and Administrative staff's efforts. A portion of the CEO's and COO's costs of payroll do not constitute administrative expenses.
3. Administrative expenses do not include governance-related costs, including costs associated with the HTA Board of Directors, legal and audit services.
4. Administrative costs do not include vacation paid to employees upon their departure from HTA. The HTA is not able to anticipate or directly control the amount of vacation employees take each year or the timing of employee departures. Accordingly, HTA maintains a separate reserve for accrued vacation, outside of the HTA's annual Board-approved budget.
5. Administrative expenses do not include fringe benefits. The HTA is not able to directly control the rate of fringe benefits assessed to employees.

The deputy attorney general signed the bottom of the letter under the heading "Reviewed and Concur," apparently indicating his agreement that "administrative expenses" did not include certain staff salaries, including the Brand Management and Research staff as well as portions of the CEO and COO's salaries, vacation payouts, fringe benefits, and other costs.

What Privilege?

WHEN WE REQUESTED information regarding HTA's revised definition of administrative expenses, HTA staff initially said that the information was privileged attorney-client communication and refused to provide necessary information or documents to us about how it construes the term. We question how HTA, or any State entity, can reasonably assert confidentiality for the construction of a statutory provision, especially one that involves the spending of public funds. We also question the assertion of the privilege by HTA staff, presumably without board approval or even knowledge. However, in this case, after much delay and discussion that ultimately included the board chairperson, HTA provided the document to us. The letter is included with our report as Appendix C.

According to HTA's VP of Finance, the revised definition of administrative expenses was phased in to HTA's budget over two years. In FY2016, HTA reallocated salaries for its Tourism Research Office, classifying more than $400,000 under the "governance" budget detail rather than the "administrative expense" budget detail. HTA also shifted 100 percent of both its "Insurance Premium Expense" as well as its "Legal and Audit Services" costs from its administrative expense detail to its governance detail in the same year, putting another $300,000 under governance for FY2016. Then, in FY2017, HTA fully applied the reclassifications, with 100 percent of Brand Management staff and 50 percent of the CEO and COO salaries also being reallocated to governance from administrative expenses.

Although, on paper, HTA has reduced its administrative expenses, it has not reduced actual spending on expenses that were classified as "administrative" prior to June 30, 2015. We question the deputy attorney general's concurrence with HTA's construction of administrative expenses, especially HTA's decision to split the CEO's salary between administrative expenses and governance.[11] From the history of the administrative expense cap and the discussion by the board immediately after it was informed that the cap would revert to 3.5 percent of the Tourism Special Fund (a board meeting at which the deputy attorney general was present), it is unclear whether HTA's reclassification of the expenses to governance or other program-related expenses in the budget is appropriate. However, without a definition in the statute or other information to glean the legislative intent, it is unclear what costs constitute "administrative expenses" as the term is used in the statute. We therefore recommend that the Legislature consider evaluating the intent of the statutory cap on administrative expenses and provide a definition of administrative expenses in the statute that is consistent with that intent.

Conclusion

HTA is charged with promoting, marketing, and developing the tourism industry in Hawai‘i. However, it has evolved into an agency that does more than that. In recent years, it absorbed more than 100 new contracts for outreach efforts in Hawaiian culture and community projects. And, with so much of this work being performed by contractors and with the Authority having a weak internal control environment to manage contracts, we question the wisdom in continuing to issue contracts while not ensuring best value to the State. HTA should work to ensure that the protocols surrounding procurement are set upon a strong foundation

[11] Section 201B-2(f), HRS, limits the CEO's compensation package to 15 percent of the 3.5 percent of the Tourism Special Fund authorized for administrative expenses.

with planning and deliverables to hold contractors accountable. In addition, with the Legislature, the Authority should clarify the intent of capping administrative expenses and provide a definition consistent with that intent.

Recommendations

The Legislature should:

1. Consider additional legislative oversight of HTA to increase transparency of the Authority's spending and ensure more accountability.
2. Consider reevaluating HTA's blanket exemption from the State Procurement Code, Chapter 103D, HRS, and other requirements for competitive bidding as set forth in Section 201B-12(b), HRS, and assess whether the exemption should be narrowed or revoked.
3. Consider defining the term "administrative expenses," as used in section 201B-11(c)(1), HRS, to clarify the specific types of expenses and costs that are included within that term and, therefore, subject to the limit on the use of the Tourism Special Fund.

HTA should:

In General

1. Update internal policies and procedures related to training, compliance reviews, and other quality assurance functions, to ensure they align with HTA's current organizational structure and personnel.
2. Assign a senior manager to oversee HTA's quality assurance function and ensure it is a priority for the Authority. Such oversight should include ensuring HTA's quality assurance plan is updated and properly implemented.

With Respect to Overall Procurement

3. Update internal policies and procedures to clearly identify the HTA management and staff who are responsible for procurement, administration, and oversight of all contracts, and clearly delineate the responsibilities assigned to each.
4. Enforce policies and procedures that ensure HTA's actual procurement and contracting practices align with the best interests of the State and foster appropriate use of public funds, including:

a. Requiring pre-solicitation market research to assess, among other things, market competition and estimated cost.

b. Requiring proposals for each contract, contract amendment, and extension.

c. Enforcing requirement that contractors provide evidence of a valid Certificate of Vendor Compliance (CVC) prior to contract execution.

d. Requiring contracts to include specific performance criteria, performance benchmarks, and deliverables that are aligned with the contract objectives.

e. Requiring contractors to provide regular progress reports.

f. Evaluating contractor performance against performance criteria.

g. Requiring written evaluation of contractor performance before amending, modifying, or extending any contract.

5. Retain exclusive ownership of intellectual property created, developed, prepared, or assembled using State funds, absent extraordinary and unique circumstances. Require requests for waiver of the State's ownership of intellectual property to be thoroughly documented and approved by the Department of the Attorney General.

6. Regularly review and evaluate HTA management and staff performance of their respective procurement and contract-related duties and responsibilities.

7. Require HTA management and staff who have procurement and contract-related responsibilities to receive regular training on the State Procurement Code, Chapter 103D, HRS,[12] and the State Ethics Code, specifically, Section 84-15, HRS.

With Respect to Sole Source Procurements

8. Limit sole source procurement to where a good or service is deemed available from only one source.

9. Require completed documentation to support use of sole source procurement.

10. Require written confirmation and justification of sole source contract pricing.

11. Develop a publicly accessible list of sole source procurement contracts.

[12] Although HTA is exempted from the State Procurement Code, familiarity with public procurement principles and practices is beneficial for HTA employees, who are responsible for ensuring public funds are spent reasonably, appropriately, and in the State's best interests.

With Respect to Cost Reimbursement Contracts

12. Enforce existing contract provisions requiring AEG, and any other contractors who are reimbursed by HTA for costs they incur, to submit receipts and other supporting documentation for each cost invoiced to HTA for reimbursement or other payment.
13. Develop and implement procedures to review and evaluate receipts and supporting documentation submitted for each cost that AEG, and any other contractors who are reimbursed by HTA for costs they incur, invoices HTA for reimbursement or other payment.

With Respect to Major Contractors (AEG and HVCB)

14. Develop and implement procedures to include additional monitoring and more frequent evaluation of contractors' performance.
15. Require compliance with all material contract terms, including but not limited to HTA's prior written approval of all subcontracts.
16. Require requests for written approval to subcontract to include, at a minimum: (1) an explanation of the need for the goods or services to be subcontracted; (2) a statement regarding subcontractor's qualifications to provide the goods or services; (3) a summary of process used to procure the goods or services, including the material terms of bids or other responses to provide the goods or services; and (4) the reason(s) for the selection of the subcontractor, including information used to determine the reasonableness of the subcontract amount.
17. For current subcontracts without HTA's prior written approval, require justification for the subcontracts, including but not limited to the information required for approval to subcontract. For current subcontracts deemed unnecessary, unreasonable, or otherwise contrary to the State's best interest, consider requiring the goods or services to be re-procured.
18. Determine whether "agreements" and "arrangements" for goods or services relating AEG's performance of the contract, including with AEG affiliates or related organizations, are subcontracts, requiring prior written consent.
19. Consult with the Department of the Attorney General regarding the concession services agreement between AEG and Levy, specifically about action required to remedy AEG's failure to competitively procurement the concession services as required by law.

With Respect to the Limit on Administrative Expenses

20. Seek clarification from the Legislature regarding the term "administrative expenses," as used in section 201B-11(c)(1), HRS, through legislation to define the term, including the specific types of expenses that are included within that term.

21. Until the Legislature provides clarification of the term, request a formal legal opinion from the Attorney General as to the meaning of the term "administrative expenses," as used in section 201B-11(c)(1), HRS, that HTA can apply in developing its budget and to monitor its use of the Tourism Special Fund.

Office of the Auditor's Comments on the Hawai'i Tourism Authority's Response

WE PROVIDED A DRAFT OF THIS REPORT to the Hawai'i Tourism Authority (HTA) on February 15, 2018, and met with the Board of Directors Chairperson, the President and Chief Executive Officer (CEO), and other HTA managers on February 21, 2018, to discuss our audit findings. HTA offered its written response to the draft report on February 21, 2018, which is included as Attachment 1.

Throughout its 28-page response, HTA generally disagrees with the audit findings. We made minor technical changes to our report to correct errors of fact. However, our audit findings are fully supported by the records and other information provided to us by HTA and others during the seven-month period of our audit. We also note that much of the information provided in HTA's response could have been and should have been – but was not – raised during the course of our audit fieldwork, or at least during our meetings on January 26 and February 21, 2018.

HTA's position is that the ends justify the means, characterizing its undisciplined spending and procurement practices as a necessary part of its self-proclaimed accomplishments. Throughout its response, HTA touts increased visitor arrivals and a "positive net balance" in the Hawai'i Convention Center's operations to rebut the findings. Among its response statements:

- "If HTA was not effective in managing our contracts and our contractors and in working with Hawai'i's tourism industry, the numbers would not reflect as they do and Hawai'i would not be the beneficiary of six record years of arrivals and expenditures."
- "HTA's allocation of the Transient Accommodation Tax (TAT) funding has remained the same since FY2014, yet over that same period visitor expenditures and arrivals have increased over prior years. We are providing the State with a greater return on investment than in the past."
- "Since 2015, AEG/HCC have reported to the HTA Board on a routine monthly basis for increased accountability. This has resulted in positive net balances over the past two years."

While the scope of our audit did not include reviewing visitor arrivals, expenditures, or related information, we do not question HTA's reported statistics. However, as HTA is aware, it is difficult, if not impossible, to assess the direct impact of HTA's programs and activities on visitor arrivals and spending. Regardless, as a State agency, the ends do not justify the means. The semi-autonomy that it has been afforded, including the exemption from the State Procurement Code, does not give HTA the unfettered discretion to contract and to spend public funds. HTA must be accountable. HTA must oversee its contractors to ensure compliance with contract terms, especially those terms intended to benefit and protect the State; HTA must procure goods and services fairly and at a reasonable cost; HTA cannot recklessly spend public funds.

HTA's response to our finding that it reimbursed costs that were explicitly prohibited under the Transition Contract with AEG – first-class airfare, luxury hotel accommodations, and other extravagant expenses – vividly illustrates HTA's misunderstanding of its responsibility to prudently spend public funds. In its response, HTA defends reimbursing AEG approximately $50,000 in first-class airfare as well as the cost of luxury accommodations at hotels such as the Royal Hawaiian Hotel and JW Marriott Ko Olina Resort and meals at fine dining establishments such as Morimoto and Alan Wong's, stating, "HTA leadership approved the receipts on the basis that the objectives of the contract were being achieved." HTA should expect – and demand – that contractors successfully perform contracts, and when contractors do so under the amount budgeted, the remaining balance reverts to the State. HTA does not have the discretion to give away public money, which is precisely what it did.

HTA defends its procurement practices, including the use of sole source procurement, by referencing the initial purpose of exempting it from the State Procurement Code: that HTA's effectiveness in competing with other tourist destinations is based on the speed with which it can contract with other entities and execute its programs. However, that justification – the need to contract quickly to compete with other markets – does not explain HTA's haphazard approach to procurement, ignoring its own procurement policies and procedures, and using sole source procurement for services that more than one vendor offers. Furthermore, for many of the contracts we reviewed – for example, Cades Schutte for legislative consulting, Winfred Pong to draft board meeting minutes, and N&K CPAs to provide temporary financial staffing – the need to contract quickly to remain competitive with other tourist destinations seems inapplicable.

HTA directs responsibility for most of the issues that our audit raises to the prior management team. We acknowledge that the contracts

with AEG and HVCB, as well as many of the service contracts that we examined, were executed under the prior-CEO. However, AEG and HVCB are two of HTA's largest and most significant contracts, and both continue to be in effect. Despite that, as we report, the current management has not enforced certain provisions of both contracts, and further, did not appear to be familiar with, or in some cases even aware of, some of those key provisions. Moreover, HTA's position ignores that most of the directors, including the current chairperson, were part of the board during the prior management team's tenure; HTA's VP of Finance and many other staff, including the contracts specialist, were employed at HTA under the prior management team.

Finally, HTA asserts that the audit did not take into account or mention their explanations after "seven months conducting this audit and after dozens of lengthy interviews with HTA staff." As HTA acknowledges, we provided HTA personnel ample opportunity to respond to our questions and preliminary findings, via multiple, lengthy interviews as well as numerous emails. Where HTA provided responses, we incorporated them into the development of our findings and mentioned them in our report where applicable. However, for many key audit issues, HTA personnel provided conflicting – and sometimes opposing – responses. Their explanations also sometimes changed over the course of our inquiries, and other times were vague or unresponsive. For some questions we asked, we did not receive answers despite multiple requests, and eventually moved forward with the audit without them.

HTA's response highlights the need for more accountability and, perhaps, less autonomy.

HAWAI'I TOURISM
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President and Chief Executive Officer

February 21, 2018

Mr. Leslie H. Kondo
State Auditor
Office of the State Auditor, State of Hawai'i
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Honolulu, HI 96813-2917

Re: Agency Response to (Draft) Report No. 18-04

Dear Mr. Kondo:

We have reviewed your report and acknowledge your recommendations for how the Hawai'i Tourism Authority (HTA) can improve the organization. We appreciate the tremendous amount of time and effort that your team put into the field work, reviewing thousands of documents, conducting interviews, and seeking to learn how a complex and truly unique state agency like HTA operates, and where improvements can be made as we continue to fulfill our mission.

We commend your team for the professionalism of their conduct at all times and their thoroughness in completing this task. Likewise, our staff members made every effort to be as accommodating as possible in providing documentation and answering questions to ensure that the audit could be completed in the desired timeframe.

As you stated at our October board meeting, we are partners in this independent review of HTA's performance and, ultimately, our goal is the same: to help HTA become a better, more efficient organization in serving the needs of the State.

We note the recommended improvements, but do have some points that we wanted to raise in this response. We share these points and perspectives to provide a fuller picture of HTA, its operations, and our commitment on a daily basis to support Hawaii's tourism industry.

I. Introduction

A. Time Period of the Audit

It has been explained to us on numerous occasions – for example, at the Opening Conference occurring on July 7, 2017, at the Preliminary Findings meeting on February 16, 2018, and at the Closing Conference today, that the time period of this audit is 2013 to mid-2016, and that most of the issues relate to that period of time. As discussed at today's Closing Conference meeting, this should be noted in the report.

B. Measures of HTA's Responsibilities

Key measures of HTA's responsibilities are excluded in the audit. Our mission, as informed by Hawai'i Revised Statutes §201B and guided by HTA's Five-Year Strategic Plan (2016-2020) developed with the

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participation of members of the community is to ***strategically manage Hawai'i tourism in a sustainable manner consistent with economic goals, cultural values, preservation of natural resources, community desires, and visitor industry needs***.

We did not create this mission by ourselves, and therefore believe it is unfair to judge HTA against a different standard. Yet the audit questions the mission for which we are tasked to serve, stating in its Conclusion:

> "HTA is charged with promoting, marketing, and developing the tourism industry. However, it has evolved into an agency that does more than that. In recent years, it has absorbed over 100 new contracts for outreach efforts in Hawaiian culture and community projects. And, with so much of this work being performed by contractors and with the Authority having a weak internal control environment to manage contracts, we question the wisdom in continuing to issue contracts while not ensuring best value to the State."

We do not have the luxury of ceasing our work or holding off on contracts relating to Hawaiian culture and community projects, despite resource constraints within the organization. This is why we have hired contractors to assist with this effort. We are being scrutinized for not having enough resources to support our work, but at the same time are being criticized for hiring contractors, even though we are statutorily authorized to do so.

C. HTA Staff & Board Explanations

The audit did not take into account our explanations for many of our programs, and why we do things a certain way. After more than seven months conducting this audit and after dozens of lengthy interviews with HTA staff, board members and contractors, it is disconcerting that our respective explanations were not even mentioned. Accordingly, you will see throughout this document repeated instances where we now further clarify the facts.

D. Casting an Incomplete Picture of HTA's Responsibilities

One of our most important responsibilities is to help ensure a strong visitor industry that helps bolster the State's economy. We do this by supporting programs, events and partnerships across a broad spectrum, and this in turn leads to a holistic approach to tourism that strives to take care of our community and draw visitors who generate tax revenue for our State.

Examples of our key programs are:

1. Brand Development
   HTA's brand development initiatives support the marketing of Hawai'i tourism through programs designed to raise awareness among travel consumers. It is through the relationships that we've formed with our Global Marketing Team and their partners that we've been able to draw visitors at record levels from around the world.

2. Business Destination Management
   Meet Hawai'i is a collaborative effort of HTA, the Hawai'i Convention Center and HTA's Global Marketing Team to market the Hawaiian Islands as a world-class destination for meetings, conventions and incentive (MCI) programs.

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3. Air Access
Air access is critical to the state's tourism economy and essential to the quality of life that Hawai‘i residents enjoy, including their travel to the U.S. mainland and international destinations. Over the course of the past six years we've entered partnerships with airlines and others under our Access Program to encourage airlines to increase flights and capacity to Hawai‘i. As shown below, our efforts in this area have brought increased capacity to the State, especially benefiting the neighbor islands.

4. Hawaiian Culture / Kūkulu Ola
Native Hawaiian culture is the heart of our islands and the root of HTA's mission in marketing Hawai‘i. The spirit and significance of the Native Hawaiian culture are integrated into every element of HTA's programs to support Hawai‘i and its people. You have questioned the wisdom of HTA supporting these programs, and we will explain within why our investment in this area has, contrary to your conclusions, been improved over the past few years.

5. Natural Resources/‘Āloha Aina
The natural resources found throughout the Hawaiian Islands are some of the most precious in the world, located in Earth's most unparalleled environments, and among Hawai‘i's greatest assets as a travel destination. HTA supports a variety of environmental programs and initiatives in partnership with communities statewide – as well as federal, state and county agencies – to protect Hawai‘i's natural resources today and preserve them for future generations.

6. Community Enrichment Programs
HTA is dedicated to supporting the establishment of distinct and memorable experiences in communities statewide for residents and visitors to enjoy. To fulfill this initiative, HTA assists industry partners and community stakeholders in developing new products and cultivating existing programs to enhance Hawai‘i's brand and convey the range of unique festivals and events offered on all islands. The work we do in this area supports hundreds of organizations throughout the State.

7. Major Festivals and Signature Events
HTA is committed to supporting major festivals and signature events highlighting the culture, people, attributes, and locations that make the Hawaiian Islands one of the best places in the world to live and visit. These include cultural, arts, and culinary celebrations showcasing Hawai‘i's heritage and resident pride in their communities, and attracting visitors seeking authenticity in their travel experiences.

8. Career Development
HTA continues to collaborate with educational organizations and businesses in encouraging Hawai‘i high school students to pursue careers in travel and tourism. Additionally, HTA partners with training providers to offer workshops and certification programs enhancing the quality of knowledge, skills and service levels of employees working in the tourism industry.

9. Safety & Security
HTA is committed to assisting organizations responsible for keeping Hawai'i safe and secure. Under Hawai'i Revised Statute §237D-6.5(6)(2), HTA is required to spend one-half percent of the Tourism Special Fund on safety and security initiatives. The HTA-funded Visitor Assistance Program provides assistance, resources and aloha to visitors in need statewide.

10. Tourism Research and Planning
The availability and utilization of timely, insightful visitor research is vital to Hawai'i's tourism industry stakeholders for making sound business decisions. Hawai'i tourism is in a very mature phase requiring continuous research and gathering of data to supplement knowledge for enhancing brand awareness, improving product experiences, maintaining competitive advantages against other destinations, and strategically expanding into new markets.

11. Communications
HTA consistently keeps Hawai'i's tourism industry, news media and the general public informed about its programs, initiatives, research, positions on key issues and crisis situations.

HTA has a broad responsibility and our approach to tourism is holistic, as it should be. Within these programs are hundreds of contracts with community and worldwide partners, and the audit only examines a hand-select sampling of them. Due to the range of our contracts whose terms vary depending on the specific needs and scope of work, a one-size fits all approach should not be applied in assessing our contracts. There are many nuances that may impact why our contracts are written a certain way and, without taking this into consideration, they cannot be fairly judged. Examples will be provided in our analysis below.

E. The Numbers Should Not Be Ignored

In evaluating whether HTA has been effective in serving our mission, the audit does not take fully into account the statistics surrounding visitor arrivals, expenditures and air seats. If HTA was not effective in managing our contracts and our contractors and in working with Hawai'i's tourism industry, the numbers would not reflect as they do and Hawai'i would not be the beneficiary of six record years of arrivals and expenditures. Notably, the expenditure growth rate outpaced the visitor arrival rate.

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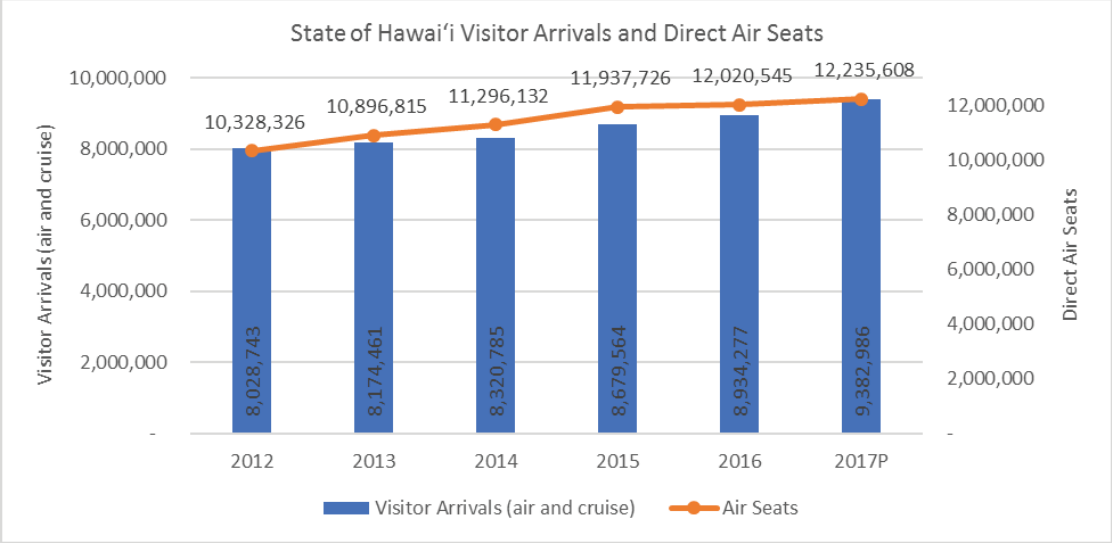

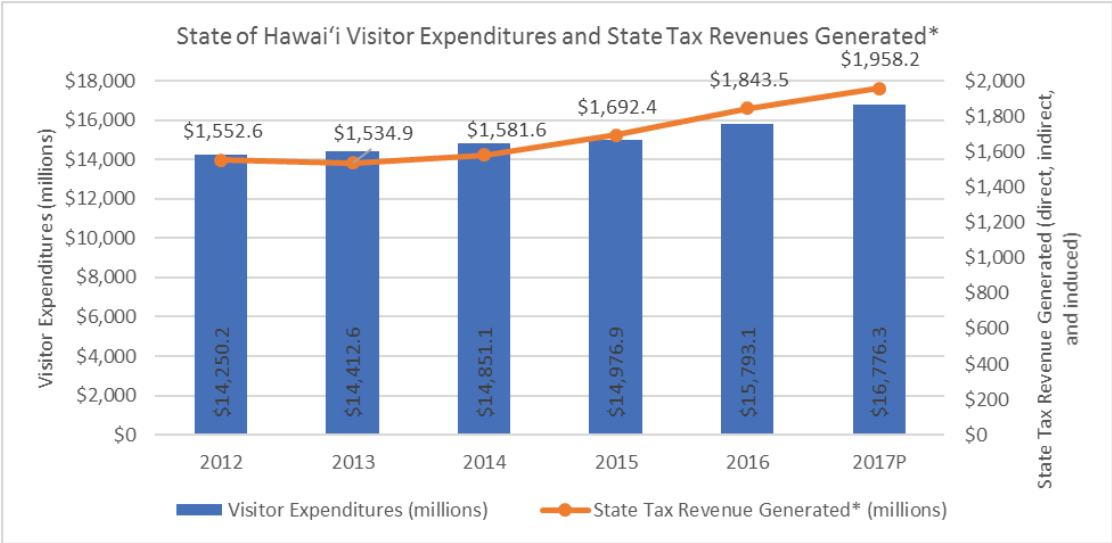

Our research and marketing programs, our focus on taking care of the environment and Hawaiian culture, our strategic relationships with airlines and others through the Access Program, and our work bringing meetings and conventions to Hawai'i, all contribute to keeping the visitor industry strong and ensuring economic benefit to our State.

F. Getting More Value, Not Less From Taxpayer Dollars

The general implication of the audit is that HTA is not properly utilizing taxpayer revenues. We strongly disagree and believe the positive trend of the numbers bolsters our point of view. HTA's allocation of Transient Accommodations Tax (TAT) funding has remained the same since FY 2014, yet over that same period visitor expenditures and arrivals have increased over prior years. In effect, we are providing the State with a greater return on investment than in the past.

5

G. HTA Improvements Ignored By The Audit

HTA strongly believes in continuous improvement, and we intend to continue to make improvements to help the organization move forward. However, as we assess our efforts to date, we believe it is important to acknowledge the improvements we have made over the past few years. These improvements include:

HTA Board Level

- Fostering improved Board engagement, with time-intensive, line-by-line reviews of our budget each fiscal year. Each line item clearly identifies the method of procurement, along with key metrics for the programs.
- Instilling new policies and procedures, such as the requirement that unbudgeted programs involving expenditures over $250,000 to be fully vetted and approved by the Board.
- Forming an HTA Board Marketing Standing Committee to assist in the evaluation of marketing proposals and marketing activities.
- Establishing a $4 million reserve for unexpected contingencies, which is in addition to the existing $5 million Tourism Emergency Special Fund.
- Fostering more transparency and inviting legislators to participate and attend HTA Board meetings, executive session or otherwise.
- Prior to the current administration, AEG/HCC did not report to the HTA Board on a consistent basis. Since 2015, AEG/HCC have reported to the HTA Board on a routine monthly basis for increased accountability. This has resulted in positive net balances over the past two years.

HTA Staff Level

- Issuing Requests for Proposals (RFP) for all major market contractors in 2015 and 2016, and reducing the mandatory term of the contracts to ensure greater accountability. Revising key performance indicators for all markets through this process.
- As an example of positive year-to-year contract management leading to better use of taxpayer dollars, we divided up the marketing of the United States and Canada beginning in 2017. In 2016, Canada was down 6.5% in arrivals and 9% in spending. In 2017, Canada was up 10.4% in arrivals and 8.1% in spending.
- Beginning in 2016, requiring that all major markets have a 15% holdback on available funds that can only be released with HTA's approval as an internal control to ensure ongoing collaboration and oversight.
- Implementing a financial operating system in 2015 to provide greater internal oversight and controls over spending and approvals.
- Developing in 2017 a contract management system and implementing the system in 2018 to ensure improved procurement and contract management oversight.
- Management and development of the GoHawaii website to facilitate the efficient use of the website as a platform and brand consistency across all markets.
- Developing one unified brand management plan, encompassing all of our markets, beginning in 2016.
- Returning Native Hawaiian and Natural Resources programs in-house, saving the State money in administrative costs and fostering improved oversight, dialogue and communication with stakeholders.
- In 2017, significantly expediting RFP procurement processes for the Kūkulu Ola, Aloha 'Āina and Community Enrichment Programs by approximately 6 months.

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- Instilling improved contract execution, monitoring and tracking processes in 2017.
- Issuing an RFP and creating the MCI Global Program in 2017 to ensure greater collaboration and oversight relating to MCI activities. This has led to securing new meetings and conventions, and increased revenue to the State.

H. Criticism for exercising statutory authority

Throughout the audit, HTA is criticized for sole sourcing contracts and hiring contractors and, in doing so, it is argued that HTA is misusing its authority.

Important clarifications must be made. First, HRS §201B-12 expressly exempts HTA from the Hawai‘i Public Procurement Code, Chapter 103D, except in the case of construction contracts (HRS §201B-7.5). Second, even though not required to do so, HTA uses this authority sparingly relative to the competitive bidding process. We provided the information to your staff that, in 2017, only 19% (45 out of 230) of our contracts were sole source. Yet, this fact was excluded from the audit, as was consideration that HTA is approached with creative proposals proprietary to the proposing entity for which we are not able to turn into an RFP.

The reason for HTA’s exemption is two-fold. First, the intention with HTA was to create an agency that could support the tourism industry, flexibly and with agility and creativity. Second, HTA is a market participant, competing with other destinations on behalf of our State. HTA’s effectiveness in competing with other destinations is based on the speed with which we can contract with other entities and execute our programs. So, a statutory allowance was made to give HTA the ability to contract without a competitive bidding process. Without this flexibility and authority, it will significantly hinder HTA’s ability to stay ahead of tourism trends and opportunities. Ultimately, this would harm Hawai‘i’s ability to compete with other global destinations.

As for the hiring of contractors, HRS §201B-13(11) expressly authorizes HTA to “engage the services of consultants on a contractual basis for rendering professional and technical assistance and advice”. Therefore, as we strive to improve the organization and in furtherance of our mission, HTA is acting appropriately in engaging contractors. The audit, which seems to cast a negative light on the use of contractors, contradicts HTA’s statutory authority.

II. Important Corrections & Clarifications

We wish to provide some important, specific corrections and clarifications in the audit.

Page 3 (first paragraph)
HTA **“BEGAN OPERATIONS** in 1999**”**

- HTA was created by Act 156, SLH 1998

Page 5 (last paragraph)
Board of Directors

- This description of how the HTA Board of Directors is selected is not fully accurate, as it suggests that the Governor of his own accord selects the board members and omits the role of the Legislature. HRS §201B-2(3) makes clear that:

> Three members shall be appointed by the governor from a list of three names submitted for each appointment by the president of the senate, and three members shall be appointed by the governor from a list of three names submitted for each appointment by the speaker of the house of representatives; provided that if fewer than three names are submitted for each appointment, the governor may disregard the list.

Page 7 (second full paragraph)
Finance Office

- While the Vice President of Finance is responsible for budget and other duties, that position is not responsible for oversight and management of operational aspects of HTA, including contracts, information technology and personnel.

Page 7 (third full paragraph)
HTA's Special Funds

- It states "HTA enjoys dedicated funding, with its revenue derived from a percentage of the TAT." HTA actually receives a fixed amount of $82,000,000 pursuant to HRS §237D-6.5(b)(3).

Page 7 (Footnote 5)

- In reference to the major market areas, the footnote states: "Each of these market segments display generally similar travel characteristics and competitive conditions within their borders." This statement is inaccurate. Each market has unique characteristics, and there are wide variances in competitive conditions that influence visitor travel within these markets.

Page 11

- The graph reflecting a vertical access beginning at "$30,000,000" and horizontal access at "$32,441,017" has no legend or description and is, therefore, not understandable.

Page 12 (second full paragraph)

- The audit claims, generally, that HTA does not provide adequate oversight over the Hawai'i Convention Center (HCC) and Hawai'i Visitors and Convention Bureau (HVCB). While current HTA leadership was not present during the decisions of past administrations upon which these assertions appear to be made,[1] the current staff meets with both organizations on a routine and consistent basis. Communications are in real-time, and occur through numerous channels, between staff of both organizations and at the leadership level. As mentioned above, HTA has implemented enhanced budgeting processes that govern major market contractors, such as HVCB. HCC reports its budget and provides updates to HTA staff on a monthly basis, and it reports the same to the HTA Board on a monthly basis as well. HTA also requires HCC and HVCB to annually obtain a financial audit from an independent certified public accountant.

Page 12 (second full paragraph)

- The audit states: "More alarming is that HTA ignored provisions in the AEG contract – an agreement under which HTA reimburses all of AEG's costs and other expenses incurred to

[1] As to the concerns relating to AEG reflected on pages 12 through 21, these concerns involve activities that occurred, or were set in motion, prior to the current administration.

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perform the contract – that were intended to provide assurance that HTA paid for only those costs that were allowed, necessary, and reasonable." We believe it is important to highlight the fact that this entire section pertains to a "transition contract" between HTA and AEG executed in 2013 and a subsequent contract executed between the parties in 2014. Any attribution of these activities to the current administration is unfair.

Page 12 (third full paragraph)

- HTA has continuously instilled improved processes for managing contractors and monitoring performance. These include:
  - Reissuing RFPs in 2015 and 2016 for major market contractors, instilling revised KPI measurements;
  - Implementing an extensive budget process that requires major market contractors to present their full budget to the HTA leadership and staff each year, which is then subject to HTA Board review and approval;
  - Instituting a 15% holdback of available funds, only to be released after presentation of how it will be used and only upon the approval of HTA;
  - Providing training to major market contractors each year, communicating responsibilities relating to marketing, contracts, and budget;
  - Providing training to HTA staff regarding new fiscal and contract management procedures;
  - Revising and improving procurement processes on an ongoing basis, and providing training to staff relating thereto; and
  - Providing external project and contract management support training to HTA staff.

HTA provided this information to the auditors at the Opening Conference on July 7, 2017 (see Attachment 1).

Page 14 (fourth full paragraph)

- The AEG transition contract was managed prior to current HTA leadership's administration. However, HTA reviewed all AEG receipts under the transition contract. Upon AEG providing the receipts and HTA's review, HTA discussed the allowability of certain costs internally. HTA leadership approved the receipts on the basis that the objectives of the contract were being achieved.

Page 16
The Missing Management Agreement

- Consistent with the explanation provided by HTA, the following explanation was provided by Brad Gessner, Senior Vice President-Convention Centers, AEG Facilities, to your office by email on February 12, 2018, but it was excluded from the audit. He states, in pertinent part:

> …The result was a shorter-form contract that functions as the Management Agreement; however, it is cast as a "Contract for Professional Services" (attached). Notwithstanding that it is called a "Contract for Professional Services", it functions in the exact same way a Management Agreement would. It's the governing document of our engagement with the HTA, lays out our scope of services and our fee, and includes legal boilerplate taken from our RFP response. This is the document we've amended year-over-year with new

> budget information and otherwise treated as the Management Agreement, regardless of what it's actually called…

Despite the semantics of the title of the agreement, HTA's position and Mr. Gessner's explanation are reasonable. We feel this should have been included in the audit to ensure that reviewers of this document do not get the mistaken impression that the prior (or current administration) was neglectful in outlining the terms of the relationship between the parties. Instead, the audit makes it seem as if there is no governing document between the parties. That is simply not the case.

Page 17 (first full paragraph)

- The audit seems to criticize HTA for entering a cost-reimbursement contract with AEG, and instead favors a fixed contract, stating:

> …The structure of the contract shifts significant cost risk to HTA: Rather than AEG assuming the risk that its actual costs, including salaries and other administrative expenses as well as subcontracts, will not significantly exceed its budgeted costs, HTA has accepted the risk by agreeing to reimburse AEG for those costs. AEG has less incentive to reduce its payroll, to cut its operating costs, or to aggressively negotiate with subcontractors.

HTA respectfully disagrees. Under a cost-reimbursement contract, HTA maintains the benefit of the contractor reporting costs less than those initially budgeted and approved. For example, in calendar 2016 and 2017, AEG reported operating results for HCC that were, for the first time ever, net positive and, therefore favorable to the State and taxpayers. Under a fixed price contract as the audit seems to suggest, the contractor would have the ability to keep the financial benefits realized. Instead, under a cost-reimbursement contract, the State benefited from the efficiencies and retained cost savings. Further, HTA has internal controls in place to manage the costs of HCC, including subjecting the operator to a budget approval process that includes HTA staff input and is ultimately approved by HTA's Board of Directors.

Page 17 (second full paragraph)

"AEG has never been asked to provide check registers, invoices, or other documentation to support more detailed reviews. Without periodic, detailed reviews, HTA has minimal assurance that the costs for which AEG requests reimbursement are reasonable and solely for Hawai'i Convention Center operations, sales and marketing, and repair and maintenance, as set forth in the contract."

- HTA's oversight of AEG is not minimal and appropriate controls are in place to ensure costs for reimbursement are appropriate. As noted in the Auditor's report, HTA requires AEG to submit its annual budgets for review and approval by HTA staff and the HTA Board. HTA staff frequently meets with HCC executives, providing significant oversight. Further, as earlier noted, HTA requires AEG to obtain an annual financial audit, which entails reviewing AEG's internal controls and propriety of expenditures, which subjects AEG to accountability to HTA.

Page 17 (last paragraph)

- The audit contends HTA is not filling certain responsibilities specified in the contract. We fulfill both of these responsibilities.

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- Approve total compensation. As the Auditor states in Footnote 7, HCC employee compensation is submitted to HTA. HTA requires compensation of HCC employees to be submitted as part of its proposed budget. Total compensation costs are one of many costs that are included in HCC's budget that is reviewed by HTA staff and approved by the HTA Board.
- Monitor performance through a performance audit. HTA executives formally meet with HCC staff on a monthly recurring basis, in addition to frequent monitoring through meetings, emails and other forms of discussion. In addition to these communications, HTA conducts a meeting with AEG at least annually to discuss AEG's performance in light of its performance incentive. AEG summarizes conclusions reached during these performance meetings and provides to HTA.

Page 18 (first paragraph)

- The characterization of the statements of the COO is an unfair interpretation. AEG is the Manager of the Convention Center, and it is expected to manage and oversee the activities of the Convention Center on a daily basis with little oversight from HTA. There is no question that HTA meets with HCC staff on a regular basis and approves the budget of HCC every year through a comprehensive process at the staff and HTA Board level. Determinations with AEG as to which employees should receive bonuses and commissions are employment issues that first need to be determined by AEG, and then incorporated into the budget approved by HTA.

Page 18 (second paragraph)

- HTA, through its contract specialist, approves the RFP's relating to subcontracts and, as it pertains to capital improvement projects, participates in the selection.

Page 20 (third full paragraph)

- The audit states "AEG never obtained HTA's approval of the subcontract as AEG's contract with HTA seems to clearly require." This is not correct. HTA's prior leadership notified AEG of its approval to use Levy.

Page 22 (second full paragraph)

- The audit report contends that HTA does not approve subcontracts. This is incorrect. Footnote 10, expressly identifies the definition of the term "subcontract" within the HVCB contract, and it clearly states that HVCB must only request approval for subcontracts over $75,000. Such requests are reviewed and obtained from HTA on a consistent basis, through "Form C" documents that are submitted by HVCB to HTA, with approvals by HTA's brand manager, Vice President of Marketing and Product Development and COO. (See Attachment 2)

Page 25
Contracts, Contracts, Contracts

- HTA is criticized in the audit for bringing additional programs in-house. While recognizing the additional capacity required to administer the community enrichment programs, the overall costs to bring them in-house was far less than the 14% administrative fee paid to the Hawai'i Community Foundation, representing a savings to the State. Furthermore, by bringing these programs in-house, HTA is more effective in accomplishing the goals outlined in our strategic plan. Lastly, the savings were reinvested into direct funding of additional programs, increasing our effectiveness and impact statewide.

Page 26
Cades Schutte LLP
Cades Schutte was hired as a legislative consultant, not as a lobbyist. They do not lobby for HTA. Based on our review of potential consultants that we considered, Cades Schutte had the least amount of conflicts and was best positioned to serve HTA's needs under the circumstances.

Page 28-29
Expedia
We would like to clarify some key comments that were made in the audit about the Discover Your Aloha campaign and the development of its assets.

- Auditor's Comment: "The contract required Expedia to provide $3.5 million in matching advertising spending within its online travel network, develop facial recognition technology to interpret viewer reactions, and create a portal where prospective travelers could interact with the drone footage of Hawai'i taken from air, land and sea. …We noted that the interactive website Expedia was supposed to create allowing users to view drone footage was not created and was incorporated in to the 60-second online video."
    - Fact: As was explained to the auditors, Expedia did not develop the facial recognition technology. The technology was developed in the 1960s and evolved over the years to become a high tech software tool used for law enforcement, security, and retailers. Discover Your Aloha was the first marketing campaign to use facial recognition software. The drone footage was never intended to live on its own interactive website. The facial recognition software is what interacts with the viewer's reactions to the drone footage because it illicits a facial response from them allowing a profile of their likes to help Expedia create a personalized experience.
- Auditor's Comment: "HTA asserts that Expedia's work generated $361.5 million in visitor spending."
    - Fact: As provided to the auditors, Discover Your Aloha increased passenger demand and visitor spending, as well as increasing travel to the Neighbor Islands which was a goal of the campaign. While travel to all islands increased, travel to Kaua'i increase 30% year-over-year and the Island of Hawai'i increased 28% year-over-year. A total of 684,249 passengers booked travel to Hawai'i from Japan, Oceania and the United States directly as a result of the campaign, with an average stay of 7.8 days and total spending of $1,399,098,120.
- Auditor's Comment: "The campaign received pushback from hoteliers who felt the Discover Your Aloha video was cannibalizing hotel bookings by travelers who would have visited Hawai'i regardless of the video"
    - Fact: The following information was provided to the auditors, but was excluded from the report:

        > Based on meetings between the HTA and [upper management of] several larger hotel chains, there was a concern of not knowing about the campaign before it was launched.
        > Beginning in May 2016, Expedia provided information to the hotels about the campaign via Monthly Moon calls, where every hotel in the state is invited to participate. The campaign was slated to began in September 2016. HTA also presented details of the campaign at its annual Spring Marketing Update in March 2016 and demonstrated the

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> technology at its annual Global Tourism Summit in September 2016. . . . The hoteliers other main concern was that this interfered with their desire to generate direct bookings. Data from the campaign showed that of the 291,886 tickets booked off of the campaign, 57% were stand-alone air tickets which suggest that those resulted in direct hotel bookings. Hotels were also told that a "Book Direct" button that could be added to the site.

Page 30 (first full paragraph)

- The report states: "We observed a lack of coordination regarding procurement and related responsibilities among HTA Program/Brand Managers and other levels of personnel involved with HTA contracts. This confusion appears to have contributed to a seemingly prevalent lack of accountability at HTA for compliance with statutory and internal procurement requirements."
- We will continue to strive to improve in this area, however, the report excludes a number of improvements already in place, including:
  - Contract execution tracking mechanisms;
  - Revisions to procurement policies and procedures, including new forms requiring stronger justifications for sole sourcing;
  - Additional training provided to staff regarding the procurement policies and procedures;
  - Contract management system for better coordination of procurements and contracting.

  Further, HTA has been revising its policies and procedures, which incorporate improvements in our procurement processes.

Page 30 (call-out)

- Winfred Pong is a former HTA employee with a thorough understanding of HTA issues and terminology that was helpful in preparing and recording our meeting minutes.

Page 31

- HRS §201B-12 exempts HTA from the Hawai'i Procurement Code. Regardless, the vast majority (81%) of HTA's contracts are procured through a competitive process. However, the following clarifications on specific contracts are offered:
  - High Performance System, Inc. (HPSI): The contractor was selected through an RFQ process and the decision was based on a review of multiple proposals and interviews.
  - First Daughter's Mediaworks: This company was the creator and developer of the program and it was a proprietary creation that was proposed to HTA. It would be inappropriate for HTA to be presented with their creative and proprietary idea, and then to "shop" the idea out to someone else.
  - Milici Valenti Ng Pack (MVNP): MVNP has been a brand agency for HVCB for approximately 20 years, and they developed the logo for which the follow-up work was necessary. Their prior knowledge and experience with the logo and our brand guidelines was important and valuable to the project.
  - Lynn Surayan: Ms. Surayan is a former employee of HTA who left the organization due to personal reasons. She did not work on the "mobile app project" as stated in the audit. Prior to leaving HTA, she was responsible for the GoHawaii website redevelopment planning and, as she became able, she recontinued her work as the project manager.

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Page 32

- Phase 1 of the financial staffing services was procured through an internal requisition, for which we documented our market research that entailed contacting nine public accounting firms for quotes. As a result of our research, HTA selected N&K. Under the pressing circumstances of not finding a qualified candidate to fill HTA's vacant Fiscal Officer position, HTA then contacted N&K to extend their previously-procured services via a sole source contract, referred to as Phase II.

Page 35 (Paragraph 3)
Waiver of Copyright Ownership

- HTA's contract specialist previously provided the audit team with an explanation of HTA's current position on ownership of intellectual property (IP). In essence, as a government agency, HTA is not in the business of owning IP for its own profit and, therefore, HTA maintains perpetual ownership of the right to use the IP without unreasonably restraining its partners' commercial operations or dis-incentivizing contracting with HTA.
- HTA will revisit its stance on this issue in light of the audit findings.

Page 35 (callout)

- Ikayzo's contracts and contracted amounts listed on the pages 31, 33, 50-51 of the audit are incorrect.
- The correct contracts and amounts are:
  - Contract 16032: $53,371.71
  - Contract 16072: $93,806.24 (Base: $42,209.40 + Supplemental No. 1 to Contract 16072: $51,596.84)

Page 39
Not IT

- Please identify the statutory provision, requiring HTA to have an IT Strategic Plan and Budget, as we were unable to locate it. The organization's IT needs are overseen by the COO, along with support from the Operations Manager and the Director of Research.
- Basic IT needs are handled by High Performance System, Inc., and their daily contact is the Operations Manager.
- As for having an IT Strategic Plan and Budget, HTA does not have internal systems requiring significant IT resource support. Historically, HTA's basic IT needs have been addressed by one-person as an outside contractor. In recent years, HTA has improved the support with an organization – HPSI – that provides multiple people to provide support.
- The audit confuses internal IT support with digital marketing. Our digital marketing needs are properly supported by individuals and organizations that have expertise in the IT area. The only large IT project during the audit time period is the GoHawaii website. Lynn Surayan is an experienced IT project manager, and she provides the overall project management oversight for the GoHawaii website project, consulting with our VP of Marketing and Product Development and Director of Marketing.

Page 41
"Social media Don'ts"

- While we appreciate the efforts undertaken to review our social media programs globally, we believe that this is outside the scope of the stated objectives and purview of the audit.

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Furthermore, some of the examples cited do not tell the whole story and do not account for factors, such as photographers using zoom lenses to capture their images, and our internal controls to override posts where inappropriate. We continue to improve our internal controls and ongoing training for the HTA global marketing teams, including through our Ma‘ema‘e Toolkit, Hawaiian Culture training and Natural Resources programs in partnership with the Department of Land and Natural Resources and the Hawai‘i Ecotourism Association.

Pages 42-45
Administrative Cap
When the key leaders joined HTA in mid-2015, we were immediately required to make adjustments in our staffing levels due to the Legislature reducing our administrative cap from 5% to 3.5%. At that time, we were nearing the end of the fiscal year and so it was necessary to make staffing adjustments. Once we came into compliance with the immediate administrative cap change, we then sought further guidance from the Department of the Attorney General as to the meaning of “administrative expenses”. Based on that advice, we have been faithfully applying that definition.

HRS §201B-3(10) which specifically authorizes HTA to hire contractors in support of our mission. What this allowance means is that even though our ability to hire additional state employees may be limited, HTA still has an obligation to keep improving the organization, and HTA is expressly authorized to bring on contractors to help us with that mission.

We have sought to improve our organization in many ways. One of the key improvements has been to minimize our outsourcing of programs to outside entities. Prior to the current administration being at HTA, our Hawaiian culture and natural resource programs were outsourced and managed by the Hawai‘i Community Foundation (HCF). It was important to strengthen relationships and HTA’s accountability over these programs. HTA also paid an administrative cost of 14% of the total costs of the contracts. This issue of administrative costs associated with outsourcing the programs was brought up during budget discussions in 2015. Therefore, as an improvement, HTA made the decision to bring these programs in-house, believing that these programs are so important to our mission that we should be directly involved. This explanation was provided to your staff on repeated occasions. The report criticized the decision and made no explanation of the reasons that were given.

Page 50-51

- The comments/info on Ikayzo were incorrect. The correct facts are:
  - Sole Source Justification: Staff did online search for local app developers who have experiences in not only being capable of developing tourism apps but also multi-language apps and only Ikayzo demonstrated that capacity.
  - CVC for Contract 16032: A valid CVC dated 12/4/15 was received electronically from vendor for HTA contract execution. However, a hard copy was not filed in the contract folder at the time of audit due to staff’s misfiling/confusion on who files the hard copy of CVC. The hard copy is now in the contract file.
  - CVC for Contract 16072: A valid CVC dated 6/1/16 was in contract file at the time of audit.
- SMS Research and Marketing, 15034 Qmark Research, and 15062 D.K. Shifflet & Associates are listed as not having reporting requirements in the agreements. Each of these contracts have reporting requirements. CON 15011 specifies daily, weekly, monthly, and annual reports in the agreement. CON 15034 specifies weekly, quarterly, and annual reports. CON 15062 specifies bi-

annual and annual reports for the base waves and a report for each re-contact period.

Audit Recommendations

Below are our specific responses to the recommendations in your report.

Recommendation #1
(Bullet point #1)
Ensure relevant policies and procedures are up-to-date and clearly assign implementing Authority to staff.

We are currently in the process of revising our policies and procedures for HTA Board of Directors approval, which will set into place stronger internal controls. We expect this process, which began during Fall 2017, to be completed in the next several of months. Concurrently, we've conducted trainings of our staff and developed detailed guidelines, requiring more thorough documentation and justifications with respect to contracts that we sole source. (See Attachment 3)

Recommendation #1
(Bullet point #2)
Provide training on standard contract provisions, and develop procedures detailing the activities that its staff will perform in ensure compliance.

Historically, an award letter would provide guidance to contractors on requirements. The award letter would eventually be followed by an email containing the contract as well as an explanation of contract contents and execution process.

However, HTA has continued to make additional improvements in this area. All staff managing contracts attended required contract management training in 2017. In-house procurements and contracting training and supporting documentation was provided to staff in 2017. Contract and procurement workflows were developed in 2018, and provided to all HTA staff. (See Attachment 4) New, more detailed procurement worksheets have been developed. Also implemented in 2018, all contracts going out to contractors for execution contain instructions stating all required documentation prior to HTA's signature and any associated payments. This includes the requirement of insurance, CVC and updated budgets and timelines, if necessary.

In addition to its existing reviews of contractor performance, HTA will explore more in-depth and frequent reviews of our contracts. As HTA's policies and procedures are revised, HTA intends to provide additional training consistent with the recommendation.

Recommendation #1
(Bullet point #3)
Develop and implement procedures to include additional monitoring, i.e., periodic in-depth review of a sample of transactions, to ensure that expenses are necessary and reasonable, and that public monies are being used appropriately.

HTA currently has a number of monitoring mechanisms in place. Our brand managers and leadership team review the cost of contracts for reasonableness, and all payments must be approved at multiple

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levels through our financial management system. HTA performs annual third-party financial audits of its two largest contractors, HVCB and AEG, but will be exploring the possibility of extending this to other contractors. In addition, HTA will consider implementing further processes to strengthen reviews of payments and transactions.

Recommendation #2
(Bullet point #1)
Ensure a proper procurement infrastructure exists that includes adequate information technology and staffing levels.

With limited state positions available, HTA has hired contractors to provide additional support in the area of contracts and procurements. HTA intends to evaluate its staffing levels and assignments, with a goal of further strengthening the resources in support of contracts management and procurement. As mentioned earlier, HTA has only basic internal IT needs, as it relies primarily upon cloud applications. Nevertheless, HTA will examine the issue of whether it needs additional internal resources in support of its digital marketing, such as for the GoHawaii website.

Recommendation #2
(Bullet point #2)
Re-align HTA's procurement duties and responsibilities to match the current organization of positions at the Authority

HTA is in the process of reorganizing and will be examining this issue in connection with that effort.

Recommendation #2
(Bullet point #3)
Assign a senior HTA manager or executive to oversee HTA's quality assurance function and ensure it is made a priority for the Authority. Such oversight should include ensuring the agency's quality assurance plan is updated and properly implemented.

This function is currently overseen by HTA's COO, with support provided by an administrative assistant whose responsibility is primarily focused on quality assurance. This will be re-examined in connection with the ongoing reorganization efforts. HTA's quality assurance processes will be reviewed and improved, as recommended.

Recommendation #2
(Bullet point #4)
Ensure that its quality assurance specialist fulfills the position's duties by updating this position description to align with the duties detailed in HTA's quality assurance policy. The quality assurance specialist's responsibilities should include developing or updating a quality assurance plan for HTA.

The recommendation is noted. HTA will reexamine the position duties to ensure they are consistent with the revised quality assurance plan.

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We are honored to support the State of Hawai'i knowing how vital the tourism industry is to the livelihoods of residents and success of businesses statewide. Thank you for your help in identifying ways that we can improve HTA.

Very truly yours,

L. Richard Fried, Jr.
HTA Board Chair

George D. Szigeti
HTA President & CEO

Attachment 1

Legislative Auditor Opening Conference
July 7, 2017

- HTA is always striving to continuously improve
- Improvements led to positive follow-up audit in 2016
    - Unified Brand Management Plan
    - Restructured the organization to facilitate more cohesive operations and efficiencies
    - Developed 5-year strategic plan, and aligned the plan with the brand management plan as well as the budget
    - More extensive budget approval process
    - Revised key performance indicators
    - Instilled greater oversight and controls over contractors
    - Conducted contractor & employee training
    - Issued RFPs for all markets
    - Implemented financial operating system, along with processes for payments (after deliverables provided), contracts and contract file audits
- More recent improvements since 2016 follow-up audit
    - Continued follow through with strategic plan
    - Improved communication and collaboration with Board of Directors
        - Board Resolution 17-02 (requiring board approval for most expenditures over $250,000)
        - Creation of a Marketing Standing Committee
    - Developed a budget strategy for refreshing the organization
    - Developed a revised budget format more directly-aligned with the pillars of our strategic plan
    - Established a $4 million reserve for unexpected contingencies, in addition to the already existing $5 million Tourism Emergency Special Fund
    - Returned key programs in-house (e.g. Kūkulu Ola and Aloha ‘Āina), fostering better interaction with stakeholders and contractors
    - Implemented a comprehensive contract tracking process
    - Bolstered organizational resources with additional contractor support for key functions
    - Developed a more comprehensive procurement planning worksheet
    - Aligned procurement and payment processes to be more streamlined
    - Expedited payment approval processes, while strengthening controls (i.e. wire transfers)
    - Added MCI Global, instilling improved oversight over MCI marketing
- Ongoing improvements
    - Promoting positive culture and spirit of teamwork and collaboration, including weekly leadership and staff meetings
    - Facilitating DAGS transfer into State treasury
    - Developing Contract Management System
    - Providing staff in-house and external training
    - Updating policies and procedures
    - Continued usage of RFP process (despite statutory exception)
    - Expediting RFP issuance process
    - New staff and board member orientations

Attachment 2

CA
LD

Form C

Form C-2018-03

HAWAI'I VISITORS AND CONVENTION BUREAU
PROPOSED CONTRACT/AGREEMENT/ARRANGEMENT - for HTA Approval
LEISURE & CMI

Use this form (Form C) when your department needs to enter into a contract/agreement/arrangement for the following:
- Purchase of services from advertising or public relations agencies
- Purchase of goods or services of $75,000 or more
- Engagement of persons or entity to perform Leisure or CMI marketing services for HTA on behalf of HVCB

Note: Purchases of administrative goods or services and contracts/agreements/arrangements that are substantially ministerial in nature do require HTA approval.

Process:
- Department Head completes this form and attaches supporting documentation (if applicable)
- Department Head reviews this form with Division Vice President/Executive Director; if approved, Division VP/ED signs this form
- Department Head forwards this form and its supporting documentation to Dept 01 - Finance & Corporate Services
- Dept 01 submits this form to VP-COO and the President/CEO; if approved, Dept 01 submits it to HTA for HTA's review and written approval
- If approved by HTA, Dept 01 notifies Department Head and Dept Head can enter into contract/agreement/arrangement

Name of Contractor/Vendor	Type of Goods and/or Services	Dollar Amount of Contract	Hawaii Based Yes or No	Contract/Agreement Start Date	Contract/Agreement End Date	Rationale/Comments - be specific Ex: These goods/services are not available in Hawaii. Ex: Contractor will be our Adv agency; they will do
Golf Channel	Integrated cable network television/digital media promotion for Hawaii golf, inclusive of programming, promotional and paid media exposure	$300,000.00	no	12/01/17	02/28/18	Following HTA's strategic direction to develop the golf brand for Hawai'i, a programming and advertising platform has been negotiated with Golf Channel - the only cable television network focused exclusively on golf content to reach the golf audience. The partnership will provide Hawai'i and the golf industry with a national television platform to reach a key audience with messaging all about the destination during the Hawai'i golf tournament window with the PGA TOUR and Champions Tour events in Hawai'i. Pre-promotion runs in December 2017, at which point the *Aloha Season* promotion heavies up in January 2018 with the Sentry Tournament of Champions on Maui, continues through the Sony Open in Hawaii on O'ahu, and ends with the Mitsubishi Electric Championship at Hualalai on the island of Hawai'i.

#1 - Submitted by:

D4 Marketing
Dept No.

Gina Chun
Department Head — Division Head (VP/ED) — Da

#2 - Rec'd - Finance

Sr VP - Chief Operating Officer — Date: 10.23.17

#3 - HVCB Review & Approval:

HVCB President/CEO — Date: 10.24.17

#4 - HTA Review & Approval:

HTA - Signature — Date: 10/31/17

rev 12/12/12

Attachment 3

Date: November 1, 2017
From: [redacted]
To: Sean Hao and Tricia Oftana, Auditors
Re: Procurement & PPW Training

Aloha Sean and Tricia:

This is in response to your request for **“any formal procurement and PPW training provided to HTA staff”** since 2015 (and beyond if available). Please see attached along with a description below.

The HTA has gone through a progression of trainings, both internal and external, regarding the procurement process, as the agency grows and develops: procurement worksheet workshop; ongoing trainings and orientations on the procurement process by HTA and by State Procurement Office (SPO); development and training of the new HTA PPW forms and procedures; the HTA’s integration into the Department of Accounting and General Services (DAGS) system and introduction to the forms and procedures thereof; introduction to the upcoming new SPO HANDS system; and upcoming retraining on the revised HTA PPW form and procedures. These phases are described in more detail below, followed by a chronological outline of those phases and a list of associated documents. We strive, always, for continuous improvement.

HISTORY:
The HTA conducted a Procurement Worksheet Workshop for staff on January 17, 2014. (See under Responsive Documents “January 17, 2014: Procurement Worksheet Workshop.”) The PPW forms and procurement procedures continued without change throughout 2014, 2015, 2016, and the early part of 2017. Staff already had previous experience and training with the then-current HTA procurement procedures, so during this period training and clarification was provided upon request, and usually in person.

Trainings and overviews are also provided by the contract specialist in the form of orientation as a regular part of the procurement or solicitation process. This includes, inter alia, discussions around solicitation methods and procurement timelines; establishing the ground rules for scoring, for determining second round invites, and for evaluator conduct during oral presentations; what happens if the selection committee cannot make a decision or desires more information; how and when the applicants will be informed of requests for clarifications or BAFO’s, as well as of award or non-award; and the process and procedure for responding to protests and how that effects the contracting timeline. (See under Responsive Documents “Ongoing 2014 – 2017 Procurement Training (examples)” for written examples of ongoing training and orientation.)

It was in April of 2017 that we installed the new more robust PPW Forms along with our revised procedures, which was introduced with formal training to staff (See under Responsive Documents “April 25, 2017: PPW/Procurement Training.”). As with all new processes, we have welcomed continuous staff and management feedback and have made subsequent refinements to the forms. (See under Responsive Documents “October 13, 2017: PPW Training and Manager feedback.”) We are planning to retrain the staff in early November on the revised forms.

Concurrent with the introduction of the revised forms and procedures was the integration of the Hawai‘i Department of Accounting and General Services (DAGS) into the workflow process. As of July 1, 2017, all contracts would be filed with, and payments processed through, DAGS. Training was provided to staff members regarding the forms and other requirements necessary for processing contracts and

invoices. In addition, in November of 2017 the State Procurement Office (SPO) will launch their new procurement system: Hawai'i Awards and Notices Database System (HANDS). Orientation and training will be provided to necessary HTA staff in the contracting and finance departments.

CHRONOLOGICAL PHASES OF IMPROVEMENT:

The trainings outlined below illustrate the following phases in our process:

1. 2007 - 2014: State Procurement Office Trainings of various sorts.
2. January 17, 2014: HTA training on use of the Procurement Worksheet (PW).
3. Ongoing 2014 – 2017: Procurement training and orientation.
4. April 25, 2017: Introduction to the new PPW forms and procedures for contracting process. Includes overview of terminology, processing, responsibilities, forms.
5. June: Initial introduction to DAGS forms and procedures.
6. August 4, 2017: Training provided on the integration of contract and invoice procedures with DAGS. Included a thorough overview of the necessary forms and how to fill them out.
7. August 24-25, 2017: Training and overview of various procurement methods and contract types based on guidelines put forth by the National Contract Management Association (NCMA). This was a vital step in helping the staff understand the framework that underlies these forms and procedures.
8. October 13, 2017: PPW Training and Feedback with Brand Managers. Going over revisions made to the PPW forms since April. Revisions reflect necessary clarifications, the inclusion of process-related information, and the advice of the auditors (e.g. request for Sole Source Price Justification). Additional manager feedback was solicited and incorporated during this meeting. Final version to be presented to management and admins.
9. October 2017: State Procurement Office Training on the Hawai'i Awards and Notices Database System (HANDS). User Guides downloaded and studied by Ronald Rodriguez. HANDS to launch November 20, 2017. Limited staff scheduled to attend Webinar November 8, 2017.
10. Early November TBD: Retraining of administrative staff on 1) updated PPW forms and instructions, 2) updated workflow responsibilities.

RESPONSIVE DOCUMENTS:

Please find attached the following:

1. 2007 – 2014 SPO Trainings
    - 2007-2014 SPO Classes (Note: may not include trainings for those who worked in other departments and who received procurement training in connection with such roles (e.g. Randy Baldemor, Department of Taxation & DAGS-OIMT).
2. January 17, 2014: Procurement Worksheet Workshop
    - 011714 PW Workshop Attendance
3. Ongoing 2014 – 2017 Procurement Training (examples)
    - 092715 Ethics in Procurement Scoring
    - 031516 Oral Presentation Procedures
4. April 25, 2017: PPW/Procurement Training.
    - 042517 Training Attendance
    - 042517 Agenda – Contracting Process Overview
    - 042517 Contract Process Flow Chart
    - 042517 Microix PPW and Contracts Enc Training

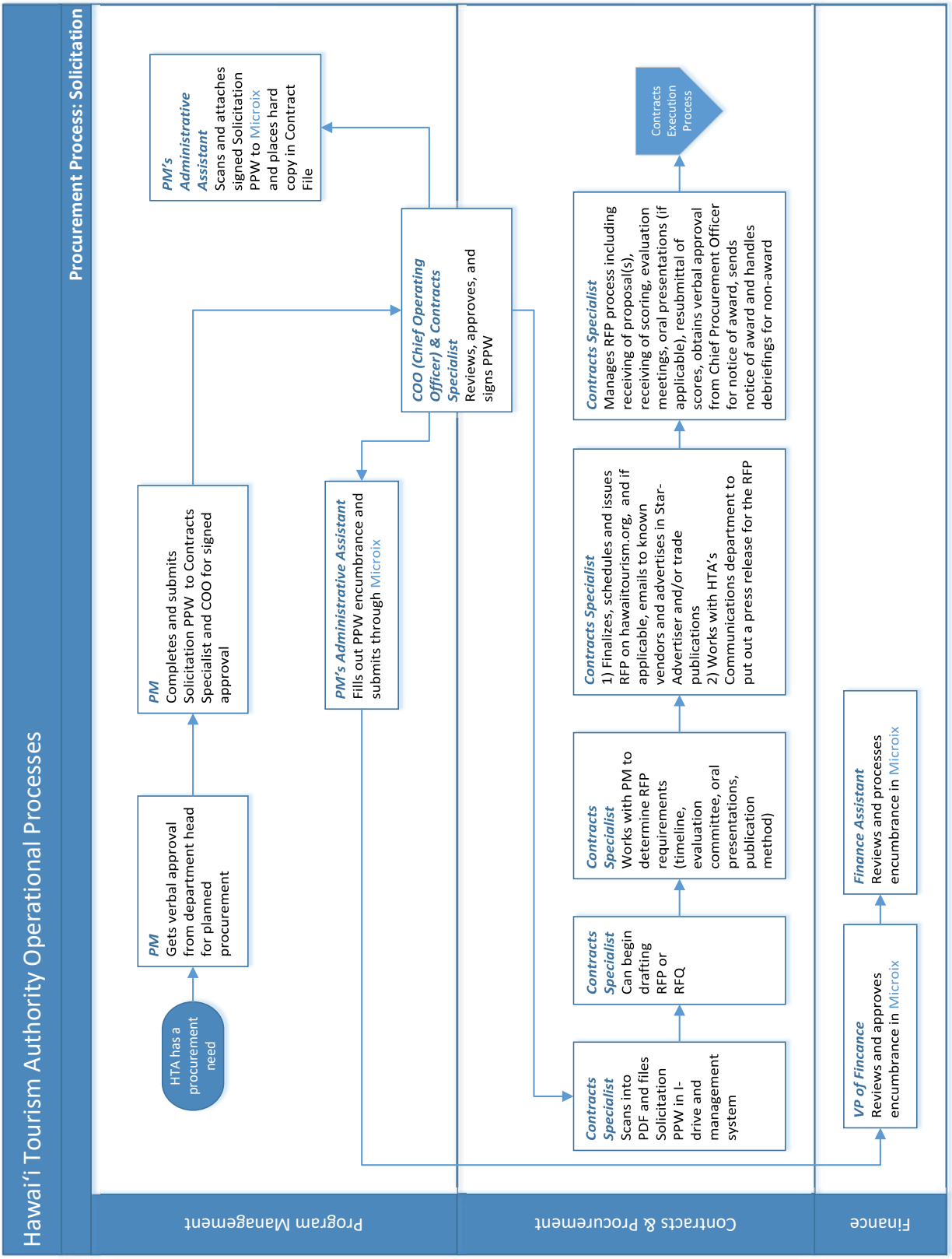
Attachment 3

Date: November 1, 2017
From: [redacted]
To: Sean Hao and Tricia Oftana, Auditors
Re: Procurement & PPW Training

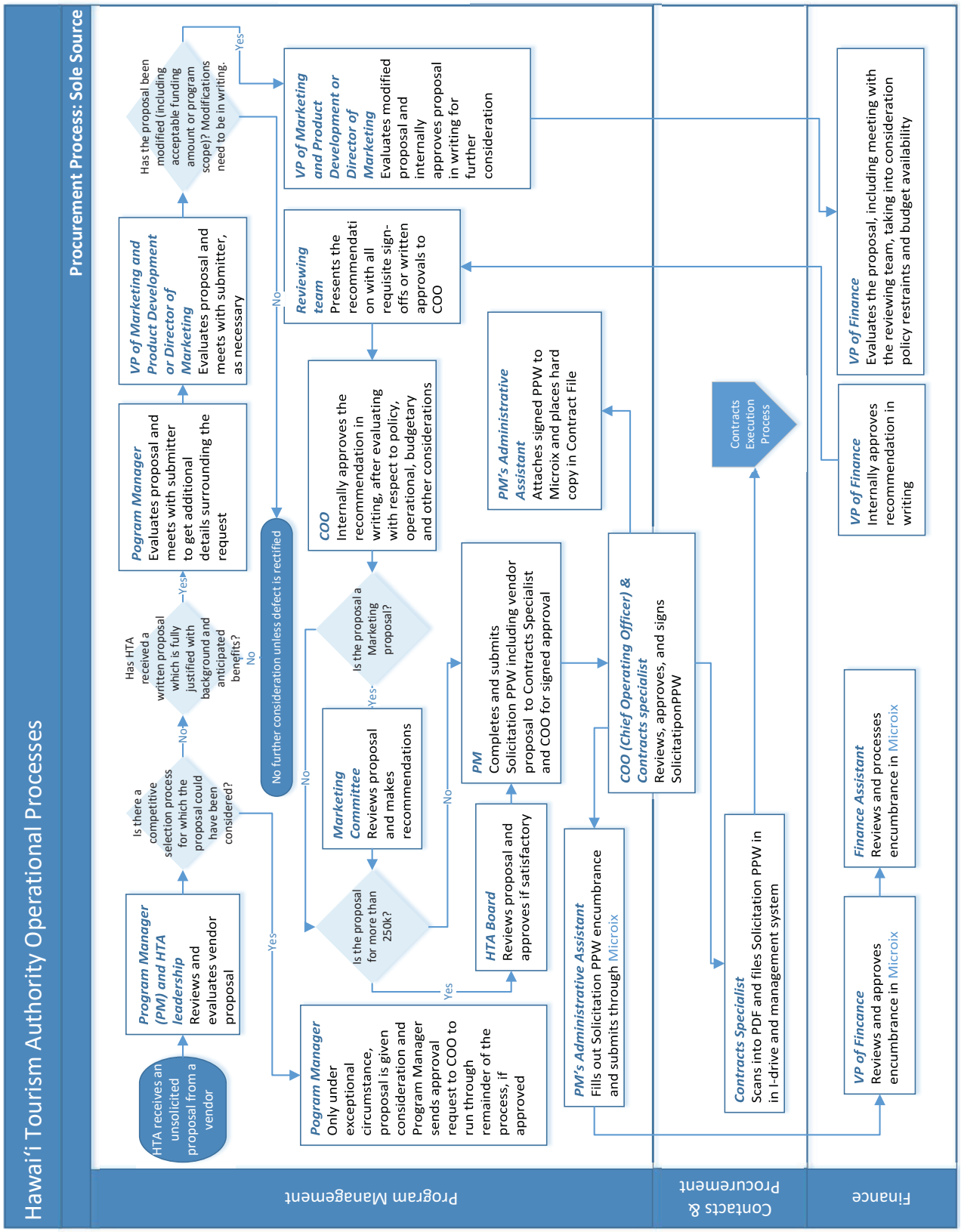
- 042517 Solicitation and Procurement Planning Worksheet (PPW)
- 042517 PPW Instructions

5. June 9, 2017: Initial introduction to DAGS forms.
    - 060917 Attendance
    - DAGS Form: Batch Slip A-47
    - DAGS Form: Contract 1st Page AG-001
    - DAGS Form: Contract Input C-41
    - DAGS Form: Memo C-40
6. August 4, 2017: HTA Finance Department DAGS Training
    - 080417 DAGS Training Sign-In Sheet
    - 080417 DAGS Procedures Training
7. August 24-25, 2017: Contract Management Training by Knowledge Academy.
    - Contract Management Body of Knowledge (CMBOK) 4th Edition, National Contract Management Association, 2013. (Not attached.)
8. October 13, 2017: PPW Training and Manager feedback.
    - 101317 Attendance Record
    - 101317 Solicitation PPW (reflects changes made based on feedback)
    - 101317 Contract PPW (reflects changes made based on feedback)
    - 101317 Supplemental PPW (reflects changes made based on feedback)
9. October – November 2017: SPO HANDS Training.
    - 110817 Training Attendance – SPO
    - HANDS Requester User Guide
    - HANDS Buyers User Guide
    - HANDS Poster User Guide
    - HANDS Webinar
10. Early November TBD: Retraining of administrative staff, and management, on revised forms and workflow responsibilities.
    - PPW Forms: See 101317 Forms for Solicitation, Contract, and Supplemental PPWs.
    - PPW Instructions: Under revision. (Not attached.)
    - Workflow responsibilities: Being drafted. (Not attached.)

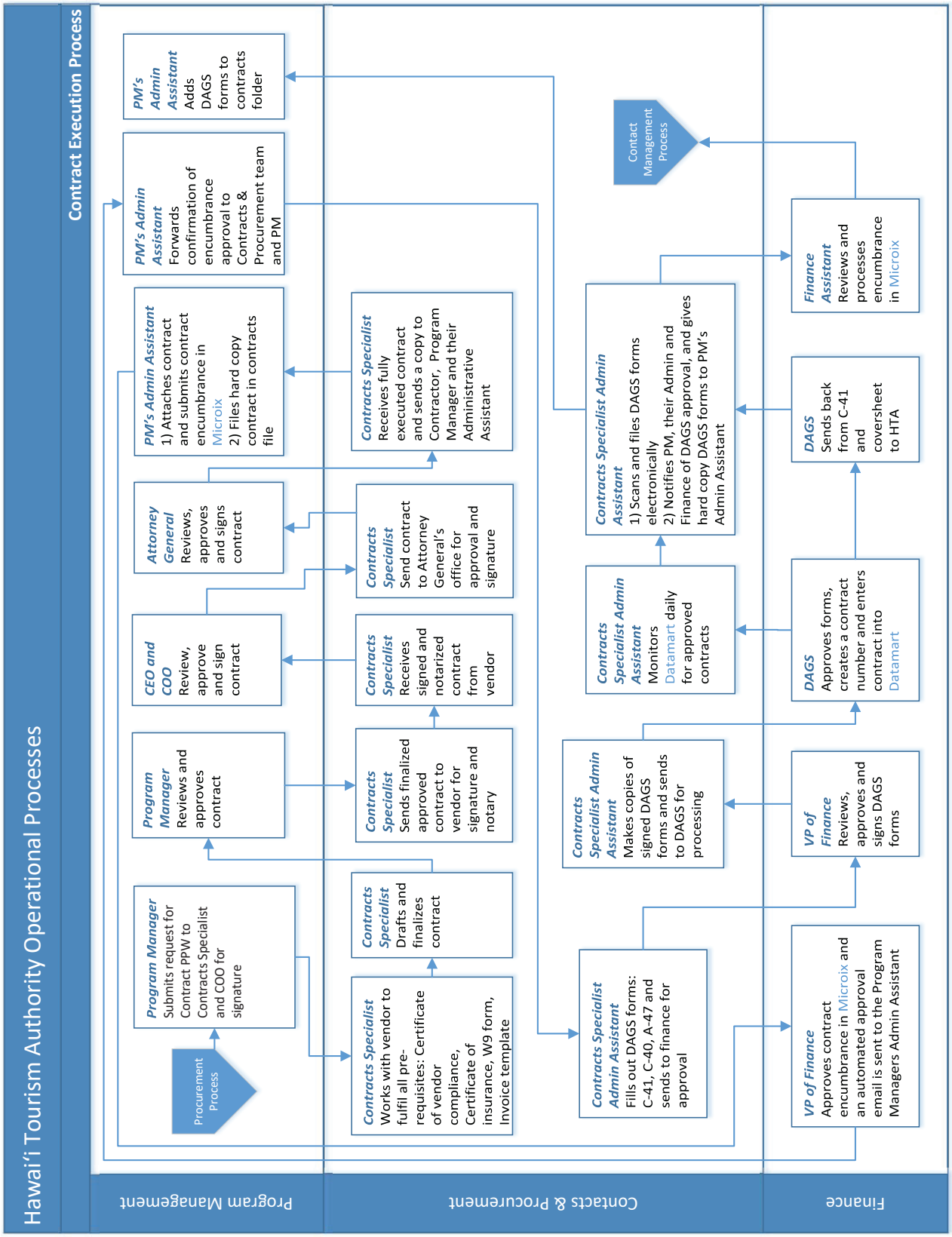
Attachment 4



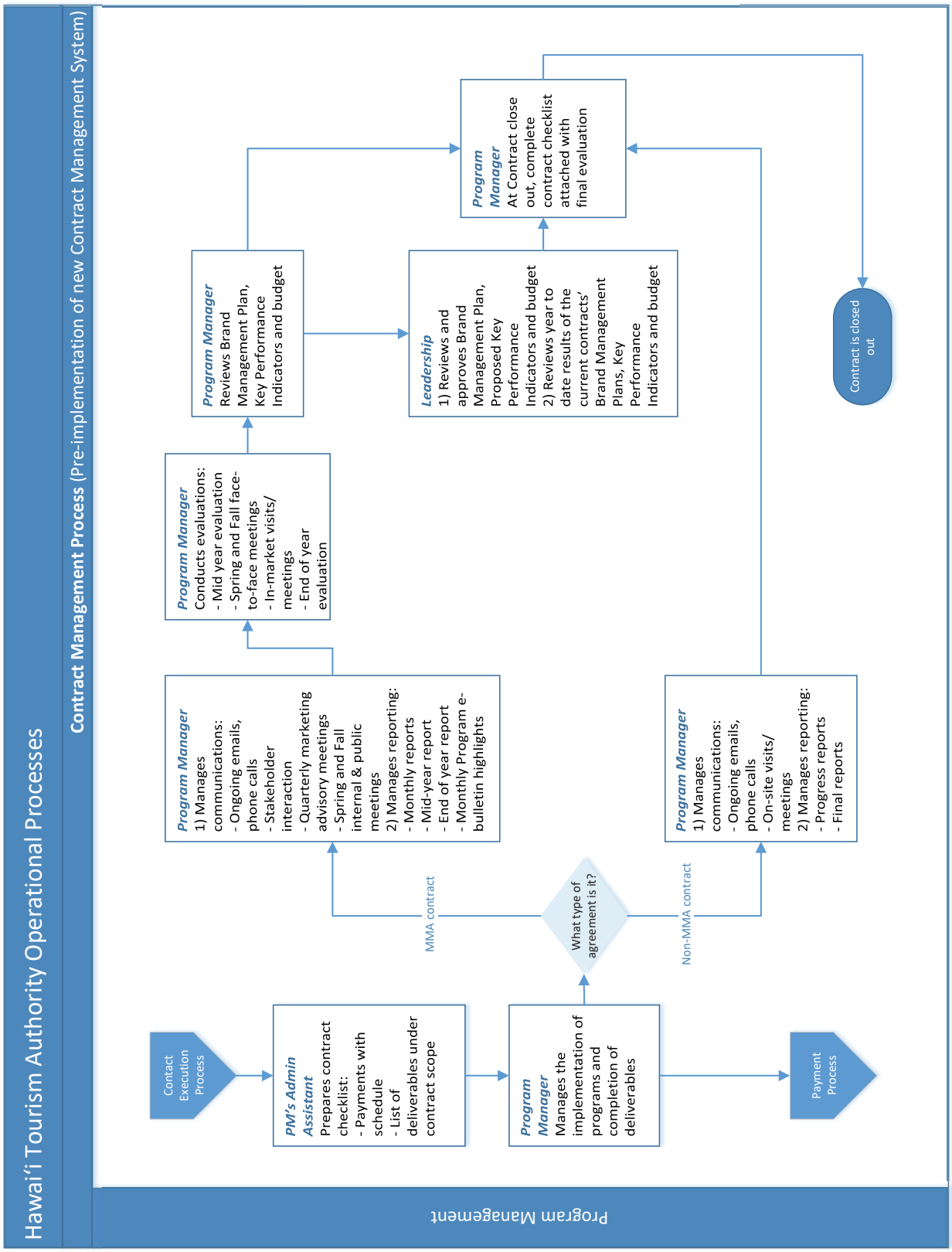
Attachment 4



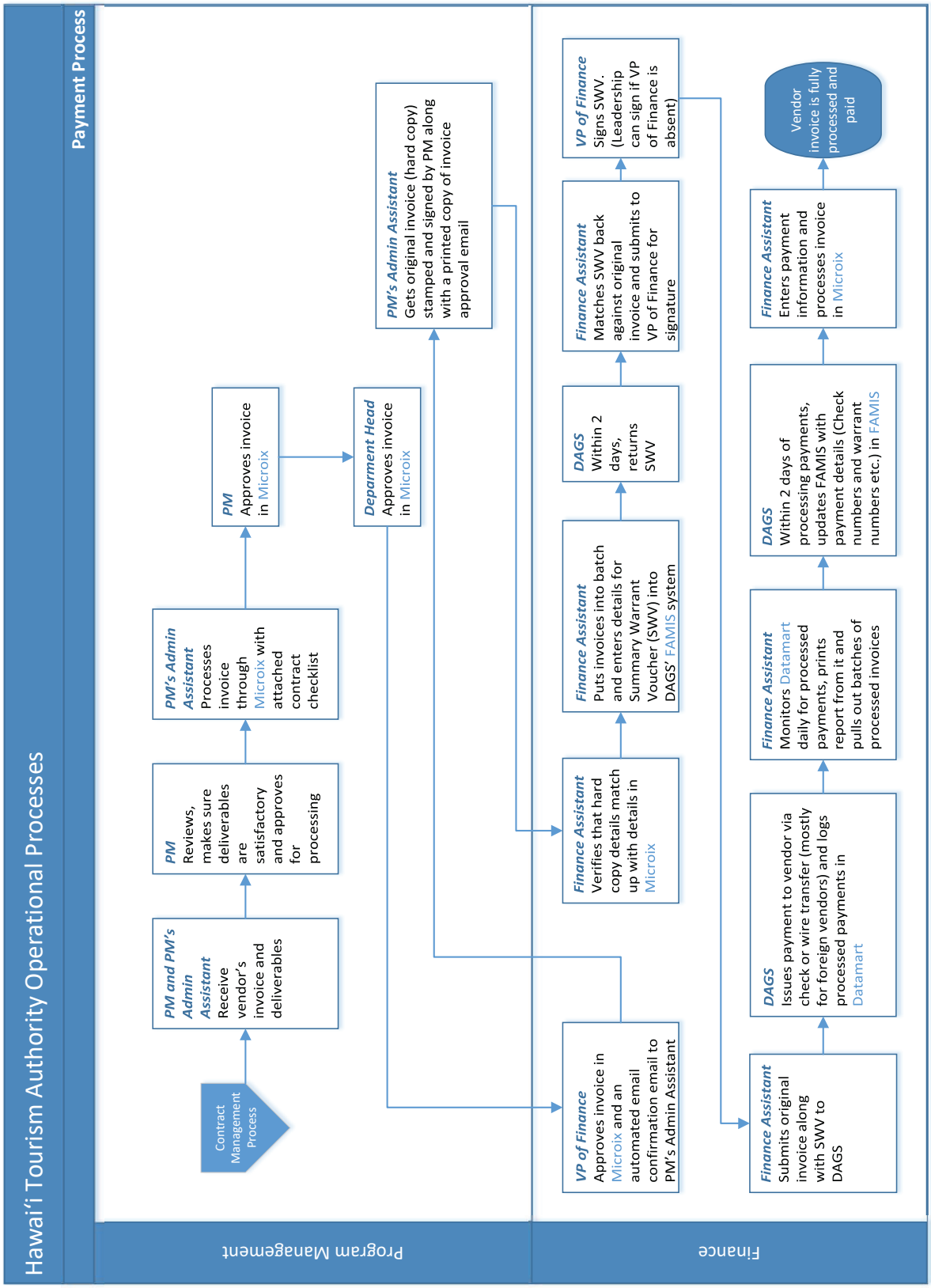
Attachment 4



Attachment 4



Attachment 4



Appendix A

Prior Audits

We previously published four management audits of HTA and two follow-up reports. The first, Report No. 02-04, *Management Audit of the Hawai'i Tourism Authority*, was initiated because of legislative concerns about inadequate explanations for the Authority's actions, especially the spending of moneys seen as critical to the State's economic well-being. We identified a wide array of deficiencies in the Authority's contracting process, including a lack of written policies and procedures, incomplete contract files, and inadequate monitoring of contracts.

The following three reports were initiated pursuant to Section 23-13, HRS:

- Report No. 03-10, *Management and Financial Audit of the Hawai'i Tourism Authority's Major Contracts*, which utilized a consultant, found the Authority's inadequate contract management and internal controls failed to safeguard State funds allocated for marketing Hawai'i as a visitor destination. In addition, poorly written contracts and inadequate controls allowed HVCB to spend $151.7 million of tax dollars with no identifiable benefit to the State.
- Report No. 09-02, *Management and Financial Audit of Hawai'i Tourism Authority's Major Contracts*, again used a consultant. The audit found that HTA's year-to-year approach to planning and program implementation hindered its ability to strategically manage the long-term growth of the State's visitor industry, and that the Authority lacked a functional strategic plan, performance goals and targets.
- Report No. 13-09, *Audit of Major Contracts and Agreements of the Hawai'i Tourism Authority*, found that HTA's marketing plan, which is supposed to identify marketing efforts and targets, establish measures of effectiveness, and document progress, falls short of statutory requirements. Additionally, HTA's monitoring of contracts lacked formal policies, procedures, and training, leading to inconsistencies throughout their process.

The following two reports were initiated pursuant to Section 23-7.5, HRS:

- Report No. 12-06, *Report on the Implementation of State Auditor's 2009 Recommendations*, found that HTA had taken steps to address many of its deficiencies, including developing a new strategic plan and establishing key performance indicators. In addition, HTA had undergone an extensive reorganization designed to increase organizational efficiency and accountability. However, we found that HTA had not established visitor industry targets nor reported on its own performance towards achieving its goals. We also found that the Authority commissions reports and gathers data (i.e., through visitor and resident surveys), but does minimal analysis or reporting of that data.
- Report No. 16-05, *New HTA Management Continues to Improve Plans, Contract Oversight, and Reporting: Follow-Up on Recommendations Made in Report No. 13-09, Audit of Major Contracts and Agreements of the Hawai'i Tourism Authority*, found that the Authority had closed nine of our recommendations, while five were open, but in progress. And while there was a change in administration since the original report was issued, there had been movement to continue the recommendation implementation process.

Appendix B

List of Contracts Tested

	Contract No.	Contractor Name	Amount	Was sole source supported?	Was contractor evaluated prior to amending/ extending	Were IP rights waived?	Were reporting requirements included in agreement	Was there a valid CVC?	Was there a proposal?
*	14067	WCIT Architecture, Inc.	$850,000	N/A	No	No	Yes	N/A	Yes
	14067 (S1)	WCIT Architecture, Inc.	$847,000	N/A	N/A	No	Yes	No	No
1	16013	Anthology PR 1	$352,688	N/A	N/A	Yes	Yes	No	Yes
	16013 S1	Anthology PR 1 OOP	$12,000	N/A	N/A	Yes	No	No	No
	16022	Aviareps Marketing Garden	$1,400,000	N/A	N/A	No	Yes	Yes	Yes
2	16024	The Walshe Group	$2,000,000	N/A	N/A	No	Yes	Yes	Yes
	16024(S2)	The Walshe Group	$2,000,000	N/A	Yes	No	Yes	Yes	N/A
3	16025	Cades Schutte, LLP	$74,240	No	N/A	No	Yes	Yes	No
4	16032	Ikayzo	$61,633	No	N/A	No	No	No	Yes
	16032 S1	Ikayzo	$51,597	No	N/A	No	No	No	Yes
5	16036	High Performance System, Inc.	$37,948	No	No	No	No	No	No
	16036 (S1)	High Performance System, Inc.	$75,895	No	N/A	No	No	Yes	No
6	16039	The Happy Traveller LLC dba Brandstory Inc PTE Ltd	$2,000,000	N/A	N/A	No	Yes	Yes	Yes
	16039(S2)	The Happy Traveller LLC dba Brandstory Inc PTE Ltd	$2,100,000	N/A	Yes	No	Yes	Yes	N/A
7	16040	Non-Profit Technologies	$28,916	No	N/A	Yes	No	No	No
8	16041	ClearPath Entertainment	$321,713	N/A	No	Yes	Yes	No	Yes
	16041 (S1)	ClearPath Entertainment	$150,000	N/A	No	Yes	Yes	No	No
	16041 (S2)	ClearPath Entertainment	$1,200,000	N/A	N/A	Yes	Yes	No	No
9	16054	HVCB	$621,200	Yes	No	Yes	Yes	No	No
	16054 S1	HVCB	$800,000	Yes	N/A	Yes	Yes	No	No
10	16055	Anthology Kamaaina	$80,000	No	N/A	Yes	No	Yes	No
11	16057	Miles Marketing Destinatioins	$600,460	N/A	No	Yes	Yes	No	Yes
	16057 S1	Miles Marketing Destinatioins	$585,820	N/A	N/A	Yes	Yes	No	Yes
12	16063	Winfred Pong	$39,000	No	N/A	No	No	No	No
13	16064	Community Marketing, Inc.	$71,750	No	No	No	Yes	No	No
	16064 (S1)	Community Marketing, Inc.	$10,250	No	N/A	No	Yes	No	No
14	16065	Expedia	$3,500,000	No	N/A	Yes	No	No	No
15	16071	HVCB	$2,492,709	No	No	Yes	No	No	No
	16071 S1	HVCB	$540,181	No	No	Yes	No	No	No
	16071 S2	HVCB	$865,420	No	No	Yes	No	No	No
	16071 S3	HVCB	$349,256	No	N/A	Yes	No	No	No
16	16072	Ikayzo	$33,948	No	N/A	Yes	No	No	Yes
17	16074	Repucom	$214,181	N/A	No	Yes	Yes	No	Yes

	Contract No.	Contractor Name	Amount	Was sole source supported?	Was contractor evaluated prior to amending/ extending	Were IP rights waived?	Were reporting requirements included in agreement	Was there a valid CVC?	Was there a proposal?
	16074 S1	Repucom	$277,744	N/A	N/A	Yes	Yes	Yes	No
18	16077	First Daughter	$177,150	No	No	Yes	Yes	Yes	Yes
	16077 S1	First Daughter	$0	No	N/A	Yes	Yes	Yes	No
19	16079	MVNP	$287,958	No	Yes	Yes	No	Yes	Yes
	16079 S1	MVNP	$196,182	No	N/A	Yes	No	No	Yes
20	15010	I Plus Connect Communications	$1,399,300	N/A	N/A	No	Yes	Yes	Yes
21	15004	Digital Mediums	$94,930	N/A	N/A	No	No	Yes	Yes
22	15007	Net Results	$9,175	No	N/A	No	No	No	No
23	15011	SMS Research & Marketing Services	$1,113,080	N/A	No	Yes	No	Yes	Yes
	15011 S1	SMS Research & Marketing Services	$12,000	N/A	N/A	Yes	No	Yes	No
24	15034	Qmark Research	$166,401	N/A	N/A	Yes	No	No	Yes
25	15062	D.K. Shifflet & Associates	$303,000	N/A	N/A	Yes	No	No	Yes
26	17024	Lynn Surayan-Sprague	$4,680	No	No	No	Yes	No	No
	17024 S1	Lynn Surayan-Sprague	$33,800	No	No	No	Yes	No	No
	17024 S2	Lynn Surayan-Sprague	$35,360	No	N/A	No	Yes	No	No
27	17036	Anthology PR 2	$371,000	N/A	No	No	Yes	Yes	Yes
28	17039	Anthology PR 2 OOP	$17,000	N/A	N/A	No	No	Yes	No
29	17214	Anthology Website	$150,000	N/A	N/A	Yes	No	No	Yes
30	17231	N&K CPA's Inc. (P&P)	$26,000	No	N/A	No	Yes	Yes	Yes
31	17235	N&K CPA's Inc. (Temp. Fin.)	$64,000	No	N/A	No	Yes	Yes	Yes
			TOTALS	**26**	**16**	**28**	**24**	**32**	**27**

Appendix C

HTA Administrative Expenses

HAWAI'I TOURISM AUTHORITY

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

David Y. Ige
Governor

George D. Szigeti
President and Chief Executive Officer

July 1, 2015

TO: GREGG J. KINKLEY
Deputy Attorney General
Commerce and Economic Development Division

FROM: GEORGE SZIGETI
President & CEO
Hawai'i Tourism Authority

SUBJECT: HTA ADMINISTRATIVE EXPENSES

Aloha Gregg:

In the HTA's transition to new management, we embrace the opportunity to assess all aspects of our operations. The HTA complies with HRS §201B-11, which stipulates a maximum for administrative expenses. To encourage transparency and an accurate accounting of expenditures, the HTA intends to refine the definition of administrative expense.

We have conferred with Randall Nishiyama, Deputy Attorney General, representing the Department of Budget & Finance, who has advised:

1) Administrative expenses are defined as operating costs that are needed for day-to-day operations;
2) Direct services may not need to be defined as administrative costs; and
3) The sum of the administrative costs can be reduced by allocating time spent by staff on direct services.

Based upon Mr. Nishiyama's counsel, the HTA seeks your concurrence in our application of the refined administrative expense definition, as follows:

1) Administrative expenses are defined as operating costs that are necessary to run day-to-day operations, including administrative staff salaries and general office expenditures.

2) Administrative expenses do not include payroll for HTA staff whose primary responsibilities are HTA program-oriented.

   a. Brand Management and Research staff's responsibilities are program-oriented.

   b. The HTA's President and Chief Executive Officer (CEO), and its Chief Operating Officer (COO), oversee Brand Management, Research and Administrative staff's efforts. A portion of the CEO's and COO's costs of payroll do not constitute administrative expenses.

3) Administrative expenses do not include governance-related costs, including costs associated with the HTA Board of Directors, legal and audit services.

4) Administrative costs do not include vacation paid to employees upon their departure from the HTA. The HTA is not able to anticipate or directly control the amount of vacation employees take each year or the timing of employee departures. Accordingly, the HTA maintains a separate reserve for accrued vacation, outside of the HTA's annual Board-approved budget.

5) Administrative expenses do not include fringe benefits. The HTA is not able to directly control the rate of fringe benefits assessed to employees.

Based upon our consultations with you and Mr. Nishiyama, the HTA will move forward with this refined administrative expense definition.

Truly yours,

George Szigeti

George Szigeti,
President & CEO
Hawai'i Tourism Authority

Reviewed and concur:

Gregg J. Kinkley

HTA Administrative Expenses
3 of 3

Copy: Randy Baldemor,
Chief Operating Officer, HTA

Marc Togashi,
Vice President of Finance, HTA

Appendix D

HTA Board Members, 2013-2017

Board Member	2013	2014	2015	2016	2017
Ronald Williams	√ (Chair)	√			
Patricia Ewing	√	√			
Kelvin Bloom	√	√			
Jack Corteway	√	√	√	√	
Patrick Fitzgerald	√	√			
L. Richard Fried	√	√	√ (Chair)	√ (Chair)	√ (Chair)
Victor Kimura	√	√			
Michael Kobayashi	√	√			
Craig Nakamura	√	√	√	√	√
David Rae	√	√	√	√	
Aaron Sala	√	√ (Chair)			
Lorrie Stone	√	√	√	√	
Fred Atkins		√	√	√	√
Sean Dee		√	√	√	√
Donna Domingo		√	√	√	√
Denise Hayashi Yamaguchi		√	√	√	√
Robert Herkes		√			
Randolf Perreira		√			
Gerald De Mello			√	√	√
George Kam			√	√	√
Ku`uip Kumukahi				√	√
Sherry Menor-McNamara					√
Kelly Sanders					√