Management Audit of the Hawaii Tourism Authority

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

Report No. 02-04
February 2002

THE AUDITOR
STATE OF HAWAII

Office of the Auditor

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

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

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.

2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.

3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.

4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.

5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.

6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds are existing funds meet legislative criteria.

7. *Procurement compliance audits* and other *procurement-related monitoring* assist the Legislature in overseeing government procurement practices.

8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.

9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

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

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OVERVIEW

Management Audit of the Hawaii Tourism Authority

Report No. 02-04, February 2002

Summary

In 1997, the Economic Revitalization Task Force was convened to look for ways to improve Hawaii's economy. To implement the task force's recommendations, the Legislature in 1998 established the Hawaii Tourism Authority. A 13-member Board of Directors heads the authority. Among other things, the law authorizes the board to create a vision and develop a long-range plan for tourism in Hawaii, develop and implement the state tourism strategic marketing plan, and make and execute contracts and agreements. All of the authority's revenues come through the Tourism Special Fund, which collects 37.9 percent of the State's transient accommodations tax revenues. During FY2000-01, the fund had $67.7 million in revenues.

We found that the Hawaii Tourism Authority is plagued by an alarming array of management deficiencies. The authority's Board of Directors has the principal responsibility for fulfilling the authority's mission of managing the strategic growth of Hawaii's visitor industry. We found that the board has failed to provide the vision, leadership, and direction necessary to ensure that the authority achieves its primary mission. The authority's strategic planning process was deficient, and measuring the direct impact of the authority's efforts is difficult. We found suspect the history and justification behind the authority's decision to contract with Fishman Enterprises, Inc. for up to $546,000 in compensation (plus certain expenses) to serve as chief executive officer overseeing the staff and operations of the authority for a three-year period. Also, the contract contains a number of unfavorable provisions. For example, the contract allows the State to terminate the contractual relationship with Fishman Enterprises for a number of causal reasons, but not for "poor performance."

We also found unclear and deficient management and operational leadership. For example, the authority has yet to establish some of the basic organizational fundamentals and controls; this has led to internal conflict over the role board members should play in the authority's operations. Moreover, we found that the board should have been more careful about ethics laws and public meeting laws.

In addition, we found that the Hawaii Revised Statutes do not accurately reflect the authority's duties and responsibilities.

Furthermore, we found that inadequate management of the authority has not ensured the appropriate use of $144.5 million in state resources. The authority is unable to adequately account for its significant financial and human resources. For example, since its inception, the authority has awarded about 390 contracts and agreements totaling over $137 million. Yet Fishman Enterprises' failure to ensure the implementation of adequate internal controls over contracting has resulted in

serious deficiencies in the contracting process and opens the authority to waste and fraud. Without this contracting framework, which should include written policies and procedures, the authority is also missing key documents supporting the contracting process and is inadequately monitoring contracts.

The authority also entered into two contracts totaling over $135 million with the Hawaii Visitors and Convention Bureau that contain provisions disadvantageous to the State. Multimillion dollar payments are made to the bureau with little justification. Compounding these problems are deficiencies in the authority's personnel and organizational framework. We found outdated and inaccurate position descriptions, unclear lines of authority, and staff frustration.

Finally, we found that the authority has taken initial steps to adequately manage the Hawai'i Convention Center; however a number of issues are still unresolved. Also, oversight responsibilities for the convention center are not legislatively assigned.

Recommendations and Response

We made a number of recommendations to the Board of Directors of the Hawaii Tourism Authority to correct the problems we identified. We also recommended that the Legislature clarify in statutes the authority's duties and responsibilities.

In written comments on a draft of our report, the authority's board chair accepted and agreed with our recommendations. He noted that the audit provides a good template for improvement. The authority's current executive director stated that the authority looks forward to implementing our recommendations without reservations, except for the recommendation to tie contractors' remuneration to measurable deliverables. The executive director also affirmed the authority's "responsibility to the public to be a fiscally responsible organization." The director of the Department of Business, Economic Development and Tourism (DBEDT) commented that he believes our report will help the new chief executive officer to better manage the authority. The DBEDT director also discussed issues relating to the measurement of the authority's success. All of the above parties commenting on the draft provided additional information and viewpoints.

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Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 02-04
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Foreword

This management audit of the Hawaii Tourism Authority was conducted pursuant to Senate Concurrent Resolution No. 31, Senate Draft 1 of the 2001 Regular Session. The resolution asked the Auditor to review the responsibilities, functions, and relationship of the authority's board and staff; contracting procedures and expenditures; personnel procedures, including evaluations; any appropriate financial issues; and the tourism laws.

We wish to acknowledge the cooperation and assistance of the Hawaii Tourism Authority; the Department of Business, Economic Development and Tourism; the Department of the Attorney General; and others whom we contacted during the audit.

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State Auditor

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Chapter 1
Introduction

During its 2001 Regular Session, the Legislature noted that the Hawaii Tourism Authority appeared unable to adequately explain its actions in a number of areas. The Legislature was particularly concerned that the expenditure of a significant amount of money in support of the tourism industry, which is so critical to the economic well-being of the state, be more carefully monitored. Due to the complexity of the issues raised during the 2001 Regular Session, the Legislature requested a management audit by the State Auditor. Senate Concurrent Resolution No. 31, Senate Draft 1 asked the Auditor to review the following:

- The responsibilities and functions of the Hawaii Tourism Authority board and staff, and the relationship between activities of the board and staff;
- Contracting procedures, including current contract expenditures;
- Personnel procedures, including evaluations;
- Any appropriate financial audit issues; and
- The current laws relating to tourism.

Background on the Hawaii Tourism Authority

In 1997, a group of business, labor, and community leaders, collectively known as the Economic Revitalization Task Force, was convened to look for ways to improve Hawaii's economy. One of the task force's objectives was to provide recommendations to strengthen the marketing and promotion of tourism. The task force presented an integrated economic reform package to the Nineteenth Legislature prior to the beginning of the 1998 legislative session. The task force recommended that funds for tourism come from a dedicated source and proposed raising the transient accommodations tax and earmarking a portion of the total revenue from the tax to create a special fund for tourism. The task force also recommended the establishment of an executive board to oversee the fund.

The authority's mission is to manage the strategic growth of Hawaii's visitor industry

To implement the task force's recommendations, the Legislature, through Act 156, Session Laws of Hawaii (SLH) 1998, established the Hawaii Tourism Authority. The law made the authority a "body corporate and a public instrumentality of the State" and placed it within the Department of Business, Economic Development and Tourism for

administrative purposes. In doing so, the Legislature noted the State's dependence on tourism and the importance of developing, marketing, and conducting research of the tourism industry in a coordinated manner consistent with the State's needs. Act 156 is codified as Chapter 201B, Hawaii Revised Statutes (HRS). The mission established by the authority is:

> To manage the strategic growth of Hawaii's visitor industry in a manner consistent with the economic goals, cultural values, preservation of natural resources, and community interests of the people of Hawaii.

A board of directors heads the authority

A 13-member Board of Directors (board) heads the authority. The board consists of ten public voting members, one public nonvoting member, one ex officio voting member, and one ex officio nonvoting member. Pursuant to statute, at least six of the ten public voting members must have knowledge, experience, and expertise in visitor industry management, marketing, and promotion. In addition, the City and County of Honolulu, and the counties of Hawaii, Kauai, and Maui, must each have at least one representative among the ten public voting members. The governor appoints the public nonvoting member, and the directors of the Department of Business, Economic Development and Tourism and the Department of Transportation serve as the ex officio voting member and ex officio nonvoting member, respectively. All public members are appointed by the governor for four-year terms. The governor announced his appointments to the initial board on October 9, 1998. Exhibit 1.1 shows the current board members.

Among other things, the law authorizes the board to:

- Create a vision and develop a long-range plan for tourism in Hawaii;
- Develop and implement the state tourism strategic marketing plan to promote and market the state as a desirable visitor destination;
- Develop, coordinate, and implement state policies and directions for tourism;
- Coordinate all agencies and advise the private sector in the development of tourism-related activities and resources; and
- Make and execute contracts and agreements for periods of up to five years.

Exhibit 1.1
Hawaii Tourism Authority
Board of Directors

Board Member	Company/Position	Representing
Roy Tokujo (Chair)	Cove Entertainment President & Chief Executive Officer	City & County of Honolulu
W. David P. Carey III (Vice chair)	Outrigger Enterprises, Inc. President & Chief Executive Officer	At-large
Gary J. Baldwin	Kauai Technology Center Managing Director	Kauai County
Shari W. Chang	Aloha Airlines Senior Vice President of Sales & Marketing	At-large
David H. Gleason	The Dunes at Maui Lani General Manager	Maui County
Brian Minaai	Department of Transportation Director	Ex-Officio (non-voting)
Millie Kim	Millicent Kim Inc. President	Hawaii County
Gilbert M. Kimura	Japan Airlines Regional Sales Manager	At-large
Kalowena C. Komeiji	Not available	Community
Dr. Seiji Naya	Department of Business, Economic Development and Tourism, Director	Ex-officio (voting)
Peter H. Schall	Hilton Hawaiian Village Senior Vice President and Managing Director	At-large
Keith Vieira	Starwood Hotels & Resorts Worldwide, Inc. Senior Vice President	At-large
Ron Wright	Continental Airlines Managing Director Sales & Marketing	At-large

Source: Hawaii Tourism Authority.

In June 1999, the authority prepared *Ke Kumu—Strategic Directions for Hawaii's Visitor Industry*. The plan identifies and describes seven strategic initiatives:

1. Communication and community relations
2. Marketing
3. Events
4. Product development
5. Airlift
6. Infrastructure and support services
7. Regulations and investment incentives

The authority intends that *Ke Kumu* provide the overall direction for Hawaii's visitor industry in the twenty-first century and beyond.

The Tourism Special Fund provides a dedicated source of funding

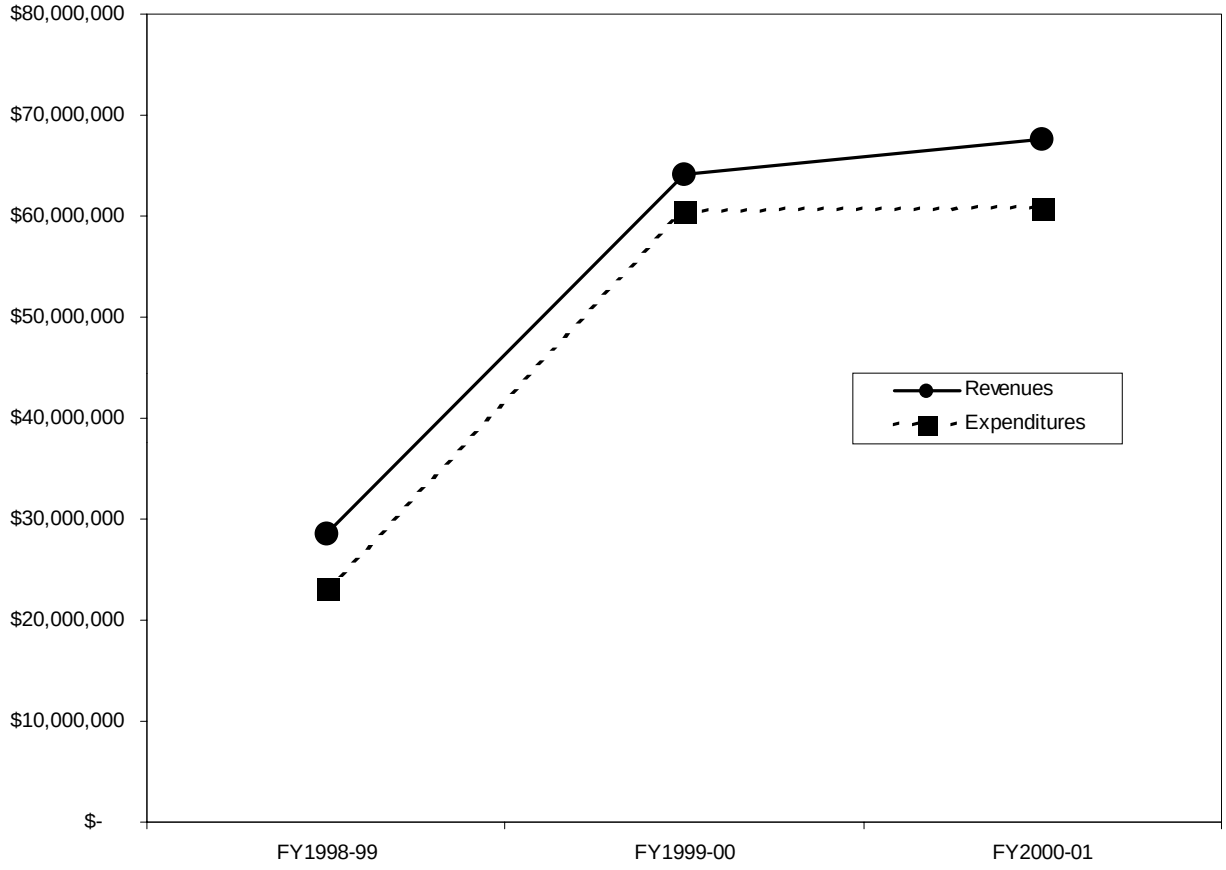
Act 156, SLH 1998, also created the Tourism Special Fund. The fund collects 37.9 percent of the State's transient accommodations tax revenues. The authority must use the fund moneys for the purposes set forth in Chapter 201B, HRS. However, no more than 3 percent of the moneys in the fund can be used for administrative expenses. Fund moneys must also be used for salaries and expenses of the Office of Tourism in the Department of Business, Economic Development and Tourism. All of the authority's revenues come through the fund.

During FY1999-00, $64.2 million was deposited into the Tourism Special Fund and $60.5 million was expended by the authority. Of this amount, $58.7 million, or approximately 97 percent, was spent on contracts. Revenues during FY2000-01 increased to $67.7 million. Expenditures that year were slightly higher than the year before at $60.8 million, with $59.3 million spent on contracts and other services for a fee. Exhibit 1.2 shows the revenues and expenditures.

The Department of Business, Economic Development and Tourism plays several roles

The objective of the Department of Business, Economic Development and Tourism is to make broad policy determinations with respect to economic development in the State. The department is also charged with stimulating economic development efforts that are likely to expand the State's economy. In addition to overseeing the development of the tourism industry and the operation of the Hawai'i Convention Center, the department also provides research and economic analysis on a variety of issues.

Exhibit 1.2
Tourism Special Fund
Revenues and Expenditures, FY1998-99 through FY2000-01



Source: Hawaii Tourism Authority.

Office of Tourism has planning responsibilities

During the 1990 Regular Session, the Legislature found that the government needed to coordinate and plan tourism growth and development in light of the state's substantial dependence on tourism. Act 293, SLH 1990, created the Office of Tourism and charged it with the responsibility of planning for the integrated and coordinated development of the tourism industry. However, in accordance with Section 201-92, HRS, the Office of Tourism began providing assistance to the Hawaii Tourism Authority on January 1, 1999.

Research and Economic Analysis Division provides tourism research

Act 156, SLH 1998, charged the Department of Business, Economic Development and Tourism with the responsibility for tourism research and statistics. The department's Research and Economic Analysis Division collects, compiles, interprets, and publishes information and statistical data on all aspects of the economy. On January 1, 1999, the Legislature transferred the tourism research functions of the Hawaii Visitors and Convention Bureau to the division. The department established a Tourism Research Branch within the division to provide timely information on Hawaii's visitors through extensive visitor survey programs, primarily conducted by survey research firms under contract. The branch currently has two economists and one research statistician to oversee the collection of visitor data.

Hawai'i Convention Center is now under the purview of the Hawaii Tourism Authority

In 1988, the Legislature established the Convention Center Authority, administratively attached to the Department of Business, Economic Development and Tourism, to approve the proposed convention center development plan and to supervise the construction of the facility. Construction was completed on October 13, 1997. However, our February 2000 *Audit of the Convention Center Authority* (Report No. 00-08) found that, among other things, the Convention Center Authority needed to monitor the convention center operator, three major punchlist items (outstanding repairs or incomplete items) were still unresolved, and there were no provisions for continued oversight once the Convention Center Authority sunset. On June 30, 2000, the Convention Center Authority sunset, and the Hawaii Tourism Authority assumed the responsibility of operating, managing, and maintaining the Hawai'i Convention Center.

Objectives of the Audit

1. Assess whether the Hawaii Tourism Authority is managed effectively and efficiently.

2. Assess whether the Hawaii Tourism Authority has adequately planned to manage the strategic growth of Hawaii's visitor industry.

3. Make recommendations as appropriate.

Scope and Methodology

Our assessment of the effectiveness and efficiency of the Hawaii Tourism Authority's management encompassed a review of the following: (1) contracting management, (2) personnel and organizational management, and (3) progress to date in overseeing the Hawai'i Convention Center. Our assessment of whether the authority has adequately planned to manage the strategic growth of Hawaii's visitor industry primarily focused on the authority's efforts to develop, utilize, and improve its strategic plan.

We reviewed pertinent laws, statutes, audits, reports, and studies. We also reviewed planning documents, strategic planning information, correspondence, and board and committee meeting minutes. Our fieldwork also included reviews of pertinent contracting, personnel, and convention center files at the authority. We conducted interviews with authority board members, the chief executive officer, and authority staff. We contacted attorneys from the State Ethics Commission and the Department of the Attorney General. We also interviewed representatives from the Department of Business, Economic Development and Tourism; organizations awarded contracts by the authority; the convention center operator; and the University of Hawaii's School of Travel Industry Management. Finally, we contacted and obtained information from other states' tourism offices and their visitors and convention bureaus.

Our work was performed from May 2001 through December 2001 in accordance with generally accepted government auditing standards.

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Chapter 2

The Hawaii Tourism Authority Is Plagued by an Alarming Array of Management Deficiencies

The Legislature had high hopes when it created the Hawaii Tourism Authority. Because tourism is the state's lifeblood, the Legislature entrusted the authority with great flexibility and many millions of dollars from a dedicated funding source. We found that the authority has neither flexed its considerable muscle wisely nor placed enough emphasis on results. The authority carries out its work mainly through contracts with scores of private individuals and organizations and has spent as much as $64 million annually for this purpose. However, the authority is making these expenditures without clear goals, ways to measure performance, or an adequate management framework. As a result, in its three years of existence, the authority's achievements are unknown.

The authority's Board of Directors has the principal responsibility for fulfilling the authority's mission of managing the strategic growth of Hawaii's visitor industry. The National Center for Nonprofit Boards has outlined 11 basic functions of a board, including the following:

- Approving and periodically revising long-range plans.
- Overseeing the organization to ensure that objectives are being achieved in the best fashion possible.
- Working closely and interactively with the executive and, through him/her, with the staff.
- Establishing broad policies to cover situations that require consistency.
- Ensuring that its basic legal and ethical responsibilities are fulfilled.
- Managing adequate financial resources.
- Continuously appraising itself and periodically analyzing its performance.

We found that the authority's board of directors has failed to fulfill its primary mission and basic functions outlined above. In 1999, the board hired a contractor (Fishman Enterprises, Inc.) to administer the authority's business operations and to provide management and planning guidance to ensure that the authority operates successfully and is

organized effectively. Although the contractor failed to provide adequate administrative leadership and guidance, the board is ultimately accountable for the operations of the authority. After more than three years of existence, the board has failed to implement a management framework necessary to ensure the authority operates successfully and manages its sizeable resources prudently and in the state's best interests.

Summary of Findings

1. The Board of Directors of the Hawaii Tourism Authority has failed to provide the vision, leadership, and direction necessary to ensure that the authority achieves its primary mission.

2. The authority is fraught with serious management problems. As a result, significant sums of public funds are administered poorly and with unknown benefit to the state.

3. The authority has taken initial steps to adequately manage the Hawai‘i Convention Center; however, a number of issues are still unresolved.

The Board Has Failed to Provide the Hawaii Tourism Authority with Adequate Vision, Leadership, or Direction

At its core, strategic planning is managing for results. It has been defined as a long-term, future-oriented process of assessment, goal setting, and strategy building that maps an explicit path between the present and a vision of the future. Strategic planning relies on careful consideration of an organization's capabilities and environment, and leads to priority-based resource allocations and other decisions. The board's strategic planning process failed to incorporate these elements. Due to this failure, the board cannot ensure that it is able to manage for results and fulfill its mission. As a result, we found weak and ineffective management and operational leadership at the Hawaii Tourism Authority. There are also indications of possible ethics issues involving the authority, and the board failed to comply with public meeting laws.

The authority's strategic planning process was deficient

Comprehensive strategic planning should include:

1. A process to monitor progress that allows the agency to manage for results;

2. The meaningful involvement of local communities to obtain their support and maximize the effectiveness of planning efforts; and

3. Performance measures that ensure accountability.

In 1999, the National Conference of State Legislatures reported that states could greatly benefit from establishing comprehensive master plans for tourism development. A strategic plan is an agency's comprehensive plan to carry out its mission. Industry and management literature contains checklists for comprehensive tourism and strategic plans. Among some of the specific key elements of strategic plans are:

- infrastructure analyses;
- environmental considerations;
- specifications of implementation and monitoring procedures;
- a description of the program evaluation used in establishing or revising goals and objectives, with a schedule for future program evaluations;
- a methodology statement; and
- a schedule for future program evaluations.

Ke Kumu, the authority's strategic plan, does not contain these elements. During the 1999 community meetings, speakers noted concerns that reflected the absence of the elements in *Ke Kumu*. For example, stakeholders and members of the public pointed out the following:

1. There were no satisfactory answers to growth limitations and the carrying capacity of the islands;
2. There was a need to be closely informed of the authority's objectives, operating plan and progress toward achieving goals; and
3. The authority has to be very specific in terms of accountability and implementation.

Changes in such factors as economic conditions, community values, and industry trends make it essential to review strategic plans on a regular basis. Strategic planning guidelines note that in order to address these changes, the plan should be reviewed at least annually and updated when necessary. However, the authority has no schedule for periodically reviewing *Ke Kumu*.

Industry literature also notes the importance of figuring local residents into tourism plans. The authority's own *Hawaii Tourism Product Assessment* study that served as a foundation for *Ke Kumu* acknowledges that local communities must be given a meaningful role in planning. In

addition, input must be a priority of the authority in order to obtain the support of community groups and to maximize the effectiveness of its overall planning efforts.

Although the authority solicited public input the month after the initial drafting of *Ke Kumu*, it did not subsequently incorporate any of that input into the plan. This failure to incorporate input occurred even though the authority gave stakeholders the expectation that *Ke Kumu* would be revised after the public was provided the opportunity to give their input. *Ke Kumu* was never revised. As a result, the authority failed to take advantage of an opportunity to obtain public support.

Measuring the direct impact of the authority's efforts is difficult

The authority uses visitor expenditures as the primary indicator to measure performance. However, other states have pointed out problems with this indicator. In Texas and Louisiana, visitor spending was used as a performance measure. The Sunset Advisory Commission in Texas conducted a review of Texas' Tourism Division and concluded that it is difficult to determine the accuracy of measuring performance through visitor spending. Louisiana's Legislative Auditor found that visitor spending is not valid for measuring the Louisiana Office of Tourism's performance. Louisiana's auditor found that the performance indicator and the underlying data did not always match.

Part of the difficulty in developing valid performance measures is that there is no industry-based standard. The lack of a standard, combined with the industry use of different methodologies, estimates, and surveys, makes it difficult to evaluate the impact of organizations such as the Hawaii Tourism Authority. External factors over which there is little or no control add to the difficulty of measuring performance. Florida's Office of Program Policy Analysis and Government Accountability (OPPAGA) noted that outcome measures are significantly affected by a variety of factors outside the Florida Commission on Tourism's control, such as weather and economic conditions.

Although measuring tourism performance is difficult, state tourism offices have not escaped accountability. Arizona's Office of the Auditor General found that although measuring economic impact is challenging, the Arizona Office of Tourism should develop measures to demonstrate its effectiveness in stimulating statewide tourism. Louisiana's Legislative Auditor recommended that Louisiana's Office of Tourism work with the Office of Planning and Budget to develop valid indicators to specifically measure the Office of Tourism's performance. Florida's OPPAGA recommended that the Florida Commission on Tourism and its marketing contractor develop measures and standards that more directly assess whether their tourism promotion activities are adding value in attracting visitors. OPPAGA concluded that as a condition for receiving

future funds, the commission and its contractor should be required to present return-on-investment analyses, substantiating that their major tourism promotion activities add value by stimulating tourism above levels that would have occurred without the activities being performed.

The authority's contract with Fishman Enterprises, Inc. is suspect

To oversee the staff, the board must appoint an executive director exempt from the Civil Service Law but compensated at a salary level set by the governor. In late 1998, the board approved a job description for the executive director and received gubernatorial approval to set the position's salary range at $85,000 to $120,000. The governor also gave the board flexibility to set a higher salary range or to offer a bonus as necessary.

Despite plans to hire an individual for the executive director position, the authority opted to contract the services of an independent contractor as its first executive director. On April 1, 1999, the authority entered into a contract with Fishman Enterprises, Inc. (Fishman Enterprises), a domestic profit corporation incorporated in Hawaii in 1985, to oversee the staff and operation of the authority. Under the contract, the president of Fishman Enterprises, Robert J. Fishman (Mr. Fishman), must "personally supervise and provide the work and services" set forth in the contract. Examples of the specific contractual duties and responsibilities of Fishman Enterprises included the following:

- Providing management and planning guidance to ensure the successful operation of the authority, including effective organization and use of available resources;

- Administering the authority's operations, including developing internal policies and procedures relating to the authority and providing for the development of accounting controls and cash flow management; and

- Participating in identifying problems, issues, objectives, and criteria for evaluating the effectiveness of contracts and programs approved by the authority.

In addition, the contract specifically noted that since the contributions of Mr. Fishman are unique, Fishman Enterprises could not assign or delegate any of Mr. Fishman's services or duties to any other employees of Fishman Enterprises or contract with any third parties to perform Mr. Fishman's duties.

The contract requires Fishman Enterprises to be compensated for a total amount not to exceed $546,000 for services provided from April 1, 1999 through March 31, 2002. The authority was also required to reimburse Fishman Enterprises for transportation and medical insurance expenses.

Fishman Enterprises may also be paid annual bonuses for exceptional performance. However, the history and justification behind the authority's decision to contract with Fishman Enterprises for up to $546,000 over a three-year period is highly suspect.

The authority was unable to provide any documentation regarding the history or decision to contract with Fishman Enterprises. In addition, its decision to contract with Fishman Enterprises as an independent contractor rather than hire Mr. Fishman as an employee is questionable and raises concern regarding possible tax and liability implications. Finally, the authority's failure to fully document expenditures made under this contract, or to evaluate the performance of Fishman Enterprises timely or appropriately, has not ensured that state moneys were used prudently.

The authority is unable to justify the selection of its first chief executive officer

On October 27, 1998, the board created an Executive Director Search Standing Committee comprised of Shari Chang, Roy Tokujo, Keith Vieira, and (former board member) Diane Quitiquit. More than four months later, the board introduced Mr. Fishman as the authority's new executive director. However, the authority failed to maintain a complete file of documents relevant to its contract with Fishman Enterprises. In addition, current and former board members and staff do not know the location of documents to support the Fishman Enterprises selection (such as documents used to evaluate and rank the final candidates). Without these documents, the authority has been unable to provide sufficient proof that its decision to contract with Fishman Enterprises was proper and justified.

Our review of board meeting minutes and executive session minutes also failed to provide any information regarding the selection of Fishman Enterprises. From October 1998 to early March 1999, there were only brief discussions of the search committee's progress during board meetings. Although the board went into executive session three times to discuss the selection, it did not begin keeping executive session minutes until August 1999—after Fishman Enterprises was awarded the contract and in violation of Chapter 92, HRS (Public Agency Meetings and Records). Current and former board members and chairpersons were also unable to provide us with meaningful information on the history behind the Fishman Enterprises contract. We also contacted the deputy attorney general currently assigned to the Hawaii Tourism Authority to review any pertinent files or documents that may have been retained by the attorney general's office. However, the deputy attorney general was unable to provide us with any meaningful information.

The lack of information regarding this significant contract makes it difficult to determine whether the selection process was fair and that the board selected the best possible contractor to operate and manage the authority.

The Fishman contract contains a number of questionable provisions

The Fishman Enterprises contract also contains a number of unfavorable provisions. The contract allows the State to terminate the contractual relationship with Fishman Enterprises for a number of causal reasons, but not for "poor performance." However, the contract does not clarify whether this relates to the performance of Fishman Enterprises or Mr. Fishman, or whether it refers to the state of Hawaii's economy during the contract period. Interviews with current and former board members involved in the selection of Fishman Enterprises failed to clarify the intent of the clause. One board member reported that the board was not happy with this clause because it was not clear what "poor performance" related to. However, another board member purported that "poor performance" referred to the poor performance of Hawaii's economy. A third board member did not even know that this clause existed and therefore could not comment on it.

The contract also states that Mr. Fishman should devote such productive time, ability, and attention to the State's business as required by the authority's board during the contract. However, the contract states that it is impracticable for the authority to ascertain or anticipate the portion of the contractor's time to be devoted to the authority. Although board members expected a full-time chief executive officer, the contract with Fishman Enterprises did not ensure that this expectation would be met.

In addition, based on the contract terms and guidance from the Internal Revenue Service (IRS) Employer's Supplemental Tax Guide and other sources, it appears that Mr. Fishman should have been treated as an employee, which could result in tax and liability implications. Generally, an employer must withhold and pay income, social security, and Medicare taxes on wages paid to a "common-law" employee. If Mr. Fishman (as president of Fishman Enterprises and sole provider of the contracted services) was improperly treated as an independent contractor, the Hawaii Tourism Authority could be liable for paying the taxes, with interest, that should have been withheld and paid to the IRS and state tax authorities.

Finally, the contract allowed the board to conduct periodic evaluations of Fishman Enterprises but did not specify how often these evaluations would take place or the criteria by which it would evaluate Fishman Enterprises. The review committee in fact did only one evaluation but did not present it to the full board until after the end of the contract. The

board approved its Administrative Committee's evaluation of Fishman Enterprises on November 14, 2001 in executive session, more than two and a half years after the corporation was contracted to provide operational and management services and *after* the contract was terminated by Fishman Enterprises on November 5, 2001. Without periodic evaluations, the board had failed to detect a number of Fishman Enterprises' weaknesses—particularly in the area of administrative accountability.

Payments to Fishman Enterprises are not always well-documented

Fishman Enterprises was paid for professional services and reimbursed for various goods and services, including travel, medical, parking, and business-related meals and expenses. For the period of April 1, 1999 through October 15, 2001, the authority had a total of $492,945 in invoices from Fishman Enterprises. However, the authority sometimes failed to fully document the amount billed by or paid to Fishman Enterprises. For example, the authority agreed to pay Fishman Enterprises semimonthly payments of $7,583 based on Fishman Enterprises' submission of original invoices specifying the amount due. However, we found that many of these semimonthly invoices were missing. The authority was missing $106,162 worth of invoices for FY1999-00 and $68,250 for FY2000-01.

The lack of complete documentation of contract costs weakens the authority's ability to ensure that payments were accurate and made in accordance with this contract. The missing semimonthly invoices may be indicative of an array of other missing invoices related to the Fishman contract.

Management and operational leadership remain unclear and deficient

The board is responsible for ensuring that the authority develops the capacity to achieve its mission and objectives. To develop this capacity, the board should vigilantly hire, manage, and evaluate its chief executive officer—the individual with immediate responsibility for ensuring that the authority is soundly conceived and operated. The roles and responsibilities of the board and its chief executive officer should also be clearly defined and adhered to. Finally, in addition to evaluating its chief executive officer on a regular basis, the board should also evaluate its performance as the governing body of the authority. We found, however, that the board has failed to perform these basic functions.

Generally accepted roles and responsibilities of the board and the chief executive officer require enforcement

Cyril O. Houle's *Governing Boards* outlines some basic principles for identifying and establishing the role and responsibilities of a board and the chief executive officer. These include the following:

1. The board is corporate and acts only on the basis of group discussion and decision. The executive is individual and acts with the authority and integration of a single personality.

2. The board is continuous; the executive is temporary. The board endures and it has an obligation to always act in terms of a long-range perspective. The executive director has the direct responsibilities of operation.

3. The board has, at most, only minimal separate staff to support its work. The executive has a hierarchy of helpers.

Our review of the board's organization found that the authority has yet to establish some of the basic organizational fundamentals and controls. This has led to internal conflict over the role board members should play in the authority's operations. Many staff at the authority feel that the members of the board are too involved in its day-to-day operations. Staff complain that they are often confused over work assignments and the priority of these assignments, which they receive directly from both authority administrators and board members.

Houle suggests the following:

> The executive director should be the intermediary figure between the staff and the board. When lines of contact run directly between members of the board and staff without knowledge or assent of the executive director, problems of communication and decision making can increase, matters can be seen out of proper perspective, the comments of individual board members can be accepted as established policy or practice, special interests can be advanced, and the flow of smooth operations can be disrupted.

The chief executive officer and the board chairperson need to clarify the roles of the chief executive officer and board members to ensure that the authority operates efficiently with clear lines of authority and communication.

The adequacy of the authority and board's performance cannot be assured

The ultimate purpose of assessment is to make sure that an organization realizes its goals in the most efficient and effective way. One of the most

important responsibilities of the board is to assess the progress and health of the organization, which requires an appraisal of the board itself. According to the National Center for Nonprofit Boards, board members need to periodically "take an honest and hard look at themselves." We found no evidence that the board has formally evaluated itself or the authority as an organization. Without this type of review, the board is unable to assess the progress and health of the authority.

The board should have been more careful about ethics laws and public meeting laws

In addition to having the principal responsibility for fulfilling the authority's mission, the board is also responsible for the legal accountability of the authority's operations. Board members are required to abide by Chapter 84, HRS. This chapter promotes high standards of ethical conduct in state government and prescribes a code of ethics for board members and other public employees. The authority and its board members are also required to abide by Chapter 92, HRS. This chapter, covering public agency meetings and records, outlines the Legislature's intent to open up the governmental process to public scrutiny and participation. The board's failure to adhere to Chapter 92, and certain issues relating to Chapter 84, raise questions on its ability to lead and manage the authority.

The authority or one of its board members may have ethics issues

There are indications of possible ethics issues involving the authority or one of its board members with regard to the State Code of Ethics' fair treatment, conflict of interest, and notification provisions. Exhibit 2.1 outlines possible issues.

In addition to ethics law issues, there are other questionable aspects about the two contracts discussed in Exhibit 2.1. For example, the 2000 agreement between the authority and the nonprofit organization at which a board member was employed was dated only one day before the funded event took place in February 2000. A second agreement was executed for the same event after it took place, but authority staff have been unable to explain the need for the second agreement. In addition, the 2001 contract for that year's "edition" of the event was signed after the event was held in February 2001. Moreover, the nonprofit organization has not yet submitted its final report under the 2001 contract, more than eight months after the event occurred.

Another contract, awarded by the authority to the nonprofit organization when the authority board member was still the organization's president, is also questionable. In June 1999, the organization received a letter from the authority indicating that it had been awarded $75,000 for a product development project. However, the contract for this project,

Exhibit 2.1
Indications of Possible Ethics Issues

DATE		EVENT	RELEVANT ETHICS LAWS AND POSSIBLE ISSUES
1998	January – December	Subject individual is president and director of a private nonprofit organization.	
	October	Governor appoints subject as authority board member.	
1999	January – December	Board member remains president and director of private, nonprofit organization.	**Section 84-13, HRS, Fair Treatment**. No employee* shall use or attempt to use his/her official position to secure or grant unwarranted contracts for himself/herself or others. • *The board member may have used his board membership to award contracts to his nonprofit organization while he was its president.*
	April	Authority approves funding for two events awarded to board member's nonprofit organization. The board member was present at the approval meeting and there is no evidence he recused himself from the vote to award the two contracts.	**Section 84-14, HRS, Conflicts of Interests**. No employee* shall take official action directly affecting a business or other undertaking (including nonprofit businesses) in which he/she has substantial financial interest (including a directorship or officership in a business). • *The board member clearly took action on the two events awarded to his nonprofit organization when he was its president. However, the board member's role with the two NFL contracts is unclear because there is no evidence in the board meeting minutes that the full board approved these contracts.*
	July	The board, including the subject board member, approves submitting a proposal to the National Football League (NFL) for Hawaii to host an NFL event.	
	October	Board reports a two-year deal was made to hold the NFL event in Hawaii during 2000 and 2001. The authority contracts with the board member's nonprofit organization to manage both years of the contract for a total of $750,000.	**Section 84-15, HRS, Notification**. Unless competitive sealed bidding or competitive sealed proposals are used, when a state contract over $10,000 is awarded to a business in which an employee* has a controlling interest, the contracting agency must post a notice of its intent to award the contract and file a copy of the notice with the State Ethics Commission at least ten days before the contract award. • *The State Ethics Commission could not locate any such notices on file.*
2000	January	Board member is no longer an officer of the nonprofit organization but is named managing director of a facility managed by the organization. The organization paid the board member $100,000 in salary and consulting fees in 2000.	

*Pursuant to Section 84-3, HRS, "employee" includes any nominated, appointed, or elected officer or employee of the State, including members of boards, commissions, and committees.

which went into effect in July 1999, awarded the organization $175,000. According to authority staff, the increase resulted when three of the organization's product development proposals were combined. However, the authority could only document the existence of the original $75,000 proposal.

The board has failed to identify these possible ethics issues and questionable contracts. As a result, the authority's entire contracting process appears tainted and open to question.

The authority failed to comply with state laws governing public meetings

The importance and necessity of meeting minutes is outlined in state statutes and general literature. Well-kept minutes are indispensable records of the deliberations and decisions of the board and can prove to be a powerful protection for the board, both in terms of individual issues and as a demonstration of its general carefulness. Pursuant to Section 92-9, HRS, the board is required to keep minutes of all its meetings. The minutes must include the substance of all matters proposed, discussed, or decided, and a record, by individual member, of any votes taken.

We found that the authority has failed to keep minutes of all its executive sessions. Since its inception in 1998, the authority went into executive session 28 times to discuss confidential, proprietary, and personnel matters. We found minutes for only 9 of the 28 sessions. The authority did not begin keeping minutes for its executive sessions until August 1999. In addition, no minutes existed for all executive sessions conducted in 2000. The authority has failed to fulfill the intent of Chapter 92, HRS—to protect the people's right to know.

Hawaii Revised Statutes do not accurately reflect the authority's duties and responsibilities

We also found that the Hawaii Revised Statutes do not accurately reflect the authority's duties and responsibilities. Section 201-92, HRS, establishes an Office of Tourism within the Department of Business, Economic Development and Tourism. The basic responsibility of this office is to promote, market, and develop the tourism industry in the state. With the creation of the Hawaii Tourism Authority in 1998, the Office of Tourism was directed by the Legislature to provide assistance to the authority beginning in January 1999.

Officials from the authority and the Department of Business, Economic Development and Tourism acknowledge that the authority has assumed the responsibilities of the Office of Tourism and that this office exists only on paper, but neither the authority nor the department has taken steps to seek repeal of sections of Chapter 201 and 203, HRS, that establish the Office of Tourism and require it to perform various duties.

For example, pursuant to Section 201-93, HRS, the Office of Tourism *shall* be responsible for developing and implementing the state tourism marketing plan (emphasis added). According to Section 201B-3, HRS, the board of directors of the authority *may* develop and implement the state tourism strategic marketing plan (emphasis added). Accordingly, the authority is not statutorily compelled to perform any of the functions outlined in Chapter 201B, HRS.

Inadequate Management Has Not Ensured the Appropriate Use of $144.5 Million in State Resources

The authority is unable to adequately account for its significant financial and human resources. For example, the former chief executive officer's failure to ensure the implementation of adequate internal controls over contracting has resulted in serious deficiencies in the contracting process and opens the authority to waste and fraud. Without this contracting framework, which should include written policies and procedures, the authority is also missing key documents supporting the contracting process and is inadequately monitoring contracts. The authority has also entered into two contracts for over $135 million that contain provisions disadvantageous to the State. Compounding these problems are deficiencies in the authority's personnel and organizational framework. We found outdated and inaccurate position descriptions, unclear lines of authority, and staff frustration.

Serious contracting deficiencies require the authority's immediate attention

Section 201B-7, HRS, authorizes the authority to enter into contracts and agreements for such activities as the following:

- Tourism promotion, marketing, and development;
- Product development and diversification;
- Promotion, development, and coordination of sports-related activities and events; and
- Promotion of Hawaii as a place to do high technology business.

Section 201B-12, HRS, exempts the authority from the Hawaii Public Procurement Code or any other legal requirements for competitive bidding for project agreements, construction contracts, lease and sublease agreements, or other contracts. Authority staff are responsible for monitoring and facilitating all contract and agreement functions. Currently, the authority contracts for services in the following major areas:

1. *Events*—efforts to develop and support prestigious events that generate cost-effective awareness of the Hawaii brand through national and international exposure.

2. *Product Development*—includes new tourism events, community-based tourism programs, experiences, and attractions related to agriculture, culture, education, nature, and sports.

3. *Business Destination Marketing*—includes efforts that emphasize the marketing of Hawaii as an attractive business destination, with special emphasis in health and wellness and the technology field.

4. *Other*—includes some product development, festivals, other events, and miscellaneous services.

As shown by Exhibit 2.2, the majority of the authority's contracts and agreements fall under "other." Since FY1998-99, the authority's "other" contracts have exceeded $112.8 million. Appendices A through E provide complete listings of the authority's contracts and agreements from its inception through FY2001-02.

Exhibit 2.2
Hawaii Tourism Authority
Agreement and Contract Totals, FY1998-99 to FY2001-02 (as of October 2001)

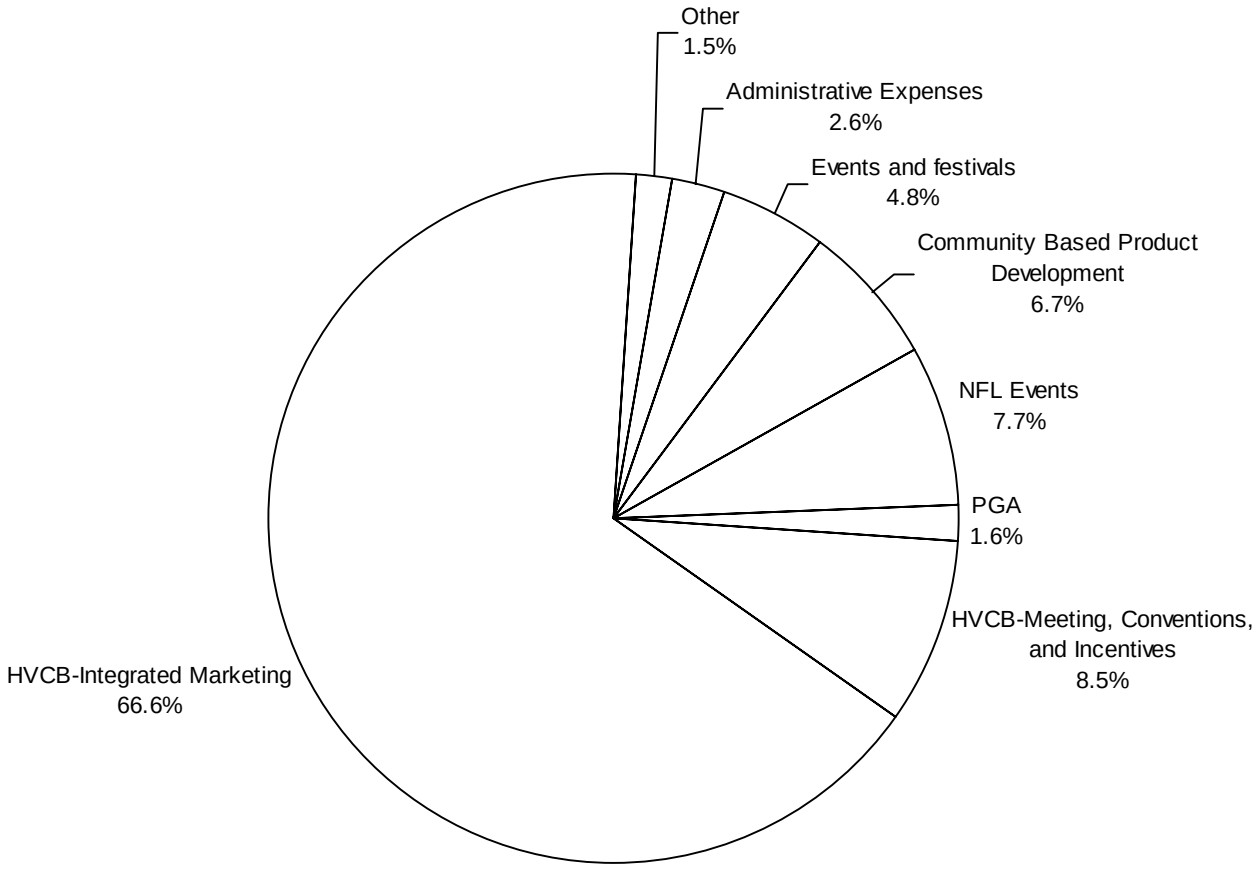
	Agreements		Business Destination Marketing Contracts		Event Contracts		Product Development Contracts		Other Contracts		Total	
Year	Amount	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount	#
FY1998-99	$143,300	12	-		$477,000	10	$735,000	34	$49,823,347	6	$51,178,647	62
FY1999-00	124,120	11	-		5,117,000	27	3,512,950	101	866,947	3	$9,621,017	142
FY2000-01	175,812	2	-		-		2,443,000	67	62,171,613	42	$64,790,425	111
FY2001-02	-		500,000	7	-		1,197,000	51	-		1,697,000	58
CY2000	-		-		4,525,000	6	-		-		4,525,000	6
CY2001	-		-		5,309,299	15	-		-		5,309,299	15
Total	$443,232	25	$500,000	7	$15,428,299	58	$7,887,950	253	$112,861,907	51	$137,121,388	394

Note: # = number of contracts.

Source: Contract listings provided by the Hawaii Tourism Authority. The accuracy and completeness of the contract listings are questionable as discussed in the report.

Effective January 1, 2000, the authority entered into a three-year contract with the Hawaii Visitors and Convention Bureau to provide integrated marketing management services. The purpose of these marketing services includes increasing promotional presence and brand identity in ten major market areas. Over the three-year period, the authority agreed to pay the bureau $117 million. As shown in Exhibit 2.3, the contract with the Hawaii Visitors and Convention Bureau for integrated marketing comprised about two-thirds (66.7 percent) of the authority's expenditures for FY2000-01.

Exhibit 2.3
Tourism Special Fund Expenditures (FY2000-01)



*HVCB = Hawaii Visitors and Convention Bureau

Source: Hawaii Tourism Authority.

Despite the significant amount of funds spent on contracts, the board failed to ensure that the chief executive officer establish written internal policies and procedures for contracting. This has created deficiencies in the authority's contracting process and has hindered the development of an adequate control structure. Proper internal controls allow management to safeguard resources against waste, fraud, or inefficient use; encourage and measure compliance with agency policies; and evaluate the efficiency of operations. The authority's chief executive officer oversees the authority's staff and operations but failed to provide guidance to ensure the authority operates successfully, which includes developing internal policies and procedures.

Contracting control structure lacks rigor

Written policies and procedures are a fundamental element of internal control. Their purposes are to:

- define authority, responsibility, and procedures,
- standardize and communicate approved practices,
- train new personnel and provide guidance,
- provide standards to evaluate performance, and
- increase the level of professionalism.

However, the authority has failed to establish written policies and procedures for contracting. Instead, the authority has ambiguous oral procedures that allow differing interpretations by staff. This has resulted in contracting inconsistencies. For example, an authority administrator reported that he began dating invoice payment authorizations in late 2000—a procedure allegedly relayed verbally to appropriate staff. However, we discovered subsequent undated authorizations and disagreement as to when the procedure was actually implemented. At least two authority staff members reported that the procedure was implemented under the Office of Tourism and "adopted" by the authority. Another staff member reported that the procedure was implemented in approximately July 1999.

The authority's failure to thoroughly clarify and disseminate expectations in written policies and procedures has resulted in little assurance that the inevitable disconnects between intent and practice are minimized. Without written policies and procedures, the authority has been unable to become a professional purchasing organization with appropriate internal controls.

Contract awarding process is defective

A principle of successful contracting is to maintain a record of the search for contractors. The contracting agency should keep accurate records of all meetings, conferences, oral presentations, evaluations, and decisions occurring during the evaluation-and-award stage of contracting.

We found that the authority lacks adequate documentation to support its proposal evaluation process and to justify its contract awards. The authority has no written policies and procedures defining the purpose of proposal evaluations and describing the process for conducting the proposal evaluations. Although the authority has used proposal evaluation forms during the selection process for some contracts, these forms were not completed for all proposals, or, in some instances, the authority could not locate the completed forms.

For FY2001-02, the authority's team of three evaluators reviewed 145 product-development proposals; of these, 51 were awarded contracts. However, we were unable to find adequate documentation to support the award of 29 percent of the 51 contracts. The files for these contracts were either missing a score from one of the three evaluators or were missing a completed evaluation form. The evaluation forms are effective tools only if all are completed. Inadequate support of the contract awarding process casts doubt that a fair process took place and leaves the authority open to question.

Sound contracting practices are disregarded

Properly executed contracts are essential to ensure that the type and scope of services to be provided has been agreed upon, and the roles and responsibilities of the State and contractors are clearly delineated to avoid confusion or misunderstanding. Allowing contractors to render services without a fully and properly executed contract is not a sound contracting practice. However, the authority has disregarded this principle. Of the 28 contracts we reviewed, 18 were signed by the contractor and authority after the contract's effective date. Four of the 18 were signed after the contracted-for events had already occurred.

The authority has claimed that staffing shortages resulted in "retroactive" contracts. In one case, the authority admitted the contract "fell through the cracks." However, the authority has not adequately addressed the issue of retroactive contracts, since this problem has continued into 2001. Providing services without contractually defined roles and responsibilities places the State and contractors in jeopardy should any legal problems arise.

Multimillion dollar payments to Hawaii Visitors and Convention Bureau are made with little justification

Properly planned and well-written contracts clearly define the scope of services and provide a description of the expected outcomes, tying the contractor's remuneration to measurable deliverables. However, we found that the authority cannot ensure that significant contract payments are adequately justified, meet the authority's goals, or benefit the State's economy.

The authority is unable to hold the Hawaii Visitors and Convention Bureau (the bureau) accountable for the payments of up to $4 million each it makes to the bureau through two contracts worth $135.7 million. When asked how the bureau ties its remuneration to measurable deliverables, the authority's response was that payments to the bureau are made when invoices are received and are based on the availability of funds. However, the bureau's invoices indicate only the time period being billed and not the work accomplished. The authority is unable to demonstrate whether the money it expends on these considerable contracts is used efficiently or effectively. Exhibit 2.4 contains a copy of a sample bureau invoice.

The two contracts also provide the bureau 10 percent ($13.6 million) of the contracts' costs for administrative expenses. However, the contracts do not indicate how the 10 percent was determined, how the money will be expended, or why this amount is necessary. A board member indicated that the 10 percent was a previously existing guideline that the authority's contract negotiating team felt was acceptable to carry over to the new contracts. However, this does not justify the need to pay 10 percent—a significant amount of money considering the financial magnitude of these contracts.

Contract monitoring is deficient

Establishing a reporting system that provides management with all the information required to manage risks and to maximize successful outcomes is fundamental to contract management. Contract reports must be relevant, concise, and timely. However, after many attempts, the authority was unable to provide our office with an accurate and complete contract listing in a timely manner. We also identified a number of discrepancies, some in the millions of dollars, in the authority's contract lists, including duplicate listings and contract overstatements.

For example, the authority's contract for the NFL Pro Bowl was listed twice—once as $4,000,000 and once as $4,124,299 (the latter is correct). Information contained in the contract list also differed from information contained in the contract file for 12 of the 28 contracts we reviewed. For

Exhibit 2.4
Hawaii Visitors and Convention Bureau
Sample Invoice to the Hawaii Tourism Authority

HAWAII
Visitors & Convention Bureau

2270 Kalakaua Avenue, Suite 801
Honolulu, Hawaii 96815
Telephone: (808) 923-1811

INVOICE

INVOICE #: HTA04112000

DATE: April 11, 2000

Date Invoice Received 4/12/00
Date Goods/Services Received 4/12/00
I certify that goods/services were satisfactorily received.
APPROVED FOR PAYMENT
By [signature] 4/18/00
Authorized Person Directly Responsible
BC 0603

TO: State of Hawaii
Hawaii Tourism Authority

Attn: Bob Fishman

Description: Funding for May 2000 – HTA/HVCB Contract CY 2000

Invoice Amount $3,000,000.00

Amount Now Due $3,000,000.00

Please make check payable to: Hawaii Visitors and Convention Bureau

CC: PKF

Source: Hawaii Tourism Authority.

example, one contract amount was cited as $400,000 in the list but should have been $200,000 according to the contract file and authority staff.

Without a complete and accurate contract list, the authority cannot determine its total contract obligations. Essentially, the authority and its board are unable to determine what it has done with the millions in state resources it has been entrusted with. In addition, uniform handling of transactions is essential to produce reliable records and reports but is possible only when all employees know how to process routine transactions. However, the authority has not specifically assigned any staff the responsibility for a contract list and management failed to provide guidelines for maintaining the list. Some staff utilize a database program to track contracts while other staff utilize a spreadsheet program.

Contract files are incomplete and insufficient

Maintaining key contract documents provides an audit trail and helps ensure accountability. Such records are invaluable for audit purposes, resolving problems and disputes, and planning subsequent contracts. However, the authority's contract files are not standardized, complete, or sufficient. No mechanisms are in place to ensure that contract files are complete, and no policy assigns responsibility for the files.

As a result, key contract documents are not filed in a manner that ensures easy and ready access by authority staff. In some cases, it took staff several days to locate the documents that we requested. In other cases, staff were unable to answer our questions because the contract files lacked sufficient documentation. For basic information on certain contracts, staff even asked us to contact staff no longer employed at the authority. The absence of key contract documentation leaves the authority's contracting process open to question and possible liability.

The lack of an operational framework hinders authority personnel

To perform its functions, the authority may employ staff not subject to the Civil Service Law. In 1999, the authority employed ten professional and secretarial staff whose primary responsibilities included carrying out board directives, implementing the initiatives of *Ke Kumu*, and handling the day-to-day operations of the authority. In July 2000, the authority's official organization chart reflected 25 positions—including one that has since been abolished. By November 2000, the authority had filled 18 positions, including four assigned to the State's convention center.

We found that the authority lacks fundamental management controls that would ensure its staff operate efficiently and effectively. The needed controls are written policies and procedures, accurate position descriptions, a training and development program, and personnel

evaluations. The lack of controls has resulted in staff working outside their position descriptions, and confusion and frustration among staff over their duties and responsibilities. Under these circumstances, it is not surprising that contracting management is weak and its overall performance in doubt.

Management functions are not outlined in written policies, procedures, or processes

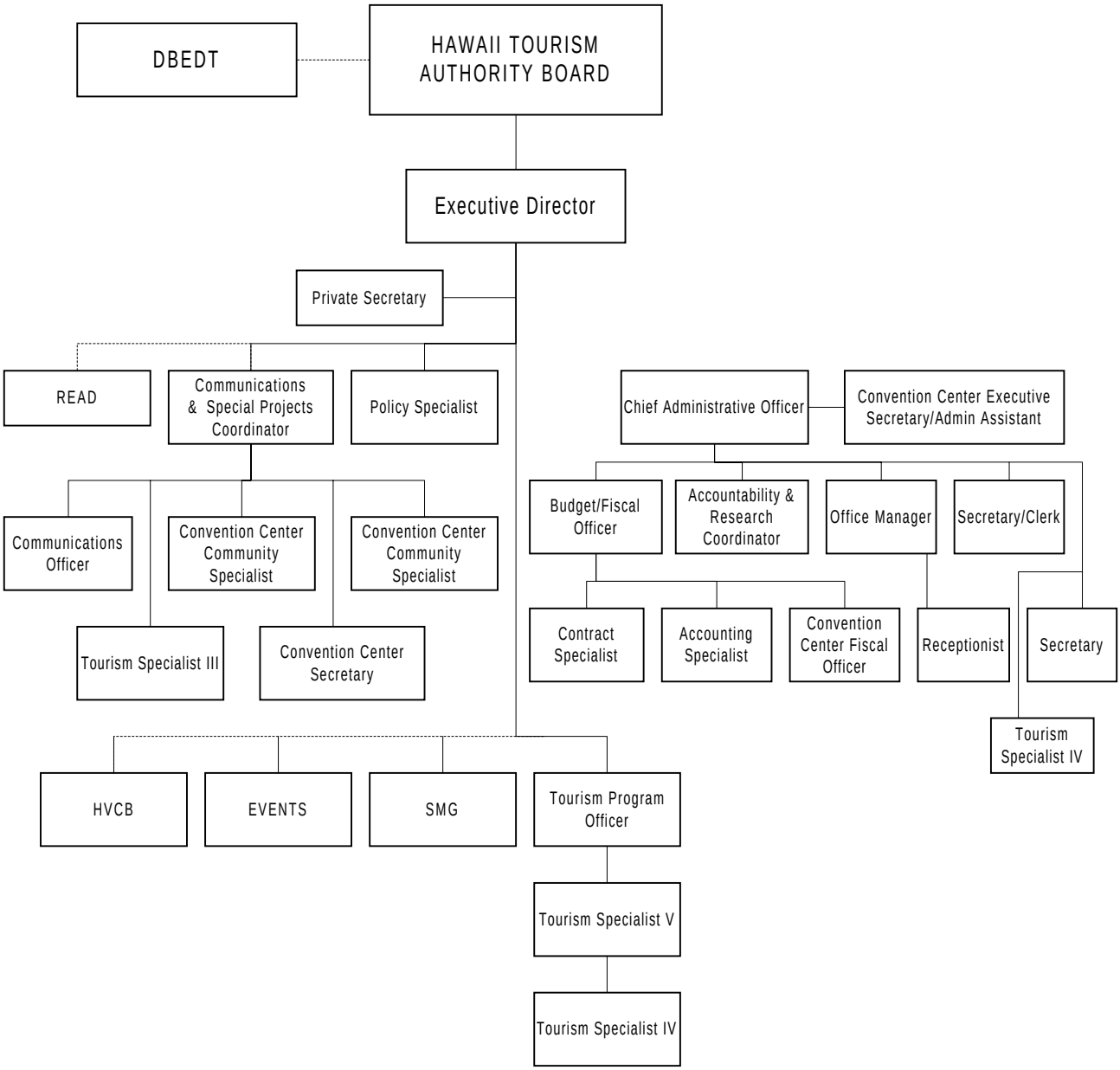
According to Roy Sorenson's *The Art of Board Membership*, one of the key responsibilities of a board of directors is to develop written polices for both its programs and personnel. Written personnel policies and procedures guide and direct the activities of staff. The authority's board has failed to ensure the development and implementation of such management controls. Authority administrators and board members report that they have yet to establish official written policies and procedures for the organization. The lack of adequate policies and procedures hinders staff in conducting their duties and responsibilities appropriately.

Lines of authority and organizational structure are unclear

We found many discrepancies and inconsistencies in the organizational structure of the authority. First, the official organization chart (Exhibit 2.5) does not reflect the authority's actual operations. At least one position shown on the chart has since been abolished. Discrepancies also exist in the supervisory relationship of certain staff members. For example, Exhibit 2.5 has the communication officer and a tourism specialist reporting to the communication and special projects coordinator. However, the communication officer and a tourism specialist state that they have always reported to the chief administrative officer and the chief executive officer. In addition, the chart leaves a cluster of 12 positions, including the chief administrative officer and the budget/fiscal officer, unattached to the rest of the organization and apparently subject to no higher chain of command. The authority's administrators acknowledge that the official chart does not accurately reflect how the authority is operating.

In lieu of the official chart, the authority has created an informal chart (Exhibit 2.6) to better represent the organizational structure and operations. However, we found a similar discrepancy in the reporting relationships shown in the informal chart. The chart indicates that the chief administrative officer has no administrative authority over a tourism specialist and communications officer. Yet staff in these positions state that they report to the chief administrative officer.

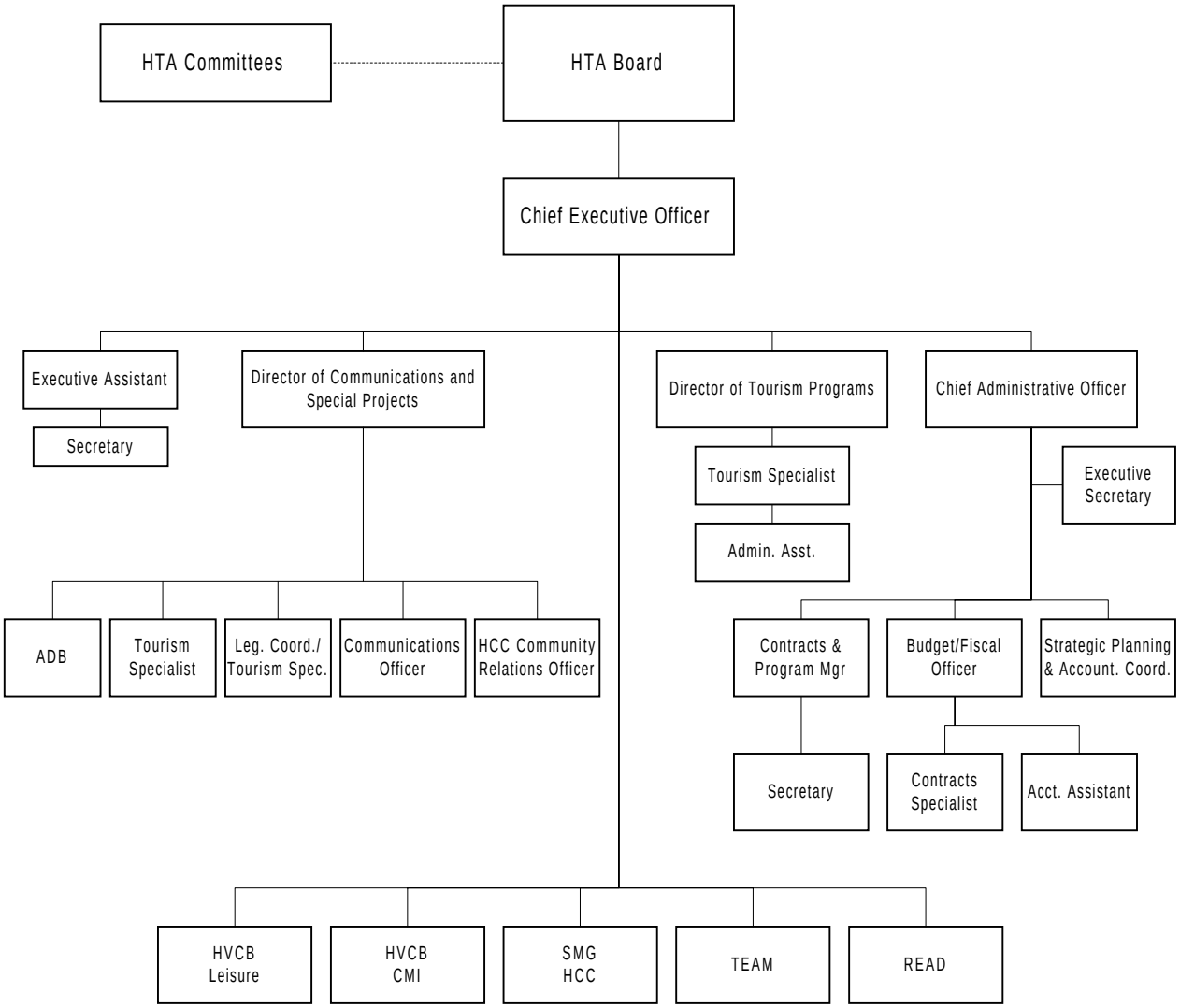
Exhibit 2.5
Hawaii Tourism Authority
Official Position Organization Chart



Note: Abbreviations are as shown on the source document.

Source: Department of Business, Economic Development and Tourism.

Exhibit 2.6
Hawaii Tourism Authority
Informal Position Organization Chart



Note: Abbreviations are as shown on the source document.

Source: Department of Business, Economic Development and Tourism.

An organizational structure is crucial to the successful performance of an organization. Structure includes all the arrangements in an organization through which the activities and behavior of its employees are directed towards desired goals. Without an adequate organizational structure, the board cannot ensure that the authority is operating effectively and efficiently.

Position descriptions are inaccurate and outdated

Position descriptions help ensure that an organization operates effectively. They create an understanding of the requirements of the position; assist with staff recruitment, interviewing, and selection; serve as a tool for staff orientation and training; and establish performance standards and goal statements for future staff performance evaluations. To ensure that staff clearly understand their job duties and responsibilities, position descriptions should be current and accurate. Inaccurate descriptions can reduce the effectiveness of training or can result in the development of unrealistic performance standards.

Our review of the authority's position descriptions found that many of them do not accurately reflect the duties and responsibilities of the position or the supervisory controls over the position. We found discrepancies in the actual duties and responsibilities of staff when compared with the duties and responsibilities outlined in their position descriptions. In addition, staff reported having supervisors other than those detailed in their position descriptions.

Part of the reason for these problems is the authority's failure to update many of its staff position descriptions. For example, three of the position descriptions we reviewed reflect the duties of the employees when they were assigned to the Office of Tourism under the Department of Planning and Economic Development (since renamed to the Department of Business, Economic Development and Tourism) prior the creation of the authority in 1998. These position descriptions have not been updated to reflect the duties and responsibilities of these staff as members of the Hawaii Tourism Authority. The existence of inaccurate descriptions indicates that the board may not have adequately thought through the organization and management of the authority.

No training and development program exists

The importance of training and development for staff cannot be overemphasized. Adequate training ensures that staff obtain the knowledge and skills necessary to fulfill their responsibilities and are prepared for future advancement. According to Robert Kreitner's *Management*, "No matter how carefully job applicants are screened, typically a gap remains between what employees do know and what they should know. Training is needed to fill this knowledge gap."

We found that the authority has yet to establish a training and development program to ensure staff are provided the necessary skills and knowledge to perform their jobs and to remain current on emerging issues and trends in the tourism industry. Authority administrators report that training for their staff is primarily on-the-job. While on-the-job training is useful, it should include formal development programs such as an understudy program, job rotation, or coaching. We found no evidence that these types of formal programs take place at the authority. As a result, the authority cannot ensure staff are able to maintain or maximize their existing skills, knowledge, and abilities.

Personnel evaluations are not conducted

Performance appraisals are tools used by management to evaluate whether employees meet the performance requirements of their positions and to improve performance. The authority has failed to establish a performance appraisal system for its employees and to evaluate them accordingly. Authority administrators state that they have no official procedure for evaluating staff. By not evaluating its employees, the authority undermines its ability to ensure that staff are meeting the performance requirements of their positions. The lack of evaluations also makes it more difficult for the authority to assess whether its goals and objectives are being achieved.

Despite Efforts to Manage the Hawai‘i Convention Center, Unresolved Issues Still Exist

We have conducted three audits of the Convention Center Authority. Our first report, released in 1998, recommended that that authority continue to monitor the design/builder’s progress in rectifying design and construction flaws. Our second report, issued in 1999, examined the need for state oversight of the convention center. In our most recent report, released in February 2000, we found that the Convention Center Authority needed to establish an improved evaluation and monitoring mechanism of the convention center operator (SMG). We also found three major punchlist items still unresolved and no provisions for continued oversight of the center. Our current audit found progress in these three areas; however, some issues still remain unresolved.

A potentially costly punchlist item remains

In 2000, we reported that three punchlist items were still unresolved. Punchlist items include outstanding repairs or incomplete items. These included the rooftop terrace concrete cracks, ballroom floor vibrations, and rooftop terrace noise. We recommended that the remaining punchlist items be resolved to ensure that all state interests in the convention center are protected and to ensure that the design/builder (Nordic/PCL) assumes all costs for which it is responsible.

The key issue holding up closure of the contract with Nordic/PCL is the rooftop terrace deck repair. The punchlist items regarding the ballroom floor vibrations and rooftop terrace noise have been resolved. The issue of vibrations was resolved when Nordic/PCL installed steel supports and dampeners. To resolve the rooftop terrace noise issue, operation guidelines were developed. These guidelines state that events on the rooftop must end at 10:00 p.m., only a custom-designed system for amplified music or speech is allowed, and the convention center operator will be responsible for monitoring sound levels of all events held on the rooftop terrace.

With regard to the rooftop terrace deck, the consultant engineer (Rider Hunt) believed that there were two aspects that may have been problematic. The first was that the cracks might have developed because the concrete was cured improperly and are being worsened by movement in the deck. Second, given the large expanse of deck exposed to the sun, normal (and necessary) thermal movement of the deck may be restrained. As a result, Rider Hunt has tested the rooftop terrace deck slab. A consultant took core samples of the deck slab and sent them for analysis to evaluate the quality of the concrete and to determine whether it was cured properly. (If the concrete was not cured properly, it will behave in a manner inconsistent with its intended use.) A consultant also reviewed the effect of thermal movement on the slab. With the testing conducted, the next step is for Nordic/PCL to develop a proposal to repair the cracks. According to SMG, Nordic/PCL was anxious to settle the issue by the end of 2001.

Systems to evaluate and monitor the convention center operator need improvements

The convention center operator, SMG, should be evaluated to measure the extent services provided fulfill contract objectives. On March 3, 2001, SMG presented information to the Hawaii Tourism Authority outlining its performance and accomplishments in the following areas: (1) performance evaluation measures, (2) general operating objectives and expectations under contract, and (3) performance of additional responsibilities.

All the goals and objectives on which the authority evaluated SMG in March 2001 were not included in its contract. In addition, SMG's contract includes 14 objectives; however, the March 2001 evaluation used only 11 of these. As noted in our earlier audit, the convention center operator's goals and objectives should be included in its contract. In addition, the operator should be evaluated only on the objectives outlined in its contract.

In its December 2000 transition plan to the Legislature, the Hawaii Tourism Authority reported that it would monitor the accomplishment of the convention center operator's objectives through a quarterly review and evaluation system. However, the authority has not yet implemented

this evaluation system. Instead, the authority has been meeting monthly with the convention center operator to discuss various operational issues. Without a system in place to regularly monitor and evaluate the convention center operator, the authority cannot be assured that the convention center is achieving its objective of supporting Hawaii's economy.

Oversight responsibilities for the convention center are not legislatively assigned

Act 98, SLH 1999, extended the sunset date of the Convention Center Authority from June 30, 1999 to June 30, 2000. However, the act did not contain provisions for continued oversight of the convention center after the sunset date. Specifically, it did not specify which state agency, if any, should assume responsibility for the center after June 30, 2000. We recommended that the Legislature determine which agency should assume oversight responsibilities for the convention center.

On June 30, 2000, the Hawaii Tourism Authority assumed responsibility for operating, managing, and maintaining the Hawai‘i Convention Center. However, this responsibility was not assigned legislatively. Responsibility was assigned executively when the governor placed the center under the control and management of the Hawaii Tourism Authority in May 2000 through Executive Order No. 3817. We reiterate our previous recommendation that the Legislature determine which agency should be statutorily assigned oversight responsibilities for the convention center.

Conclusion

The fundamental purpose of the Hawaii Tourism Authority is to improve Hawaii's economy through the marketing and promotion of tourism. Due to the significance of this purpose and with an annual budget exceeding $60 million, the Legislature had justifiable concerns regarding the authority's contracting, organizational, personnel, and accountability practices. Our audit revealed that the Legislature's concerns were well founded.

We found that the authority lacks accountability. The authority has failed to implement a process to ensure its success in achieving its mission, goals, and objectives. Without a comprehensive strategic planning process, the authority is unable to manage for results.

The management problems at the Hawaii Tourism Authority are both troubling and alarming. Since its inception over three years ago, the authority's Board of Directors has failed to develop and implement a framework that ensures that state resources are accounted for and utilized wisely and appropriately. Multi-million dollar contract payments are made with little justification. Furthermore, with inadequate guidance

and support from the authority's first chief executive officer (Fishman Enterprises), staff are not functioning as a well-balanced team and are confused and frustrated.

Also troubling are the unresolved issues surrounding the Hawai'i Convention Center. Although the center was formally accepted by the State in 1997, there are still outstanding construction issues. In addition, the authority has not implemented an adequate system to monitor and evaluate the convention center operator.

Recommendations

1. The Board of Directors of the Hawaii Tourism Authority should:

    a. Ensure that it achieves its mission by implementing a process to develop a comprehensive strategic plan.

    b. Conduct thorough and formal annual evaluations of itself, the authority, and its chief executive officer;

    c. Comply with state laws governing public meetings;

    d. Ensure that formal written policies and procedures to address contracting, personnel, and organizational management are developed, implemented, and enforced;

    e. Ensure that future contracts are properly documented and supported, clearly tie contractors' remuneration to measurable deliverables, and eliminate questionable contract clauses;

    f. Ensure that its organizational chart and staff positions descriptions are revised and updated, a training program is implemented, and staff are evaluated regularly;

    g. Continue to work with Nordic/PCL to resolve the issue of the convention center's rooftop terrace cracks as expeditiously as possible; and

    h. Implement a system to review and evaluate the convention center operator to ensure that it is meeting its goals and objectives and adhering to all applicable state laws, rules, and regulations.

2. The Legislature should clarify the duties and responsibilities of the Hawaii Tourism Authority by:

    a. Repealing Sections 201-91 to 201-99, HRS, and Chapter 203, HRS;

b. Amending Chapter 201B, HRS, to clearly assign the authority with the key duties and responsibilities formerly assigned to the Office of Tourism; and

c. Determining which agency should assume oversight responsibilities for the convention center and assigning those responsibilities by statute.

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Appendix A
Hawaii Tourism Authority
Agreements: FY1998-99 to FY2001-02 (as of October 2001)

FY1998-99

#	Contractor	Project Description	Amount
1	MEC	Tourism Awareness and Education Programs	$24,500
2	Dr. Sun Yat Sen Hawaii Foundation	Legacies: Hawaii's Contributor to the Life and Work of Dr. Sun Yat Sen	20,000
3	Hawaii Dragonboat Association	4th Annual AT&T Dragonboat Festival	20,000
4	JTB Hawaii, Inc.	1999 Honolulu Festival	20,000
5	Bishop Museum	Annexation Exhibits and Programs	10,000
6	Haleiwa Arts Festival	Celebrate the Haleiwa Arts Festival	10,000
7	Visitor Aloha Society of Hawaii (VASH)	Establish an administration infrastructure for VASH	10,000
8	Fleet Street Graphics	Plan, design, and fabricate the HI Design Expo 98	8,300
9	Waikiki Improvement Association	Update report entitled, "Restoring Hawaiianness to Waikiki"	6,000
10	German-Hawaiian Friendship Club	Report on the German Visitor Market	5,000
11	Lanai High School	1999 ZISMC National Youth Physical Fitness Championships	5,000
12	Hydrofest Hawaii, Inc.	Sports Promotion	4,500
		Total:	**$143,300**

FY1999-00

#	Contractor	Project Description	Amount
1	Visitor Aloha Society of Kauai (VASK)	Provide aloha and assistance to visitors who have been victims of crime and other adversities	$24,500
2	Piper, Kai'ulani	Tourism Special Projects consultation	20,500
3	Bautista, Lynette D.	Develop, review and edit HTA contracts, LOAs	20,000
4	Television Events and Marketing, Inc. dba TEAM Unlimited	Promotion video and supporting collateral for a legislative presentation and other uses for the calendar year	12,500
5	Cook, Lynn	Planning, development, and implementation of statewide tourism awareness and education programs	10,000
6	The Kauai Heritage Center of Hawaiian Culture & the Arts	Ku I Ka Mana	10,000
7	Yap, Caroline	Develop, review and edit HTA contracts, LOAs	8,000
8	TEAM Unlimited	Production of a 30-second promotional spot for the Hawaii Pro Bowl	6,250
9	TEAM Unlimited	Videotape the Liliuokalani Regatta	5,208
10	Hawaii Museums Association	Design, layout, and printing of a Culture Passport	4,162
11	Moanalua High School Boosters	1999 Parade	3,000
		Total:	**$124,120**

FY2000-01

#	Contractor	Project Description	Amount
1	TEAM Unlimited	Payment to OCC Sports	$175,000
2	Wong, Ruth Marie	Services related to HTA's Community Outreach Program	812
		Total:	**$175,812**

Source: Hawaii Tourism Authority. However, as discussed in the report, the accuracy and completeness of the contract listing are questionable.

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Appendix B
Hawaii Tourism Authority
Business Destination Marketing Contracts: FY2001-02 (as of July 2001)

FY2001-02

#	Contractor	Project Description	Amount
1	Five Mountain Medical Community	Healing Island Initiative	$110,000
2	Economic Development Alliance of Hawaii	Hawaii Science and Technology Marketing and Business Attraction	100,000
3	Hawaii Island Economic Development Board, Inc.	Creating A Climate for Conferencing	75,000
4	Pacific Marketing Corporation	PRIME 2001	75,000
5	Kauai Economic Development Board	Kauai Science & Technology Marketing and Business Attraction	70,000
6	Maui Economic Development Board	High Tech Marketing	60,000
7	Maui Economic Development Board	Electronic Publishing; Web Design with Experts	10,000
		Total:	**$500,000**

Source: Hawaii Tourism Authority. However, as discussed in the report, the accuracy and completeness of the contract listing are questionable.

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Appendix C
Hawaii Tourism Authority
Events Contracts: FY1998-99 to FY2001-02 (as of October 2001)

FY1998-99

#	Contractor	Project Description	Amount
1	Ehman Productions	1999 Aloha Classic Windsurfing Championship	$125,000
2	Hawaii Sports, Inc.	USA vs. Japan Pan Pacific Rugby match	50,000
3	Hawaiian Sailing Canoe Association	1999 Aston Race Series	50,000
4	Kaanapali Beach Resort Association	Maui Music Festival	50,000
5	Makapuu Marine Sports, Inc.	1999 ITU Big Island World Cup Triathlon	50,000
6	International Swimming Hall of Fame	National 25k Open Water Swimming	42,000
7	University of Hawaii	1999 Big Island Invitational Basketball Tournament	40,000
8	Bodyboard Productions, Inc.	2000 Extreme Bodyboard Series	35,000
9	Hawaii Canoe Racing Association	HCRA State Championship Canoe Race	20,000
10	Xcel Hawaii, Inc.	16th Annual Xcel Pro Surf contest	15,000
		Total:	**$477,000**

FY1999-00

#	Contractor	Project Description	Amount
N/a	TEAM Unlimited	Events Marketing & Management Svcs (Amendment 1 to contract below)	$1,985,000
1	TEAM Unlimited	Events Marketing & Management Svcs	495,000
2	Aloha Week Hawaii, Inc.	Aloha Festivals	300,000
3	Kawailoa Dev dba Poipu Bay Resort	PGA Grand Slam	300,000
4	Amfac Prop Investment Corp	Kaanapali Classic	200,000
5	Friends of Hawaii Charities	Sony Hawaiian Open	200,000
6	Kapalua Land Co.	Mercedes Championships	200,000
7	French Festival of Hawaii	French Festival	175,000
8	Hawaii International Film Fest	Hawaii International Film Festival	160,000
9	Bowl Games of Hawaii	Aloha/Oahu Bowl Doubleheader	100,000
10	County of Maui	Maui Invitational	100,000
11	Ehman Productions	Aloha Classic Windsurfing Champ	100,000
12	Ray Schoenke & Associates, Inc.	Who's Got Game Skills Challenge	100,000
13	KEDB	Hawaiian Paniolo Music Festival	75,000
14	Lanai Company Inc	Lanai Pine Hawaii Pacific Open	75,000
15	Hawaii Sports Inc	Pan Pacific Rugby USA vs Japan	50,000
16	Hawaiian Sailing Assoc	Sailing Canoe Race Series	50,000
17	Kaanapali Beach Resort Assoc	Maui Music Festival	50,000
18	Kauai EDB	Savor the Flavors of Kauai	50,000
19	Makapu'u Marine Sports	ITU Big Island Triathlon World Cup	50,000
20	Maui Writers Foundation	Maui Writers Conference	50,000
21	Navy HI MWR	Navy Hydrofest	50,000
22	Youth for Environmental Service	Millenn. Young Peoples' Congress	50,000
23	Int'l Swimming Hall of Fame	USA 25K Nat'l Open & Pre World Open Water Champ	42,000
24	UH-Hilo	Big Island Invitational Basketball	40,000
25	Chef Events, LLC	Hawaii Food Exposition	25,000
26	Kapalua Wine Society	Kapalua Wine & Food Symposium	25,000
27	Lahaina Town Action Comm	Taste of Lahaina	20,000
		Total:	**$5,117,000**

Calendar Year 2000

#	Contractor	Project Description	Amount
1	National Football League	NFL Pro Bowl	$3,500,000
2	Sports Producers Hawaii, Inc.	Senior Skins	400,000
3	Kauai Economic Development Board	NFL Quarterback Challenge	350,000
4	Not indicated in contract listing	Honolulu Festival	150,000
5	Not indicated in contract listing	Hokulea 25th Anniversary Events	100,000
6	Not indicated in contract listing	Maui Marathon	25,000
		Total:	**$4,525,000**

Calendar Year 2001

#	Contractor	Project Description	Amount
1	National Football League	NFL Pro Bowl	$4,124,299
2	Kauai Economic Development Board	NFL Quarterback Challenge	400,000
3	Not indicated in contract listing	Maui Invitational	100,000
4	Not indicated in contract listing	Maui Jim Hawaii Marlin Tournament Series	100,000
5	Not indicated in contract listing	Hawaii World Billfish Tournament	80,000
6	Not indicated in contract listing	Ironman Triathlon World Championships	75,000
7	Not indicated in contract listing	Vans Triple Crown of Surfing	75,000
8	Not indicated in contract listing	Pontiac America Team Cup-USA Gymnastics	70,000
9	Not indicated in contract listing	Red Bull King of the Air/Kitesurfing	60,000
10	Not indicated in contract listing	Aloha Classic	50,000
11	Not indicated in contract listing	Maui Marathon	50,000
12	Not indicated in contract listing	Women's World Bodyboarding Championship	40,000
13	Not indicated in contract listing	Hawaiian International Billfish Tournament	30,000
14	Not indicated in contract listing	World Cliff Diving Championships	30,000
15	Not indicated in contract listing	Xcel Surf Pro Contest	25,000
		Total:	**$5,309,299**

Source: Hawaii Tourism Authority. However, as discussed in the report, the accuracy and completeness of the contract listing are questionable.

Appendix D
Hawaii Tourism Authority
Product Development Contracts: FY1998-99 to FY2001-02 (as of October 2001)

FY1998-99

#	Contractor	Project Description	Amount
1	County of Maui	Maui Invitational Tournament	$100,000
2	Lanai Company, Inc.	Lanai Pine Hawaii Pacific Open Clay Shoot	75,000
3	Hawaii Island Economic Development Board	Boat Days Hilo and Kona Celebrations	45,000
4	Hawaii Bicycling League	1999 Century Bike Ride	40,000
5	Kauai Economic Development Board	West Kauai Visitor Center and Cultural project	40,000
6	Alternative Structures International, dba Kahumana Community Center	Plan, develop and implement the Waianae Cultural Center	30,000
7	Maui Community Arts and Cultural Center	1999-2000 Ho'onanea Project	25,000
8	Hawaii Island Economic Development Board	Paniolo Style – Hawaii's Cowboy Heritage	25,000
9	Hawaii Theatre Center	"The Home of Great Hawaiian Music"	25,000
10	Pulama Ia Kona Heritage Preservation Council	Plan, develop and stage the Holualoa Heritage Corridor project	25,000
11	Lahaina Town Action Committee	Boat Day Greetings in Hawaii	25,000
12	Pete Newell Big Man Camp Hawaii, Ltd	Hawaii Basketball Training Camp	20,000
13	Hawaii Island Economic Development Board	Big Island Cultural Corridor	20,000
14	Volcano Art Center, Inc.	Volcano Wilderness Runs	20,000
15	Kona Historical Society	Kona Heritage Stores project	20,000
16	Friends of Mokulea	Develop Moku'ula project	20,000
17	Big Island Resource Conservation Council	Identify and promote trails in Puna	20,000
18	County of Kauai, Office of Economic Development	Lihue Airport Entertainment project	19,000
19	World Music Association	Plan, develop and stage the Hawaii International Jazz Festival	15,000
20	Waimea Preservation Association, dba Waimea Main St.	Waimea Community Visitor Attraction program	15,000
21	West Kauai Main Street	HMS Bark Endeavor	15,000
22	Big Island Resource Conservation Council	Plantation Living History project	15,000
23	Koloa Plantation Days, Inc.	Koloa Plantation Days Celebration	10,000
24	Kori, Inc. dba Aloha Hula Supply	1999 World Invitational Hula Festival	10,000
25	Hui O Laka – Koke'e Natural History Museum	Emalani Festival	10,000
26	Big Island International Marathon Association	1999 3rd Annual 26.2 Marathon & Ekiden Relay Race and Charity Walk	10,000
27	Hawaii County Economic Opportunity Council	Rainbow Falls project	10,000
28	Hawaiian Chinese Multicultural Museum & Archives	Chinatown Historical Tour	10,000
29	Hawaii Services on Deafness	1999 Sign Language Festival	5,000
30	East Hawaii Cultural Council	10th Annual Big Island Slack Key Festival	5,000
31	The Contemporary Museum	Arts with the Aloha Cultural Tourism Brochure	5,000
32	Na Kalai Wa'a O Kauai	No Ka Keiki Concert	4,000
33	Japanese Cultural Society of Hawaii	Kauai Japanese Cultural Festival	2,000
34	Hawaiian Super Prix, LLC	Championship Auto Racing	0
		Total:	**$735,000**

FY1999-00

#	Contractor	Project Description	Amount
1	Economic Dev Alliance, Hawaii	Film Marketing Programs	$200,000
2	dba Destination Hilo	Edu Tourism Consortium	180,000
3	Kauai EDB	Science & Tech Mktg Program	175,000
4	Native Hawn Tsm & Hosp Assn.	Re-Enchantment of Waikiki	150,000
5	Kauai Economic Development Bd.	Kauai: An Island of Discovery	145,000
6	Tom Coffman Multimedia Inc.	Hawaiian Forest TV Documentary	125,000
7	Economic Dev Alliance, Hawaii	State Freshwater Fishing Program	100,000
8	USS Missouri Memorial Assn.	Battleship MO Memorial Edu Prgm.	100,000
9	Five Mtn Medical Community	The Healing Island Initiative	90,000
10	Economic Dev Alliance, Hawaii	State Natural Resources Display	75,000
11	PICHTR	APEC Telecom Meeting	75,000
12	Economic Dev Alliance, Hawaii	Science & Tech Business Dev	65,000
13	Kauai Economic Development Bd	Kauai Products Catalog Development	65,000
14	Maui Econ Dev Board	S&T Meeting Planners Conf.	60,000
15	County of Maui OED	USC School of Cinema Seminar	55,000
16	Economic Dev Alliance, Hawaii	High Tech Entertainment Bus Dev	55,000
17	Hawaiian Wildlife Tours	Promo of Wilderness Trail Ecotsm	53,000
18	Edith Kanakaole Foundation	World Indigenous Peoples Conf	50,000
19	Friends of Youth for Environmental Service	Services related to the Millennium Young People Congress	50,000
20	Kauai Economic Development	Showcase Hawaii Products	50,000
21	Kona Historical Society	Kona Coffee Living History	50,000
22	Hawaii Island EDB	Hawaii Island of Adventure/Int'l Festival of the Pacific	45,000
23	HIEDB	Hilo and Kona Boat Days	45,000
24	The Friends of 'Iolani Palace	Iolani Palace	45,000
25	Kauai Business Assistance	Visitor Edu Tsm Center @ KCC	42,000
26	Hawaii Bicycling League	Century Bike Ride	40,000
27	Hon Jpnse Chamber of Com	Edu Tourism Mission	40,000
28	KEDB	Cultural Programs	40,000
29	Bodyboard Productions	3rd Ann Extreme Bodyboard Series	35,000
30	Bright Light Marketing Group, Inc.	Waikiki Walk of Honor	35,000
31	West Kauai Com Dev Corp	Waimea Sugar Mill Marketplace	35,000
32	Alternative Structures Int'l dba Kahumana Community Ctr	Waianae Cultural Center	30,000
33	Hawaii Nature Center	A Walk in the Rainforest	30,000
34	Bishop Museum	Ho 'Ike 'Ike Cultural and Ed Tour	25,000
35	Child & Family Services	Training for Japan's Elder Care	25,000
36	Hawaii Island EDB	Techno Tourism Collateral & Inv	25,000
37	Hawaii Theatre Center	The Home of Great Hawaiian Music	25,000
38	HIEDB	Paniolo Style – Hawaii's Cowboys Heritage	25,000
39	Honolulu Academy of Arts	Encounters With Paradise	25,000
40	Kapalua Wine Society	18th Annual Kapalua Food and Wine Symposium	25,000
41	Lahaina Town Action Committee	Boat Day Greetings in Lahaina	25,000
42	Maui Arts & Cultural Center	Hoonanea Project	25,000
43	Pulama Ia Kona	Holualoa Heritage Stores	25,000
44	Carole Kai Charities, Inc.	Great Aloha Run Festival	24,950
45	Aloha Boat Days/HI Maritime	Honolulu Harbor Boat Days	24,000
46	Hawaii Ec. Dev. Board	Hilo and Kona Boat Day Project	24,000
47	Kauai County – Office of Ec. Dev.	Kauai's Aloha Greetings Project	24,000
48	Kauai Ec. Dev. Board	Kauai Kupuna Cultural Program & Festival	24,000
49	West Kauai Bus. & Prof. Assn.	Waimea Town Celebration	24,000
50	Kauai Rural Health Assn	Kauai Rural Health & Wellness Festival	21,000
51	Big Island RC&D	Puna Trails Organization And Interpretation Project	20,000
52	Friends of Mokuula	Mokuula Project	20,000
53	Hawaiian Canoe Race	Hawaii Canoe State Championship	20,000

#	Contractor	Project Description	Amount
54	HIEDB	Big Island Cultural Corridor	20,000
55	Honolulu Symphony	Waikiki Shell Concerts	20,000
56	Kapalua Nature Society	Earth Maui Nature Summit	20,000
57	Kauai Chamber of Commerce	Kauai Net Expo	20,000
58	Kona Historical Society	Kona Heritage Stores	20,000
59	Lahaina Town Action Committee	In Celebration of Canoes	20,000
60	Laupahoehoe Train Museum	Caboose Display Project	20,000
61	Maui Sports Foundation	Maui Race Series	20,000
62	Pete Newell Ltd.	Big Man Camp Hawaii	20,000
63	Poipu Beach Resort Association	Koloa-Poipu Heritage Program	20,000
64	UH, Hilo, Athletics Dept.	Taylor-Made/Waikoloa Intercollegiate Golf Tournament	20,000
65	Volcano Art Center	Volcano Wilderness Run	20,000
66	Office of Economic Development	Lihue Airport Entertainment Project	19,000
67	Maui Econ Dev Board	S&T Meetings & Convention Prgm	16,000
68	Big Island RC&D	Plantation Living History Project	15,000
69	Hui Kalo 'O Waialua	Waialua Taro Festival	15,000
70	Kauai Mokihana Festival	1999 Kauai Mokihana Festival	15,000
71	Prince Albert Foundation	Prince Albert Music Festival	15,000
72	Waimea Main Street	Waimea Community Visitor Attraction Program	15,000
73	West Kauai Main Street	HM Bark Endeavor Festival	15,000
74	World Music Association	Hawaii International Jazz Festival	15,000
75	Xcel Hawaii Inc	Xcel Pro Surf Contest	15,000
76	Central Maui Destination Assn	Kahului Harbor Greeting Program	12,000
77	Lahaina Town Action Committee	Lahaina Boat Greeting	12,000
78	Na Hoaloha 'Ainahou	Volcanoes National Park Seminar	12,000
79	Big Island Int'l Mar Assoc.	Big Isle International Marathon	10,000
80	Hawaii Ecotourism Assn.	Hawaii Pono	10,000
81	Hawaiian Chinese Multicultural Museum	Chinatown Historical Tour	10,000
82	HI County Econ Opp Council	Rainbow Junction Cultural Program	10,000
83	Hui O Laka	Emalani Festival	10,000
84	Ka Molokai Makahiki	Ka Molokai Makahiki	10,000
85	Kauai Tahiti Fete	Kauai Tahiti Fete	10,000
86	Koloa Plantation Days, Inc.	Koloa Plantation Days Celebration	10,000
87	Kori Inc. dba Aloha Hula Supply	World Invitational Hula Festival	10,000
88	Maui Econ Dev Board	S&T Meeting Planners Guide	10,000
89	Molokai Visitors Association	Molokai Ka Hula Piko	10,000
90	Temari	Seasons of Aloha	10,000
91	UH College of Tropical Ag	Coffee Cherry Blossom Festival	10,000
92	Aikane O Halau Hula O Keola Aliikekai	Aloha on the Go – The Japan Train Stop Show	5,000
93	Contemporary Museum	Arts With Aloha Cultural Tourism Brochure	5,000
94	East Hawaii Cultural Council	Big Island Slack Key Guitar Festival	5,000
95	Garden Island Arts Council	E Kanikapila Kakou	5,000
96	Hawaii Services on Deafness	Sign Language Festival '99	5,000
97	HI Island Space Expl Society	Hawaii Space Tourism Jump Start	5,000
98	Kapaa Business Association	Coconut Festival	5,000
99	No Shore Body Surf	Pipeline Body Surfing Classic	5,000
100	Na Ohana Kakoo Olelo Makuahine	No Na Keiki Concert	4,000
101	Japanese Cultural Society of Kauai	14th Annual Kauai Japanese Cultural Festival	2,000
		Total:	**$3,512,950**

FY2000-01

#	Contractor	Project Description	Amount
1	Kauai Economic Development Board	Techno Tourism Marketing Program	$175,000
2	Hawaii International Film Festival	Hawaii International Film Festival 2000	160,000
3	Bishop Museum	Hilton Hawaiian Village's Hawaiian Cultural Center	150,000
4	Hawaii Island Economic Development Board	Agricultural Tourism	150,000
5	Hilo Hawaii Visitor Industry Assn., dba Destination Hilo	Edu-Tourism Consortium	150,000
6	Kauai Economic Development Board	Kauai – Hawaii's Island of Discovery	145,000
7	Five Mountain Medical Community, Inc.	The Healing Island Initiative	140,000
8	Maui Economic Development Board	Meetings Attraction	125,000
9	Native Hawaiian Tourism & Hospitality Association	The Institute of Hospitality	75,000
10	Helping Hands Hawaii	Art in Paradise	50,000
11	Jasper Properties, LLC-dba Kauai Products Fair	Kauai Products Fair	50,000
12	Kona Historical Society	Kona History Orientation Exhibit	50,000
13	Lahaina Town Action Committee	In Celebration of Canoes	50,000
14	Westside Sporting Clays	Westside Sporting Clays Skins Game	50,000
15	Maui Economic Development Board	Maui Space Surveillance Site (MSSS) Visitor Tours	35,000
16	West Kauai Business & Professional Association	Waimea Town Celebration	30,000
17	East Maui Taro Festival	East Maui Taro Festival – World Taro Festival	25,000
18	Hawaii Bicycling League	AIG Century Ride	25,000
19	Hawaii Theatre Center	Decades – Hawaiian Style	25,000
20	Hilton Waikoloa Village	The Great Waikoloa Food, Wine and Music Festival	25,000
21	Ho'opulapula Haraguchi Rice Mill	Haraguchi Rice Mill Visitor Center and Gift Shop	25,000
22	Honolulu Academy of Arts	Encounters with Paradise II: Hawaiian Exhibitions	25,000
23	Japanese Chamber of Commerce and Industry of Hawaii	International Festival of the Pacific	25,000
24	Kapalua Land Company, Ltd.	Kapalua Food and Wine Festival	25,000
25	Kauai Taro Growers Association	Kauai Taro Festival	25,000
26	Lahaina Town Action Committee	A Taste of Lahaina & the Best of Island Music	25,000
27	Moanalua Gardens Foundation	MGF's Prince Lot Hula Festival XXIII	25,000
28	Kauai Mokihana Festival	Kauai Mokihana Festival 2000	23,000
29	Koloa Plantation Days, Inc.	Koloa Plantation Days Celebration	23,000
30	Maui Pineapple Company Ltd. – Honolua Plantation	Maui Pineapple Plantation Tour Marketing	23,000
31	Hui No'eau Visual Arts Center	The Color of Paradise	22,000
32	Bishop Museum	Family Sunday	20,000
33	Carole Kai Charities, Inc. dba Great Aloha Run	Great Aloha Run	20,000
34	County of Maui, Office of Economic Development	8th Annual Lanai Pineapple Festival	20,000
35	Hawaii Women's Business Center	Health & Wellness Tourism: Making it Happen	20,000
36	Hawaiian Sailing Canoe Association	2000 Aston Race Series Sports Tourism Proposal	20,000
37	Lyman House Memorial Museum	Hands on Hawaii – The Earth Heritage Gallery	20,000
38	Maui AIDS Foundation	Rainbow Hawaii	20,000
39	Maui Arts & Cultural Center	2000-2001 Ho'onanea Hawaiian Music Series	20,000
40	University of Hawaii – Hilo Athletics	Taylor Made/Waikoloa Intercollegiate Golf Tournament	20,000
41	World Invitational Hula Festival/E Ho'i Mai i ka Piko Hula	World Invitational Hula Festival	20,000
42	Maui Agricultural Foundation, Inc.	2001 Ulupalakua Thing!	19,000
43	Ka Molokai Makahiki, Inc.	Ka Molokai Makahiki, 'Iwakalua	17,000
44	Hui o Laka – Koke'e Natural History Museum	Eo E Emalani I Alakai Festival	16,000
45	Downtown Improvement Association	Hilo Mainstreet Activity and Information System	15,000

#	Contractor	Project Description	Amount
46	Kauai Children's Discovery Museum	Savor the Flavors of Kauai	15,000
47	Roy Sakuma Productions, Inc.	30th Annual Ukulele Festival	15,000
48	Waimea Preservation Association	Waimea Visitor Attraction Program	15,000
49	West Kauai Business & Professional Association	Waimea Main Street Marketing	15,000
50	Pua Tahiti Productions	Tahiti Fete of Hilo	12,000
51	Big Island International Marathon Association	Big Island International Marathon	10,000
52	County of Maui, Office of Economic Development	Historic Wailuku Town, Cultural Street Festivals	10,000
53	East Hawaii Cultural Council	11th Annual Big Island Slack Key Guitar Festival	10,000
54	Haleiwa Arts Festival	Haleiwa Arts Festival Summer Event	10,000
55	Hanapepe Economic Alliance, Inc.	Cultural Tourism Program	10,000
56	Hawaii Theatre Center	The Home of Great Hawaiian Music	10,000
57	Honolulu Japanese Chamber of Commerce	Edu-Tourism – Business Mission	10,000
58	King Kamehameha Celebration Commission	128th King Kamehameha Celebration	10,000
59	LoveStar Corporation	John Manjiro Izanai Yosakoi Festival of the Future	10,000
60	Maui Taiko	Maui Taiko 2001 Aloha Tour	10,000
61	University of Hawaii College of Tropical Agriculture & Human Resources	Kona Spring Blossom Festival	10,000
62	World Music Association	Hawaii International Jazz Festival	10,000
63	Hawaii Maritime Center (Bishop Museum is contracting entity)	Honolulu Harbor Festival	8,000
64	Volcano Art Center, Inc.	Web-Based Marketing Development	8,000
65	He Kula Na Mea Hawaii	Hula Fest 2000	7,000
66	Hawaii Services on Deafness	Hawaii Sign Language Festival Advance Promo 2001	5,000
67	Kapaa Business Association	Coconut Festival	5,000
		Total:	**$2,443,000**

FY2001-02

#	Contractor	Project Description	Amount
1	County of Kauai – Office of Economic Development	Kauai Cooperative Festivals Grant	$100,000
2	UH-Hilo (College of Continuing Education)	Expanding EduTourism in Hawaii	100,000
3	Hawaii County Economic Opportunity Council	The Rainbow Falls Connection	75,000
4	Kauai Economic Development Board	Kauai Visitor Center Cultural Program	75,000
5	Lahaina Town Action Committee	In Celebration of Canoes	50,000
6	Japanese Cultural Center of Hawaii	Japan-Hawaii School Visit Program	40,000
7	Pacific Islanders in Communications	Holo Mai Pele National Outreach	30,000
8	East Maui Taro Festival, Inc.	10th Annual East-Maui Taro Festival/World Taro Festival	25,000
9	Friends of Waipahu dba Hawaii's Plantation Village	Taste of Waipahu: Plantation Culture Lives!	25,000
10	Hilton Waikaloa Village	Dolphin Days/Great Waikaloa	25,000
11	Jasper Properties, LLC – dba Kauai Products Fair	Kauai Products Fair	25,000
12	Kapalua Land Company	Kapalua Wine & Food Festival	25,000
13	Lahaina Town Action Committee	A Taste of Lahaina	25,000
14	Polynesian Voyaging Society	Hoʻoilina Mau – Hoʻolaule'a	25,000
15	The Ritz-Carlton Kapalua	The Celebration of the Arts	25,000
16	West Kauai Business & Professional Association	Year 2002 Waimea Town Celebration	25,000

#	Contractor	Project Description	Amount
17	Hawaii Island Economic Development Board, Inc	Lili'uokalani Festival and Haw'n Music Conference	20,000
18	Hawaii Island Economic Development Board, Inc	Ag Tourism Council	20,000
19	Hawaiian Sailing Canoe Association	2001 Aston Race Series	20,000
20	Honolulu Academy of Arts	Na Mele Hawaii Concert Series	20,000
21	Hui No'eau DBA Hui No'eau Visual Arts Center	The Color of Paradise	20,000
22	Japanese Chamber of Commerce & Industry of Hawaii	41st International Festival of the Pacific	20,000
23	Kapa'a Business Association	5th Annual Coconut Festival	20,000
24	Life Foundation	Paradise Ride Hawaii	20,000
25	Lyman House Memorial Museum	Earth Heritage Gallery – On the Road	20,000
26	Maui Agriculture Foundation	2002 Maui Agricultural Trade Show & Sampling	20,000
27	Moanalua Gardens, Inc.	24th Annual Prince Lot Hula Festival	20,000
28	World Invitational Hula Festival	World Invitational Hula Festival	20,000
29	Bishop Museum	Traditional Arts Outreach Program	15,000
30	Hamakua Music Festival, Inc.	Website Creation/Marketing Expansion	15,000
31	Hawaii Ecotourism Association	Ke Ala Moa'e – The Trade Wind Trail	15,000
32	Hawaii Island Economic Development Board, Inc.	Volcano Cultural Corridor	15,000
33	Honolulu Japanese Chamber of Commerce	Marketing for Education Tourism	15,000
34	Kona Historical Society	Kona Coffee Living History Farm Ed. Outreach Program	15,000
35	Kona Historical Society	Kona Heritage Ranch – Traditional Cattle Walls of Kona	15,000
36	Nui o Laka (Koke'e Natural History Museum)	E o Emalani I Alakai – The Emalani Festival	15,000
37	Matrix Media of HI	Hawaii School Excursions Insert	12,000
38	County of Maui, Office of Economic Development	Ka Leo Hano Awards	10,000
39	County of Maui, Office of Economic Development	Historic Wailuku Town, Exploring Historic Wailuku, Audio Tape	10,000
40	East Hawaii Cultural Council	Big Island Slack Key Guitar Program	10,000
41	Haleiwa Arts Festival	Haleiwa Arts Festival 4th Annual Summer Event	10,000
42	Hawaii Youth Symphony Association	Pacific Music Institute 2001	10,000
43	Lovestar Corporation	John Manjiro Izanai Yosakoi Festival of the Future	10,000
44	Malama Ia Kona Heritage Preservation Council	Kona Heritage Corridor	10,000
45	Maui Community Arts & Cultural Center dba Maui Arts & Cultural Center	2002 Kiho'alu Slack Key Guitar Festival at MACC	10,000
46	Maui Community Arts & Cultural Center dba Maui Arts & Cultural Center	Ho'onanea & Hawaii's Cultures at the MACC	10,000
47	Native Hawaiian Tourism & Hospitality Association	Hawaii Theatre "Hana Hou!" Hawaiian Music Series	10,000
48	West Kauai Business & Professional Association	Waimea Main Street Marketing	10,000
49	World Music Association	Hawaii International Jazz Festival	10,000
50	Big Island Sustainable Communities Association	HCRC Hamakua Web Site Project	5,000
51	Mainstream Pahoa, Inc.	The Puna Renewable Energy Fair	5,000
		Total:	**$1,197,000**

Source: Hawaii Tourism Authority. However, as discussed in the report, the accuracy and completeness of the contract listing are questionable.

Appendix E
Hawaii Tourism Authority
Other Contracts: FY1998-99 to FY2001-02 (as of October 2001)

FY1998-99

#	Contractor	Project Description	Amount
1	Hawaii Visitors and Convention Bureau	Tourism Marketing and Promotion	$49,613,347
2	SMG	Management and operations services of the Hawaii Convention Center	12,227,147
3	Fishman Enterprises	Management of the Hawaii Tourism Authority	546,000
4	Rider Hunt Ltd.	Construction Management Services for the Hawaii Convention Center	150,000
5	Hokama, Isaac K.	Millennium Commission staff	110,000
6	Aloha Stadium	Aloha Bowl Game/Oahu Bowl Game	45,000
7	Higa, Amy Y.	Millennium Commission staff	30,000
8	City and County of Honolulu	Expo 1998 to Portugal	25,000
9	Bowl Games of Hawaii	Aloha Bowl Game/Oahu Bowl Game	0
		Total:	**$62,746,494**

FY1999-00

#	Contractor	Project Description	Amount
1	Hawaii Visitors Convention Bureau	Integrated Marketing	$39,000,000
2	Hawaii Visitors Convention Bureau	Meetings, Conventions, and Incentives	5,200,000
3	Hawaii Millennium Commission	Year-long events in 2000 related to the Millennium	750,000
4	Robert M. Kaya Builders, Inc.	Furnishing and Installation of Cool Air in the Ballroom Pre-function Area for the Hawaii Convention Center	432,355
5	Wilson Okamoto & Associates, Inc.	Kalakaua Avenue Sidewalk Improvement project	75,000
6	Inacom Corp., dba Inacom Information Systems	Network, internet and email support service, maintenance	64,447
7	Visitor Aloha Society of Hawaii (VASH)	Assisting visitors victimized by crime and other adversities	52,500
8	Bronster, Crabtree and Hoshibata	Consultant services for the Pro Bowl and the Quarterback Challenge	24,000
9	Cachola, Julie-Ann	For services related to HTA's activities in Product Development, Cultural Tourism/Community-based Tourism and Sports/Events	14,400
		Total:	**$45,612,702**

FY2000-01

#	Contractor	Project Description	Amount
1	PGA	Golf Events	$1,800,000
2	TEAM Unlimited, Inc.	Events Management	750,000
3	City and County of Honolulu	To protect and serve all residents and visitors in the City and County of Honolulu, especially residents and visitors attending meetings, events or conventions at the Hawaii Convention Center	525,000
4	HTDC	Statewide mktg. Plan to attract science and tech business to Hawaii	250,000
5	Visitor Aloha Society of Hawaii (VASH)	Victimized visitor assistance	165,000
6	EDAH	Hawaiian Paniolo Festival	145,000
7	University of Hawaii	Registration and Fiscal administrative services for the ADB Conference	110,000
8	Pacific Marketing Corporation	PRIME 2000	100,000
9	Pacific Telecommunication Council	Planet PTC	75,000
10	Kauai Economic Development Board	Time Share Proposal	60,000
11	D&V Marketing, Inc.	Perimeter and Interior Security around HCC during ADB	50,040
12	Maui Economic Development	2001 Maui Film Festival @ Wailea	50,000
13	Pacific Arts Foundation	Waikiki-In the Wake of Dreams	50,000
14	Royal Guard Security, Inc.	Perimeter Security around HCC during ADB	47,874
15	Aton, Robert Doug	Security Consultant for the ADB Conference	40,950
16	Wackenhut Corporation	Security examination of all persons and belongings of attendees of the ADB Conference	37,791

#	Contractor	Project Description	Amount
17	Visitor Aloha Society of Kauai (VASK)	Victimized visitor assistance	35,000
18	Lahaina Town Action Committee	Lahaina Boat Day Greetings	25,000
19	Economic Dev Alliance, Hawaii	Maui Meeting Visions	24,000
20	HI State Consortium for Integrative Healthcare	Straub Foundation	24,000
21	Hawaii Internet Emporium	Design, development, hosting and maintenance of a new website for the Asian Development Bank Conference	20,156
22	Hawaii Alliance of Healing Arts	Hawaii Alliance of Healing Arts	20,000
23	National Association of State Venture Funds, Inc., dba National Association of Seed and Venture Funds	National Association of Seed and Venture Funds Conference	20,000
24	Zhongshan Association	Zhongshan Association Conference	20,000
25	HI State Assn. Of Counties	2001 Western Interstate Region Conference	15,000
26	Lewitz and Associates	Supervision and execution of all work necessary to complete electrical and sound system work at the Hawaii Convention Center	14,500
27	Cook, Lynn	Implementation of Tourism Awareness campaign	12,000
28	Glauberman, Stuart	Public relations support at the ADB Conference	5,000
29	Matsuda, Milton	Administrative and management support at the ADB Conference	3,000
30	Shon, James T.	Administrative and management support at the ADB Conference	3,000
31	Bonomi, Edward L.	Administrative and management support at the ADB conference	2,000
32	Cook, Lynn	Implementation Awareness campaign (supplemental agreement no.1)	1,800
33	Rios, Jessica	Administrative and executive assistance for the ADB Conference	1,600
		Total:	**$4,502,711**

Source: Hawaii Tourism Authority. However, as discussed in the report, the accuracy and completeness of the contract listing are questionable.

Responses of the Affected Agencies

Comments on Agency Responses

We transmitted drafts of this report to the chair of the Board of Directors of the Hawaii Tourism Authority, the authority's executive director, and the Department of Business, Economic Development and Tourism on January 24, 2002. A copy of the transmittal letter to the board chair is included as Attachment 1. Similar letters were sent to the executive director and the Department of Business, Economic Development and Tourism. The responses of the board chair, the executive director, and the Department of Business, Economic Development and Tourism are included as Attachments 2, 3, and 4, respectively.

In his response, the board chair accepted and agreed with our recommendations. He observed that the audit "provides a good template for the [authority's] board to embark on its current challenge of finding a new executive director who can in fact, address all of the points raised in the audit and in so doing, improve the [authority's] operations and make us a better government agency."

The board's response also included a letter and opinion from attorney Max W.J. Graham, Jr. regarding parts of our draft report that he describes as appearing to implicate his client, a board member, in alleged violations of the state ethics code. On page 5 of his opinion, Mr. Graham claims apparent factual inaccuracies in our draft report. We stand by the facts that we presented. The 2001 NFL Quarterback Challenge contract was indeed signed after the event was held on February 8, 2001. Although the contract was dated February 1, 2001, the contractor did not sign the contract until February 12, 2001 and the authority until March 15, 2001. Mr. Graham also claims that a $253,200 product development proposal existed. However, the authority was able to provide us only with evidence of a $75,000 proposal. Mr. Graham also disagrees with the presentation of facts in our Exhibit 2.1. However, the exhibit is correct as to the timeline of events.

Mr. Graham's opinion also concludes that the authority board member in question did not have a controlling interest in the nonprofit organization that was awarded several contracts by the authority. However, he does not explain the basis for his conclusion.

In his response, the current executive director of the authority stated that the authority looks forward to implementing our recommendations without reservations, except our recommendation that the board clearly tie contractors' remuneration to measurable deliverables. However, we stand by our recommendation. Due to the significance of the authority's

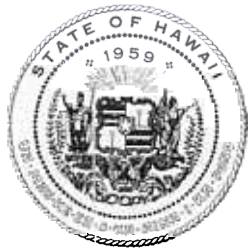
contracts with the Hawaii Visitors and Convention Bureau to market and promote Hawaii, and with single payments ranging from $625,000 to $4 million, the authority needs to be able to demonstrate that the moneys spent are used efficiently and effectively, by linking remuneration to measurable deliverables. The executive director also noted that minutes for six executive meetings of the board were maintained in electronic form and handwritten minutes were maintained for 15 executive meetings. However, in response to a direct request to review all executive meeting minutes, the authority provided our office only with handwritten minutes for nine executive meetings.

The director of the Department of Business, Economic Development and Tourism (DBEDT) commented that he believes our report will help the new chief executive officer to better manage the authority. The DBEDT director also discusses issues relating to the measurement of the authority's performance.

All of the above parties commenting on the draft provided additional information and viewpoints.

Our final report contains a few minor editorial changes for purposes of accuracy or style.

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



MARION M. HIGA
State Auditor

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

January 24, 2002

COPY

Mr. Roy Tokujo, Chair
Board of Directors
Hawaii Tourism Authority
Hawaii Convention Center
1801 Kalakaua Avenue, R-Level
Honolulu, Hawaii 96815

Dear Mr. Tokujo:

Enclosed for your information are 13 copies, numbered 6 to 18 of our draft report, *Management Audit of the Hawaii Tourism Authority*. We ask that you telephone us by Monday, January 28, 2002, on whether or not you intend to comment on our recommendations. Please distribute the copies to the members of the board. If you wish your comments to be included in the report, please submit them no later than Thursday, January 31, 2002.

The Executive Director of the Hawaii Tourism Authority, Department of Business, Economic Development and Tourism, Governor, and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

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

Sincerely,

Marion M. Higa
State Auditor

Enclosures

ATTACHMENT 2

Hawaii Tourism Authority

BENJAMIN J. CAYETANO
Governor

RICHARD L. HUMPHREYS
Executive Director

Hawaii Convention Center, 1801 Kalakaua Avenue, Honolulu, Hawaii 96815
Website: www.hawaii.gov/tourism

Telephone: (808) 973-2255
Fax: (808) 973-2253

February 1, 2002

RECEIVED
FEB 1 11 57 AM '02
OFC. OF THE AUDITOR
STATE OF HAWAII

The Honorable Marion Higa
State Auditor
Office of the Auditor, Room 500
Honolulu, Hawaii 96813

Dear Ms. Higa:

Re: Draft Report of the Management of the Hawaii Tourism Authority

We accept the auditor's recommendations and agree with the recommendations made therein. Legislation has already been introduced regarding statutory alignment of the Hawaii Convention Center under the Hawaii Tourism Authority and amending the statutes relating to the Office of Tourism.

Although we have just revised our tourism strategic plan (Ke Kumu), we will re-examine our plan in light of the suggestions of the Legislative Audit report. The convention center construction flaws have been addressed, and a final settlement proposal is being negotiated. Internal contract processing is being reviewed and the board may consider the possibility of contracting with an outside accounting firm to consider the establishment of internal policies and procedures to address contracting, personnel and organization management.

We are glad the Audit noted that other states face the same dilemma with measurement of success standards. However, the Audit also conceded that even other jurisdictions have not been able to yet come up with something better. It is our desire to develop measurements that will be a leader in the field of measuring marketing success for tourism. We have an ideal situation since all visitors arrive and depart primarily by air. It is an ideal situation for conducting surveys and gaining an advantage in analysis data.

We also offer the following comments to your findings:

- The board used its best efforts to comply with the "basic functions of the board" by approving and revising a long term strategic direction; oversaw the direction of the organization, approved the appropriate budgets for staffing; worked closely with the executive director and staff through its board committee structure; the various criteria

provided in the request for proposals for the program development, events, and festivals tourism programs provided consistent policies for the expenditure of funds; relied upon the Department of the Attorney General to ensure compliance with all legal and ethical responsibilities; managed our financial resources by adhering to our approved budgets; and, sought to continuously analyze its performance through frequent board meetings open to the public and initiating community meetings on each island to solicit community input on our tourism strategic plan.

- Our tourism strategic plan provided goals that were based on reliable measures beyond visitor arrivals.
- The board sought more community involvement in the strategic planning process than in any research project in the history of the State. Two separate independent contractors compiled findings to avoid the board from being accused of "fudging" the data to support pre-conceived visions of where we thought tourism should go.
- There is no industry based standard for measuring a tourism marketing plan. No measuring tool can compare historical information without footnotes noting disasters and changing economic conditions. There is no accurate analysis that can determine true intent to travel without massive research that takes years to track.

  The Department of the Attorney General drafted the contract and authorized the hiring of Fishman Enterprises, Inc. as an independent contractor. The board had no control over the contract process which was submitted to the board for approval after it was approved and recommended by the Department of the Attorney General.
- Attached is a copy of a letter dated February 1, 2002 from attorney Max Graham, Jr., Esq., that authorized the incorporation of an opinion letter dated January 31, 2001. The opinion letter responded to allegations that appears to implicate their client in alleged violations of the State Ethics Code.

On a final note, it is important to emphasize that there is another side to this story. The HTA was established through the efforts of the 1998 Economic Revitalization Task Force to aggressively improve Hawaii's economy by strengthening the marketing and promotion of tourism. At the time the Task Force recommendations were being developed, the state's economy had been on a downhill slide despite the national economy doing well for several years.

We took the task very seriously and have pursued an aggressive marketing program through the Hawaii Visitors and Convention Bureau in both leisure and the meetings and convention markets. If not for what we did with dedicated funding, tourism would not have been at record levels. We did something we were told to do; we did it; and, we were successful!

Hawaii reached its banner year in tourism two years later in 2000 and was on its way to another good year in 2001 until the events of September 11, 2001. Since then, with additional legislative emergency funding, Hawaii is recovering more steadily than other comparable destinations. So while the HTA has been successful on one side of the ledger, it has clearly been remiss in another. When it started off in 1998, there was no template to follow, no executive director, and limited staff in adequate office space.

While the audit points out numerous shortcomings, it is clear that nothing was ever done with any malicious intent, nor in an arbitrary or capricious manner. The audit in fact, provides a good template for the HTA board to embark on its current challenge of finding a new executive director who can in fact, address all of the points raised in the audit and in so doing, improve the HTA's operations and make us a better government agency.

Very truly yours,

for R.T.

Roy Tokujo
Chairman
Board of Directors
Hawaii Tourism Authority

BELLES GRAHAM
PROUDFOOT & WILSON
ATTORNEYS AT LAW

MICHAEL J. BELLES
MAX W.J. GRAHAM, JR.
DAVID W. PROUDFOOT
DONALD H. WILSON

Federal I.D. No. 99-0317663

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ASSOCIATE
PAMELA P. RASK

OF COUNSEL
JONATHAN J. CHUN

February 1, 2002

Honorable Roy Tokujo
Chairman
Hawaii Tourism Authority
Hawaii Convention Center
1801 Kalakaua Avenue
Honolulu, Hawaii 96815

Re: Legislative Auditor's Draft Report on the Hawaii Tourism Authority

Dear Chairman Tokujo:

Our firm has been requested by our client, Mr. Gary Baldwin, to respond to the Legislative Auditor's Draft Report on the Hawaii Tourism Authority that appears to implicate our client in alleged violations of the State Ethics Code.

We have reviewed the allegations contained within the Draft Report and have compared those allegations with the facts contained within official public records, and have, as a result, prepared the attached opinion letter, dated January 31, 2001, to our client regarding the Draft Report. Based on the discussion contained within the opinion letter, we request that the HTA Board consider incorporating our opinion letter into their proposed response to the Draft Report in the event you deem that course of conduct to be appropriate. In addition, we further request that a copy of the Final Report be made available to our client as soon as possible after you have received the same.

Finally, in view of the severe time constraints that were imposed upon our office to respond to the Draft Report by the deadline set by the State Auditor, we reserve the right to supplement our opinion should additional relevant facts become available. Thank you very much for your continued cooperation and assistance in this matter.

Very truly yours,

BELLES GRAHAM
PROUDFOOT & WILSON

Max W. J. Graham, Jr.

MWJG:spc
Enclosure
cc: Mr. Richard L. Humphries

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ASSOCIATE
PAMELA P. RASK

OF COUNSEL
JONATHAN J. CHUN

January 31, 2002

Mr. Gary J. Baldwin
4707 Kapuna Road
Kilauea, Kauai, Hawaii 96754

Re: Legislative Auditor's Report on the Hawaii Tourism Authority

Dear Mr. Baldwin:

You have asked us to render an opinion concerning allegations in the draft report ("Draft Report") by the Legislative Auditor on the Hawaii Tourism Authority ("HTA"). Specifically, the Auditor has stated that certain alleged actions and activities as described in the Draft Report may give rise to a violation under the State Code of Ethics as set forth in Hawaii Revised Statutes ("HRS") Chapter 84. In this regard, you have provided us with Pages 18, 19 and 20 of the Draft Report. Our preliminary analysis, comment and opinion, based on the information currently available, is as follows:

I. Background Facts.

A. Hawaii Tourism Authority. The Hawaii Tourism Authority was created pursuant to HRS Chapter 201B for the purpose of promoting, marketing, and developing the tourism industry in Hawaii. The HTA is a body corporate and a public instrumentality of the State consisting of 13 members (10 public voting members, 1 public nonvoting member, 1 ex officio voting member, and 1 ex officio nonvoting member) appointed pursuant to HRS Section 201B-2. It is attached administratively to the State Department of Business, Economic Development, and Tourism. The HTA is subject to the provisions contained in: HRS Chapter 84 (Standards of Conduct); HRS Chapter 91 (Administrative Procedures Act) with regard to rule making functions; HRS Section 92-3 (requiring open meetings); HRS Section 92-4 (allowing closed executive meetings); and HRS Section 92-5 (allowing closed meetings per certain exceptions).

You are a Board Member on the HTA, having been appointed to serve a term of four years commencing July 1, 1988 and ending June 30, 2002.

B. Kauai Economic Development Board, Inc. The Kauai Economic Development Board, Inc. ("KEDB") is a Hawaii nonprofit corporation. KEDB was incorporated on October 19, 1984. KEDB has federal tax exempt status pursuant to Section 501(c)(3) of the United States Internal Revenue Code of 1954. The primary purpose of KEDB is to promote, solicit, support, and encourage business and economic activities within the County of Kauai. There are currently 40 members on the Board of Directors of KEDB (20 regular, 5 sustaining, 3 at large, 12 ex officio).

Your relationship with KEDB since 1988 has been as follows:

1. 1998. For all of 1998, you acted as the Chairman of the Board of Directors of KEDB, a position for which you received no salary. You resigned from the KEDB effective December 31, 1998.

2. 1999. For all of 1999, you functioned as the President and Chief Executive Officer of KEDB. You were paid a salary from KEDB for your work throughout 1999.

3. 2000. Throughout 2000, you served as Managing Director of the Kauai Technology Center ("Tech Center"). The Tech Center is a project of KEDB, and as its Managing Director, you were an employee of KEDB and were paid a salary. As noted above, you resigned from the Board of Directors of KEDB prior to this employment.

4. 2001. Throughout 2001, you continued to act as the Managing Director of the Tech Center and received compensation from KEDB. In November of 2001, you became acting (interim) chair of the KEDB Board of Directors.

5. 2002. For 2002, it is intended that you will continue to act as the Managing Director of the Tech Center and as an employee of KEDB. You continue to act as interim chair of the KEDB Board.

None of the funds you have received from KEDB for services provided are derived from funds received by KEDB from HTA.

C. HTA/KEDB Contracts.

1. Product Development Contract. KEDB submitted a Product Development Proposal dated April 19, 1999 to HTA requesting $253,200.00 in funds to undertake a series of activities designed to attract technological businesses and commerce to Kauai. Based on the proposal, HTA entered into a Product Development Contract (Contract No. B-0068) dated July 23, 1999 with KEDB, in the total amount of $175,000.00. The funds were used by KEDB in 1999 and 2000 to undertake the technological marketing plans, which included seminar symposiums on the mainland and in Hawaii, and other business attraction activities. Ten percent (10%) of the contract sum was budgeted for the administrative costs and expenses (including staff time) of KEDB.

As noted above, during 1999, you were a Board Member of the HTA, as well as an employee of KEDB (President/CEO). As reflected in the Minutes of the HTA Meeting of June 23, 1999, because of your association with both HTA and KEDB, you did not participate in the voting on the Product Development Contract by HTA.

2. NFL Quarterback Challenge Contracts. The NFL Quarterback Challenge is a televised event promoted by the National Football League ("NFL") involving a skills contest among selected NFL quarterbacks, both active and retired. The NFL Quarterback Challenge, which is traditionally scheduled after the NFL's Pro Bowl game, was held on two or three separate occasions prior to 1993 on Kauai. Because of the devastation inflicted by Hurricane Iniki, the NFL Quarterback Challenge was moved in 1993 to Florida, where it remained for the next seven years. The NFL Quarterback Challenge is traditionally held in early February and televised in July.

In the past, the NFL Quarterback Challenge had provided a unique and beneficial visitor marketing tool for Hawaii in general and Kauai in particular. As a result, in 1999 the HTA decided that it would approach the NFL in the hopes of having the NFL Quarterback Challenge returned to Hawaii. The HTA was successful in this endeavor, and as a result in late 1999 entered into a contract with NFL Properties, Inc. to have the NFL Quarterback Challenge held in Hawaii (on Kauai) for 2000 and 2001. You voted to approve the contract between HTA and NFL Properties, Inc. ("NFL/HTA Contract") to hold the NFL Quarterback Challenge in Hawaii in 2000 and 2001. Thereafter, the funds necessary to fulfill the NFL/HTA Contract were allocated as a line item to HTA's budget for the fiscal years involved. You voted to approve the HTA budget in general. However, all of this preceded the NFL Quarterback Challenge Contract between HTA and KEDB for 2000 and 2001,

respectively. Furthermore, your votes on the NFL/HTA Contract and the HTA budget did not obligate HTA to enter into the NFL Quarterback Challenge Contract between HTA and KEDB.

Because HTA was not prepared to undertake the administrative tasks and physical activities necessary to actually facilitate the event on Kauai, and because HTA could not pay vendors in as timely a fashion as would be expected by private parties and small businesses, HTA entered into service contracts with KEDB to undertake such responsibilities. These contracts will be more fully identified below. However, the basic premise of these contracts was: that KEDB was to undertake all activities necessary to promote and coordinate the event on Kauai; that KEDB would front all of the costs necessary to undertake these activities, in an amount not to exceed the contract price; that KEDB would thereafter be reimbursed by HTA for such expenses; and that KEDB would receive no administrative fee, nor would it charge any administrative costs, for its participation under the contract. As a result, KEDB received no financial benefit from the NFL Quarterback Challenge contracts, and in fact incurred unreimbursable costs for both KEDB staff time and office expenses. Nevertheless, KEDB undertook these activities because of the beneficial impacts that the televising of the NFL Quarterback Challenge had for the County of Kauai. The specific contracts for the NFL Quarterback Challenge are listed below:

a. 2000 NFL Quarterback Challenge. HTA and KEDB entered into three separate contracts for services to be provided by KEDB in coordinating the NFL Quarterback Challenge on Kauai in the year 2000. These contracts were for $150,000.00 (Contract No. B-00-58 dated February 9, 2000), $135,000.00 (Contract No. B-00-74 dated May 24, 2000), and a contract for $175,000.00 (Contract dated May 24, 2000), for the total sum of $460,000.00. We understand, however, that the HTA line item budget for the event was $350,000.00, and that this amount was not exceeded. The NFL Quarterback Challenge was held on Kauai on February 10, 2000.

In the year 2000, you were a Member of the Board of HTA, and were an employee of KEDB (Managing Director, Kauai Technology Center).

b. 2001 NFL Quarterback Challenge Contract. The HTA and KEDB entered into Contract No. BT-01-82 dated February 1, 2001, for the performance by KEDB of services related to the 2001 NFL Quarterback Challenge. The Contract sum was $400,000.00. This Contract was amended by Supplemental Agreement No. 1 dated June 19, 2001, which extended the time of performance (relating to the submission of a financial report)

from June 30, 2001 to July 31, 2001. The 2001 Quarterback Challenge was held on Kauai on February 8, 2001.

In 2001, you were a member of the HTA and an employee of KEDB (Managing Director, Kauai Technology Center).

D. Factual Inaccuracies in Draft Report. Based on the information we have been provided, it appears that the Draft Report contains the following factual inaccuracies:

1. The Draft Report states that the 2001 NFL Quarterback Challenge Contract was signed after the event was held in February of 2001. However, as noted above, the Contract was dated February 1, 2001, and the event was held on February 8, 2001.

2. Referring to the Product Development Contract, the Draft Report states that in June, 1999, a letter was received by KEDB from HTA indicating that it had been awarded $75,000.00 for the Product Development Project, that the Contract which was awarded thereafter was for $175,000.00, and that HTA could only document the existence of an original proposal for $75,000.00. However, as noted above, KEDB initially submitted a Product Development Proposal (dated April 19, 1999), in the amount of $253,200.00, to HTA. It was on the basis of that proposal that the Product Development Contract in the amount of $175,000.00 was awarded.

3. Exhibit 2.1 of the Draft Report (Page 19) should be corrected in the following respects: HTA contracted with KEDB to provide services related to the 2000 NFL Quarterback Challenge by Contract dated February 9, 2000 and May 24, 2000. Similarly, HTA contracted with KEDB to provide services related to the 2001 NFL Quarterback Challenge pursuant to a Contract dated February 1, 2001.

II. Legal Analysis.

A. HRS Sections 84-13 and 84-14.

HRS Section 84-13 provides in relevant part as follows:

> "No...employee shall use or attempt to use the...employee's official position to secure or grant

> unwarranted privileges, exemptions, advantages, contracts, or treatments for oneself or others...."

HRS Section 84-14 provides in relevant part as follows:

> "(a) No employee shall take any official action directly affecting:
>
> (1) A business or other undertaking in which he has a substantial financial interest...."

With regard to the Product Development Contract, you did not participate in the voting by HTA on this Contract. As a result, it does not appear that you used your official position as a HTA Board Member to secure this Contract in favor of KEDB. As noted in the minutes of the HTA meeting for June 23, 1999:

> "Chair Quitiquit called for a vote on the list of recommended product development projects. Both she and Mr. Baldwin excused themselves from voting because they either have served, or are currently serving in an ex officio capacity, with some of the groups that have submitted proposals.
>
> Mr. Vieira made a motion to approve the list as recommended by the committee. Mr. Rolfing seconded the motion, which carried unanimously."

With regard to the NFL Quarterback Challenge Contract, it does not appear as though your voting regarding the HTA Contract with NFL Properties, Inc. or on the larger events budget for HTA (of which the allocation for the NFL Quarterback Challenge was a line item) violated HRS Sections 84-13 or 84-14. In addition, you did not participate in any decisions on HTA's behalf relating to the formation and execution by HTA of the NFL Quarterback Challenge Contract with KEDB, that matter being left to the discretion of the Chief Executive Officer of HTA. Finally, it is important to note that KEDB intended to

receive no financial benefit from the NFL Quarterback Challenge Contracts, and in fact, suffered financial losses through its participation in these events.

B. HRS Section 84-15.

HRS Section 84-15 provides in relevant part as follows:

> "(a) A State agency shall not enter into any contract to procure or dispose of goods or services...with...a business in which...an employee has a controlling interest, involving services or property of a value in excess of $10,000.00...."

HRS Section 84-3 defines "Controlling Interest" as an interest in a business which is sufficient in fact to control, whether the interest be greater or less than 50%. Since you did not have a controlling interest in KEDB, this section would clearly have no application.

III. Recommendation.

As noted in the attached Minutes of the HTA Special Meeting of March 16, 2001, the HTA received advice from the Executive Director of the State Ethics Commission concerning the application of HRS Chapter 84 to the HTA. Although the advice given was meant to be general in nature, it appears that it could be in conflict with the conclusions drawn in the Draft Report concerning the applicability of HRS Chapter 84. At the very least, the advice given by the Executive Director of the State Ethics Commission and the conclusions drawn in the Draft Report would certainly lead to uncertainty and confusion on your part concerning your duties and obligations under HRS Chapter 84. I therefore recommend that you provide the State Ethics Commission with a full factual explanation of the issues raised in the Draft Report and discussed in this letter, and ask the State Ethics Commission for guidance as to how you should proceed in the future in these matters.

Finally, it must be emphasized that the foregoing analysis and opinion is intended to be preliminary in nature due to the fact that the time constraints imposed by the State Auditor relative to the deadline for comments on the Draft Report severely limited our ability to obtain and review all relevant public records and files pertaining to this matter. As a

result, we strongly recommend that our response be supplemented in the future in the event additional relevant facts and data are uncovered in our continuing investigation of this issue.

Sincerely yours,

BELLES GRAHAM
PROUDFOOT & WILSON

Max W. J. Graham, Jr.

MWJG:jgm
Enclosure

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Hawaii Tourism Authority

BENJAMIN J. CAYETANO
Governor
RICHARD L. HUMPHREYS
Executive Director
Hawaii Convention Center, 1801 Kalakaua Avenue, Honolulu, Hawaii 96815
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HAWAII TOURISM AUTHORITY
SPECIAL MEETING
Hawai'i Convention Center
Executive Board Room (Parking Level)
1801 Kalakaua Avenue
Honolulu, Hawaii 96815
March 16, 2001

MINUTES OF MEETING

MEMBERS PRESENT:	Chair Roy Tokujo, David Carey, Gary Baldwin, Shari Chang, David Gleason, Pearl Imada-Iboshi (for Dr. Seiji Naya), Millie Kim, Gilbert Kimura, Kalowena Korneiji, and Ron Wright
MEMBERS NOT PRESENT:	Seiji Naya, Peter Schall, and Keith Vieira
HTA STAFF PRESENT:	Robert Fishman, Lori Guerin, Winfred Pong, and Lloyd Unebasami
Legal Counsel Present:	John Chang, Deputy Attorney General

1. CALL TO ORDER AND COMMENTS BY CHAIR

Chair Roy Tokujo called the Hawaii Tourism Authority (HTA) special meeting to order on March 16, 2001 at 8:35 a.m.

Moving out of order on the agenda, Chair Tokujo requested that the "Adoption of the Intergovernmental Memorandum of Understanding between the Hawaii Tourism Authority, State of Hawaii, and the Honolulu Police Department Relating to Funding to Enhance Visitor Experiences within the City and County of Honolulu", covered under Item 3, would be taken up first on the agenda.

Ms. Shari Chang stated that she was hoping to stay with the order of business because she had a question directed to Mr. Mollway, concerning Aloha Airline's sponsorship to the Asian Development Bank (ADB) and whether she needed to recuse herself from discussion.

Deputy Attorney General John Chang explained that the memorandum of understanding (MOU) is between HTA and the Police Department. Ms. Chang's company is not a direct beneficiary of the MOU. He further stated that unless Ms. Chang's company is having something to do with ADB, she can make that known to the Board, and she would not need to recuse herself from voting. He explained that the potential conflict is made known, and the Chair may allow her to vote. At this time, Ms. Chang advised the Board that "on behalf of Aloha Airlines, we are an airline sponsor of ADB providing airline tickets to ADB, as a sponsor." Thereafter, Mr. Carey also advised the Board that "our hotels will be providing rooms for delegates of the convention, and we expect to be a sponsor" even though "specifics have not been agreed to at this point."

There were no further objections to the Chair's request to proceed with Agenda item 3, at this time.

3. **ADOPTION OF THE INTERGOVERNMENTAL MEMORANDUM OF UNDERSTANDING BETWEEN THE HAWAII TOURISM AUTHORITY, STATE OF HAWAII, AND THE HONOLULU POLICE DEPARTMENT RELATING TO FUNDING TO ENHANCE VISITOR EXPERIENCES WITHIN THE CITY AND COUNTY OF HONOLULU**

EXECUTIVE SESSION

MOTION. Mr. Baldwin made a motion to move into executive session pursuant to HRS 92-4, for the purpose of the executive meeting is to report on: 1) consider sensitive matters related to public safety and security under HRS 92-5 (6); and 2) consult with the board's attorney on questions and issues pertaining to the board's powers, duties, privileges, immunities, and liabilities under Hawaii Revised Statutes, Section 92-5 (a) (4).

The motion was seconded by Ms. Kim and unanimously carried.

The board entered into an executive session at 8:40 a.m., after a voice count vote was taken:

AYES:

David Carey
Gary Baldwin
Shari Chang
David Gleason
Pearl Imada-Iboshi (for Dr. Seiji Naya)
Millie Kim
Gilbert Kimura
Ron Wright
Roy Tokujo, Chair

NAYS:

None.

The special meeting was reconvened at 9:20 a.m.

Mr. Baldwin made reference to the *Memorandum of Understanding* (MOU) dated March 15, 2001 that were distributed to the Board. After noting that he worked with staff to revise the MOU after the last meeting on February 23, 2001 to address the Board's concerns, Mr. Baldwin made a motion, seconded by Ms. Kim, to approve the March 15, 2001 version of the MOU with the City and County of Honolulu.

During a discussion of the various provisions in the MOU, various members expressed a desire to amend the MOU to recognize that the HTA is executing the MOU as an executive agent for the Hawai'i Convention Center; that the HTA is sponsoring the ADB Conference under an initiative directed from the Governor and consistent with the HTA's strategic plan to market and promote Hawaii as a business destination, especially the international business market; that HTA desires to protect the HCC from potential property damage; that the expenditure will be for fiscal year 2001; and that the signatory will be with the City and County of Honolulu.

Mr. Baldwin moved, and seconded by Mr. Carey, to amend his motion to

recognize that the HTA is executing the MOU as an executive agent for the Hawai'i Convention Center; that the HTA is sponsoring the ADB Conference under an initiative directed from the Governor and consistent with the HTA's strategic plan to market and promote Hawaii as a business destination, especially the international business market; that HTA desires to protect the HCC from potential property damage; that the expenditure will be for fiscal year 2001; and that the signatory will be with the City and County of Honolulu. A roll call vote was taken on the amended motion as follows:

AYES:

David Carey
Gary Baldwin
Shari Chang
David Gleason
Pearl Imada-Iboshi (for Dr. Seiji Naya)
Millie Kim
Gilbert Kimura
Ron Wright
Roy Tokujo, Chair

NAYS:

None.

The amended motion was passed unanimously. A roll call vote was taken on the main motion as follows:

AYES:

David Carey
Gary Baldwin
Shari Chang
David Gleason
Pearl Imada-Iboshi (for Dr. Seiji Naya)
Millie Kim
Gilbert Kimura
Ron Wright
Roy Tokujo, Chair

NAYS:

None.

The main motion was passed unanimously.

2. DISCUSSION WITH DAN MOLLWAY REGARDING THE APPLICATION OF THE STATE ETHICS CODE

The relevant sections of *Chapter 84* from the Hawaii Revised Statutes related to the "Standards of Conduct" for members appointed to a state board or commission was included in each member's binder.

Mr. Daniel Mollway, executive director, State Ethics Commission, was requested to participate in a discussion of the factual situations that are likely to raise questions about ethics. Specifically, Mr. Mollway was asked to define HRS §84-3 ("Financial Interest"), HRS §84-13 ("Fair Treatment"), and HRS §84-14 ("Conflicts of Interest").

Chair Tokujo recalled that when the Hawaii Tourism Authority was in its inception stage, Mr. Mollway was asked to meet with the Board to discuss conflicts of

interest, but there were none at the time. However, now that the HTA is two years into operation, questions are now being raised about conflicts of interests. He added to what extent should matters be discussed and when should a Board member recuse themself from discussion.

Mr. Mollway briefly explained the State Ethic Commission's history, from its inception in 1968, the duties and responsibilities, and the relevant sections that are contained in Chapter 84 of the Hawaii Revised Statutes.

After noting that the Board members must comply with Chapter 84 as a matter of law, Mr. Mollway suggested that the Board may adopt its own policies to establish ethical guidelines. He further remarked that the media and legislators may present their own concept of what is a conflict of interest and that there is a distinction between whether you are interpreting the law or just giving your own personal view of conflicts. He noted that since anything can be called a conflict, he requested the members to seek advice from the Ethics Commission as to whether they are in compliance with the ethics laws or whether they are being presented with a personal view of a conflict of interest.

Mr. Mollway continued by stating that the conflicts laws are written very narrowly because the more you expand the law the more you would have board members recusing themselves from voting. In the private sector, companies can do whatever they want. In the public sector, there are ethics laws. He further noted that he has been reading the State Ethics Code for over 19 1/2 years and he barely understands it because the law is written so badly.

He remarked that there would be a conflict for interest if you worked for Aloha Airlines and take official action affecting Aloha Airlines as a board member. The board member must recuse herself because the board member has a financial interest in the company even if the board member may just be a janitor employee of the company.

Mr. Mollway referred to a Hawaii Supreme Court opinion that interpreted the State Ethics Code and held that there is no conflict of interest if there are intervening or speculative factors between a board member's decision and the potential benefit to the member's company. The interest held by a spouse and dependant child would also be treated as the interest of the board member.

He continued to encourage all board members to utilize the Ethics Commission's confidential advisory opinion process. Once the Commission renders an opinion, the Commission will defend its opinion against claims by other people who may have a personal belief that a conflict of interest exists.

Chair Tokujo inquired whether the Ethics Commission utilizes a guideline to assist the decision-making and what is the response turnaround. Mr. Mollway indicated that 99.9 percent of the inquiries are made over the phone and that his office will respond immediately during the phone call.

Chair Tokujo further inquired whether Ms. Chang had a conflict of interest when her company is a sponsor for the Asian Development Bank Conference and she participated in the Board's decision-making on matters related to the Asian Development Bank. Mr. Mollway provided an analysis of the law by initially asking whether the board member has a financial interest in the company and to then ask if the action as a state official is going to directly affect the company. Based upon Mr. Mollway's understanding, it was his belief that whether Ms. Chang's decision will directly affect the company is remote and speculative.

Mr. Carey stated that the issue he has relates to whether there are conflicts of interests when the HTA supports a wide range of events and activities that have multiple company sponsorships. He explained that there are some events his company may sponsor because we are chipping in for the benefit of the community and there are other events that the company expects specific marketing benefits. He further noted that there are promotional events where you have 50 companies on the list of sponsors that would provide hotel rooms, airline

tickets, or cash, and the HTA would also be on the list, including the HVCB. He inquired whether his company's participation as one of many sponsors in events such as the Sony Open, Great Aloha Run, or the Pontiac gymnastic tournament will be interpreted as a financial interest in the event that would lead to a conflict of interest.

Mr. Carey expressed his belief that there would not be a conflict of interest if his company and the HTA were one of the numerous sponsors for the event. However, there would be a conflict if his company will directly benefit by the actual booking of rooms solely because HTA had sponsored the event. In the later situation, there was a closer nexus between the HTA decision and a benefit to the company. Mr. Mollway agreed with Mr. Carey's belief.

Mr. Carey remarked that it was not until this legislative session that his company has been criticized for being sponsors of events that the HTA has also sponsored. He noted that in many instances his company does not receive any benefit from sponsoring the event. Any benefit may come from the publicity generated by the media and not through his company. Mr. Carey noted that in some cases he voluntarily recused himself from voting not because he believed there was a conflict of interest but because of his personal moral principals. Mr. Mollway also noted that members of the Ethics Commission would also recuse themselves not because the law requires it but just because it would probably create more problems than its worth.

Mr. Carey recommended that the staff work collaboratively with the Attorney General's Office and the State Ethics Commission in drafting a set of policy guidelines that the board can utilize as a reference when potential ethical scenarios arise.

Ms. Chang queried whether there is a conflict if board members vote on approving a contract that has been awarded through a RFP process to a contractor that also has a contract with the board member's company. Mr. Mollway responded that there is no conflict if the approval of the contract has no direct affect upon the board member's company.

Mr. Carey initiated a discussion of a situation when board members make decisions that will benefit the visitor industry. Mr. Mollway presented a lengthy discussion of the issues related to "mandated board members." The board members were appointed because the law mandates the appointment of board members from specific professions or who maintain specific expertise. Mr. Mollway's office has interpreted the law to not require a mandated board member to recuse himself if the board member is required to vote on a matter related to the member's profession or expertise. As a mandated board member, the board member can take action that affects the industry even though the board member is also a member of the industry.

Mr. Mollway further noted that if you are a mandated board member, you have more of a license, so to speak, under the conflicts law than a non-mandated board member. Consequently, a non-mandated board member whose spouse works at the Sheraton may have to go by the stricter conflicts law while a mandated board member may not. Mr. Mollway also noted, however, that a mandated board member should not misuse the official position to give the member or anyone an unwarranted advantage, preferential treatment, or favoritism. It is important for any board member to know whether they are voting because it would be good for the State or voting because it would be good for the company.

Mr. Unebasami presented a situation where a board member's company was a preferred sponsor for an event supported by the HTA. Mr. Mollway stated that the reference to a sponsor being a preferred sponsor does not mean that it is a foregone conclusion that people are required to use the product or services being provided by the preferred sponsor. There is no conflict because there may not be any direct link or financial benefit between being a preferred sponsor and a decision by HTA to support the event. However, there may be conflict under a circumstance when the consumer is required to purchase the product or service

as a condition for going to the event sponsored by the HTA.

Ms. Chang inquired whether a HTA Board member can aggressively request funding for an event when the HTA board member also sits as a Board member for an event that is seeking funding from the HTA. Mr. Mollway responded that a HTA Board member can not appear before the HTA to represent or assist anyone for pay. If the HTA Board member is appearing without pay and not as a member of the HTA, the HTA Board member can attend the HTA meeting as a private individual.

Chair Tokujo queried whether other boards have their own ethic laws that are endorsed by the State Ethics Commission. If so, Chair Tokujo recommended that Mr. Pong work collaboratively with the Office of the Attorney General to come up with various conflict situations that will be addressed before the conflict arises. Mr. Mollway responded that in general boards do not develop their own ethics policies. However, his office can put together something that explains the conflicts laws or hypotheticals to show when and what are potential ethical considerations.

Mr. Baldwin requested clarification regarding whether the ethics laws applies to independent contractors hired by the State. Mr. Mollway stated that independent contractors are not State employees; and, therefore, the ethics laws do not apply to independent contractors. Independent contractors who are also acting as State officials are subject to the ethics laws.

At this time, Chair Tokujo stated that he must leave the meeting to attend a legislative hearing. It was noted that upon Chair Tokujo's absence there would a lack of quorum of voting members.

4. ADJOURNMENT

Due to a legislative commitment, Chair Tokujo excused himself from the special meeting.

At this point, Deputy Attorney General Chang advised that the special meeting will be adjourned and hereon, no discussion and action can be taken at this meeting.

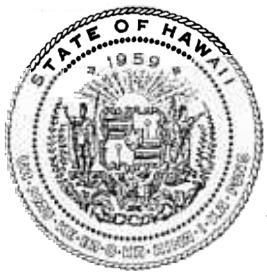
On a final note, Ms. Chang expressed the importance of the Board to also receive a copy of the submitted responses to the legislator's questions, in a timely manner.

The regular meeting was adjourned at 10:45 a.m.

Respectfully submitted,

Lori Guerin
Recording Secretary

ATTACHMENT 3



Hawaii Tourism Authority

BENJAMIN J. CAYETANO
Governor

RICHARD L. HUMPHREYS
Executive Director

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February 1, 2002

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OFC. OF THE AUDITOR
STATE OF HAWAII

The Honorable Marion Higa
State Auditor
Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813

Dear Ms. Higa:

Re: Draft Report of the Management of the Hawaii Tourism Authority

We accept the Audit with anticipation of evolving the Hawaii Tourism Authority's ("HTA") from an entity mandated to focus primarily on aggressive marketing and promotion of tourism for the state, into an agency that will balance that important charge with more stringent management and government processes.

As a means of improving Hawaii's falling economy and to reverse the long trend of zero to negative growth in the tourism industry, the Legislature adopted various economic reform recommendations presented by the Governor's Economic Revitalization Task Force during the 1998 legislative session. This included the establishment of a first-ever dedicated mechanism to fund tourism at a globally competitive level, and an executive board to oversee that fund for the purpose of strengthening the marketing and promotion of Hawaii's tourism industry.

As a relatively new agency formed by a vision between public and private sectors, the HTA has moved through uncharted waters during its first few years. When the HTA was first established under Act 156, SLH 1998, it was given broad responsibilities for planning, coordination and program development within Hawaii's visitor industry, especially with respect to marketing. However, the HTA was also created in response to Hawaii's dire economic situation. Thus, starting from its first year of operation in the latter part of 1998, a dedicated and "results-oriented" group of high level business executives, community leaders, and State department heads served on the newly established HTA board on a volunteer basis, went immediately to work on developing and implement a tourism strategic plan for the State of Hawaii. **The message was clear that the HTA needed to aggressively focus on reviving the visitor industry versus devoting critical time in establishing a well-structured, bureaucratic organization. However, in no way does this abdicate our responsibility to the public to be a fiscally responsible organization.**

Since its inception, the primary focus and attention of the HTA executive board and staff has been dedicated to immediately turn Hawaii's economy around, by developing, evaluating, revising, and measuring its tourism strategic plan as the new plan experienced various phases of implementation. The fruits of its efforts were reflected in visitor statistics during the year 2000 and until September 11, 2001 achieving record levels. Now that the plan's foundation has been set, the HTA recognizes the immediate need to evolve into a government agency that must also dedicate its efforts and resources to maintain strict management and government policies and procedures to insure public accountability. The audit as clarified herein, gives us a good roadmap.

FINDINGS AND HTA'S RESPONSE

The Auditor has presented various conclusions and findings that require clarification.

First, we respond to the finding on pages 10-12 that "the Authority's strategic planning process was deficient" as follows:

- **"Key Elements of a Strategic Plan."** It appears that the finding is based upon a belief that a comprehensive strategic plan should include the following key items:
  - infrastructure analyses;
  - environmental considerations;
  - specifications of implementation and monitoring procedures;
  - a description of the program evaluation used in establishing or revising goals and objectives, with a schedule for future program evaluations;
  - a methodology statement; and
  - a schedule for future program evaluations.

  It should be noted that the Auditor's report makes reference to some key elements that they believe should be incorporated into tourism strategic plans. The HTA notes that there are different approaches to developing such a plan and that as a result, not all such plans contain these elements. This can be seen with the Australian Tourist Commission's Corporate Plan, the Tourist Industry Association New Zealand's "The New Zealand Tourism Strategy 2010," and Montana's "1998-2002 Strategic Plan for Travel & Tourism."

  The HTA provides the following additional comments on two items referenced above:

  Infrastructure Analysis. The HTA maintains that while its tourism strategic plan, *Ke Kumu,* does not contain the infrastructure analysis referred to above, that one of the foundation document, upon which its plan was based, did provide general information on infrastructure by county. Specifically, this foundation document, *Hawaii Tourism Product Assessment*, performed by KPMG, LLP and other noted industry professionals, described both the reality and perception of the kinds of events, attractions and experiences which Hawaii provides visitors. In particular, this study included the following "product" components by county: top visitor attractions, notable scenic/physical attributes, visitor plant

assessment and infrastructure resources (airports, harbors, and highways/roads). It should be noted that a more comprehensive infrastructure analysis will be performed as part of the state's Sustainable Tourism Study which is being done by the Department of Business, Economic Development and Tourism (DBEDT), in partnership with the HTA.

Specifications of implementation and monitoring procedures. The Authority has always maintained that *Ke Kumu* is a broad, strategic, long-range plan intended to serve as the basis for HTA's tactical programs and activities. For this reason, *Ke Kumu* was never intended to be a **tactical plan** describing how each initiative would be implemented. Rather, the HTA develops and executes a diverse range of projects, programs and activities each year, that best serve the initiatives outlined in the plan.

- **"No schedule for periodically reviewing Ke Kumu."**
  According to HRS 201B, the HTA is authorized to "*develop and implement the State tourism strategic marketing plan, which shall be updated every three years, to promote and market the state as a desirable visitor destination.*" Therefore, pursuant to the statutes that created the Authority, the schedule for updating *Ke Kumu* is every three years or as needed. As the first plan was drafted in June 1999, the HTA is not required to update it until June 2002. Nevertheless, last year, the HTA began steps to update its plan. Then, on January 30, 2002, the HTA approved the revised plan at its board meeting.

  It should be noted that *Ke Kumu* is a broad, strategic plan that outlines several initiatives upon which the HTA will focus its resources. For this reason, each year, the HTA develops specific activities and programs to carry out those broad initiatives. The HTA also makes annual reviews and revisions (as necessary) of its visitor industry planning targets in the areas of visitor expenditures, visitor days and visitor arrivals to ensure that the Authority's overall goal of visitor expenditures is being met.

- **"Failure to incorporate (public) input into the plan."**
  In the strategic planning process to develop the original version of *Ke Kumu* in 1999, the HTA collected the most comprehensive input known to date from Hawaii's tourism stakeholders. Almost 5,000 individuals were contacted and over 2,500 provided input through surveys, focus groups, planning charrettes, and interviews. Those participating in this process included four major groups of Hawaii's stakeholders: visitors, residents, private sector and government.

  Once *Ke Kumu* was first drafted in 1999, the HTA held a series of 10 public meetings on all islands for community review and further input with over 700 people attending these meetings. Overall, the HTA board felt that the plan was well-received and that the comments received during those meetings were more appropriately addressed to program implementation and management, as opposed to changes in the plan's direction. For this reason, the board chose not to revise its plan based on these comments and made a determination to address the community's suggestions at those meetings as well as others that are made throughout the year, through the implementation of its programs (e.g., Product Development) and other activities.

In early 2001, the HTA made revisions to the original *Ke Kumu* and in November 2001, took the revised plan out to share with the island communities in a series of meetings throughout the state. Based on pertinent comments from those meetings relating to its plan and other information, *Ke Kumu* was revised and approved by the board on January 30, 2002.

The HTA points out that its strategic planning process is ongoing as *Ke Kumu* is a living document. Throughout this process, the HTA will continue to involve the community in more meaningful ways.

Second, we respond to the finding on page 16, that "The authority was missing $106,162 worth of invoices for FY 1999-00 and $68,250 for FY 2000-01" as follows:

- It appears that the finding is based upon the understanding that the HTA did not keep records of complete invoices for Fishman Enterprises from FY 1999-00 and FY 2000-01.

- We regret that when the Auditor conducted its fieldwork, the HTA was not informed of this discrepancy, as the necessary files could have been provided to the Auditor, and those files contain the invoices indicated above that were missing.

- The HTA maintains that the processing of all invoices for payment through the State's Department of Accounting and General Services (DAGS), require the following documentation:
  - A valid professional services contract;
  - A current Department of Taxation and Internal Revenue Service tax clearance upon execution of the contract;
  - An original DAGS voucher to request payment of an invoice; and
  - The original contractor's invoice.

- Documentation for any and all payments by the HTA conforms to the state's requirements. As such, the Department of Business, Economic Development and Tourism (DBEDT) and the HTA files contain copies of all invoices submitted for payment with a copy of the voucher.

Third, we respond to the finding on page 20, that the "authority failed to comply with state laws governing public meetings" as follows:

It appears that the finding is based upon the understanding that the HTA "failed to keep minutes of all its executive sessions."

We regret that at the time the Auditor conducted its fieldwork and requested a HTA staff member for access to all executive meeting minutes, the staff member inadvertently failed to understand that minutes of executive meetings held prior to August 1999 were electronically maintained on the HTA's central computer files. Consequently, executive meeting minutes are available for the following six meetings since its inception in 1998:

- October 27, 1998;
- January 6, 1999;
- January 13, 1999;
- January 27, 1999;
- February 5, 1999; and
- March 3, 1999.

- Hand-written notes of executive meeting minutes were maintained for the following 15 meetings; however, the notes were not developed into a format for public review and distribution at the time inspection was requested because there was an understanding that publication of the executive meeting minutes would defeat the lawful purpose for the executive meeting:
  - August 25, 1999;
  - September 2, 1999;
  - September 8, 1999;
  - September 15, 1999;
  - September 20, 1999;
  - October 6, 1999;
  - November 11, 1999;
  - March 16, 2001;
  - August 25, 2001;
  - May 30, 2001;
  - July 18, 2001;
  - July 25, 2001;
  - August 14, 2001;
  - September 5, 2001; and
  - September 26, 2001

- The HTA will continue to rely upon the advice and consultation provided by the Department of the Attorney General to ensure that the integrity and process for the conduct of executive meetings are maintained.

Fourth, we respond to the finding on page 25 that the "Contract awarding process is defective," as follows:

- It appears that the finding is based upon the understanding that of the 51 contracts awarded for a program area, the Auditor found that 29 percent were missing a score from one of the three evaluators or were missing a completed evaluation form.

- It should be noted that the award process for contracts in the product enrichment, events and festivals programs for the HTA is adhered to by staff according to the evaluation criteria stated and set out in the respective Requests for Proposals (RFPs). During the course of the year, there may be no less than three RFPs in the aforementioned programs published by the HTA. As a result, hundreds of proposals are considered throughout the year, either through

the RFP offerings, or through individuals or entities submitting requests for funding outside of the RFP process.

- It must be stated and emphasized that every effort is made to ensure that the integrity of the process is not compromised. The excessive number of proposals that need to be evaluated during a relatively condensed period of time sometimes allows for only a cursory review of the proposals. Based on the expertise of the evaluator, these proposals can be eliminated immediately so that more substantive proposals, or those proposals which better fit the category of submission, can be reviewed in further detail.

- In addition, the Audit team was advised that a model project, allowing an entity at the County level (in this instance, the County of Kauai) is being carefully scrutinized to determine a more efficient way to handle the award and administration of product enrichment projects. This project was awarded with the understanding that the County would handle all the administrative work, would select those projects to support based on HTA criteria and overall strategy, and would work with the HTA regarding this "concept."

- At present, and at the direction of the interim Executive Director and the board, an overall strategy, policy and implementation plan, based on the Kauai model, is being developed so that selection, award and contracting of projects for each island will be handled by a county entity (e.g. County, Economic Development Board, Chamber of Commerce) with direction, management review and oversight by HTA.

- This, then, indicates that the HTA is making positive inroads in how we can more efficiently, effectively and with more accountability provide support to projects which enhance our visitor product.

Fifth, we respond to the finding on page 25 that "Sound Contracting Practices are Disregarded," as follows:

- It appears that the finding is based upon the belief that a contract should be fully executed prior to the event occurring.

- It should be noted that the concerns articulated in this section have implications when buying specific goods and services. In the case of the contracts awarded by HTA such as the *sponsoring* of projects, events and festivals, the type of contracting need not be so rigid and bureaucratic. The HTA does not develop these projects. Rather, the HTA plays a support or enhancement role so that these projects are able to further develop and grow, and become economic development generators in their communities. Matching funds are required, and HTA's support is subject to knowing that only a portion of the funding is provided and the event or project is able to proceed on its own, based on the HTA commitment letter made at the time of the award.

- In addition, the Audit points out the inefficiencies reflected at HTA; however, the Audit does not acknowledge that the HTA is there to support and assist in any way we can those projects

which might not have the most sophisticated management or organizational structure. Therefore, information emanating from the project's organizers or management may not be as forthcoming and timely, but the HTA remains flexible and supportive of the needs of these entities.

Sixth, we respond to the finding on page 26 that "Multimillion dollar payments to Hawaii Visitors and Convention Bureau are made with little justification" as follows:

- It appears that the finding is based upon a belief that progress payments to HVCB should be tied to "measurable deliverables." The HTA has contracted HVCB to provide marketing services (vis-à-vis, the purchase of specific goods or specific generic services). Moreover, the HTA has contracted HVCB to market and promote an image for Hawaii (vis-à-vis, a specific product or service.) It is well-known by marketing experts that there is an inherent time lag from the time a marketing plan was executed to the time when the direct results of that marketing plan can be determined or measured. The time lag is even greater when the marketing plan is directed towards the promotion of an image, versus a "call to sale" action. Any periodic or progress payment to HVCB can not be tied or conditioned upon achieving the results of a marketing plan prior to payment.

- Contract deliverables are provided to the HTA by the HVCB on a regular basis through the numerous reports (i.e., monthly financial reports, quarterly reports, monthly variance reports) required to be satisfied throughout the term of the contract.

- Upon HTA's approval of the Annual Tourism Marketing Plan, the HVCB expends substantial sums to implement the plan within the first few months of the contract term. The progress payments provided in the contract reflects a lag period related to the time transient accommodations tax revenues are actually deposited in the Tourism Special Fund and the legislatively appropriated funds are subsequently available to be expended by the HTA.

Seventh, we respond to the finding on pages 26-28 that "Contract monitoring is deficient" as follows:

- It appears that the finding is based upon a belief that efficient contract monitoring must be maintained through a central contract list and that there should be specific guidelines for maintaining that list.

- It should be noted that each tourism program initiative compiles its own list of contracts which run either on a calendar or fiscal year basis. The authority believes that a "complete and accurate contract listing" does not fully justify a finding that "contract monitoring is deficient." The authority believes that the overall monitoring of its contracts is not deficient and this can be confirmed with the completed staff evaluations forms, in addition to the contractors' final reports found in the completed contract files.

Eighth, we respond to the finding on pages 34-35 that "Systems to evaluate and monitor the convention center operator need improvements" as follows:

- As stated in the auditor's report, the Convention Center Authority (CCA) sunset on June 30, 2000, without legislative reassignment of the Hawaii Convention Center (HCC) to any agency. The HTA, through the Governor's Executive Order No. 3817, assumed responsibility for the center, effective July 1, 2000.

- It should be noted that at that time, the HTA, in an agreement with SMG, the center's contractor to manage the operation of the center, created additional short term goals to achieve. In March 2001, the HTA evaluated SMG because the first phase of the management contract was to set to expire on June 30, 2001 and the HTA was required to either exercise an extension to the contract or find another management company for the center. As a result, that evaluation process, was performed on the items as stated in the contract, as well as the short-term goals agreed to in June 2000.

- Thereafter, the HTA has monitored SMG on a monthly basis and has performed an evaluation of their performance for the first quarter of FY 2002. The HTA has also requested SMG to provide a forecast for the FY 2002 due to the tragic events of September 11, 2001 and has consistently discussed issues related to the tragic events, on a monthly basis to determine improvement of their operations. The HTA will, however, revisit the suggestion of the Auditor.

Ninth, we respond to the finding on pages 35 that "Oversight responsibilities for the convention center are not legislatively assigned" as follows:

- As discussed above, when the CCA sunset on June 30, 2000, the HCC was not legislatively assigned to any agency. The HTA assumed responsibility for HCC, through the Governor's Executive Order No. 3817, effective July 1, 2000.

- During the legislative session of 2001, the HTA did submit, through the Administration, a bill to statutorily transfer the Hawaii Convention Center (HCC) to the HTA. However, the bill did not pass as other subject matters were subsequently attached to the bill and both houses of the Legislature could not come to an agreement.

- This year, the HTA, through the Administration, is again introducing legislation to statutorily assign the HCC to HTA.

CONCLUSION

The terrorist attacks on September 11, 2001 have adversely impacted tourism in Hawaii and throughout the world. Similar to the state of tourism when the HTA was formed in 1998, it has again placed Hawaii's economy in a crisis situation. In response to the terrorist attacks, the HTA will continue its efforts to remain committed to improving the marketing and promotion of

tourism. Its future efforts, however, will also reflect an evolution from an entity focused largely on achieving marketing results to an agency that must be more accountable to management and government processes.

We look forward to implementing the Auditor's recommendations without reservations with the exception of the following recommendation in 1.e., "clearly tie contractors' remuneration to measurable deliverables," which we discuss on page 7. If you have any questions regarding this matter, please call me at (808) 973-2288.

Very truly yours,

Richard L. Humphreys
Executive Director

ATTACHMENT 4

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February 1, 2002

RECEIVED
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OFC. OF THE AUDITOR
STATE OF HAWAII

To: Marion M. Higa, State Auditor

From: Seiji Naya, Director

Subject: Management Audit of Hawaii Tourism Authority

Thank you for providing the Department of Business, Economic Development & Tourism (DBEDT) the opportunity to comment on the "Management Audit of Hawaii Tourism Authority."

The report points out Hawaii Tourism Authority (HTA) could do a better job at management. With the inception of the HTA in 1998, we made radical changes in the organizational structure and create an entirely new way to manage tourism policy. It is not a simple process. The report documents in technical detail management concerns and weaknesses that I will not address in my comments as they can be more accurately discussed by the HTA. I believe, however, that the report will help the new CEO to better manage the HTA.

An audit of this type often focuses on technical aspects of how an organization is run and does not touch upon the value of the organization itself or its contribution to the State. Readers of this audit may be misled and think that HTA has not carried out its mission. I believe, however, the HTA has played an important role in improving tourism policy in the State despite some management weaknesses. Some of their major accomplishments include:

- Emphasizing a more focused approach to marketing by designating eight geographically-based Major Market Areas. This allowed an increased emphasis on marketing in the US East (east of the Rockies). The US East market has emerged as the second largest market in terms of total expenditures after the US West since 1999. In addition, the State has had a consistent marketing campaign in Japan for the first time. It is also using a small amount to build future markets in China and other markets with future potential.
- Set-up clear selection criteria for tourism-related events and activities funded by the State to ensure that funds are used in a manner which is consistent with the goals and strategy of the HTA.
- Prepare a strategic plan for tourism that sets the broad course for the future.

Increase emphasis on convention and business marketing and improve operations at the Hawaii Convention Center. Their leadership in this area helped to resolve some communication problems resulting from the division of responsibilities between operations and marketing of the Convention Center in the past. I have long pushed for much more emphasis on business tourism and the HTA has moved in this direction recently.

- Switch the emphasis away from visitor arrivals (body counts) to visitor expenditures. This move recognizes that to expand the tourism industry in the State, we must concentrate on the higher spending visitors rather than simply increasing the number of visitors.

  The HTA also has begun to look at the supply issues. I have argued that we, as the State, cannot only focus on marketing Hawaii but we must also continue to improve our product and protect our key assets. Although the emphasis of the HTA in its first years of inception were on reviving the industry by increasing marketing, they have looked at providing cultural and sporting events to enhance the visitor and resident experience. The HTA has also begun to pursue federal grants to improve parks and roads. The HTA recognizes that more should be done in this area and has made that part of their goal for the next few years.

I would like to focus the rest of my remarks on the area directly affecting DBEDT.

The report objects to the HTA use of visitor expenditures as the primary measure of performance citing problems other states have with this indicator. Indeed, it is an imperfect measure. It is, however, the best measure of the size of the visitor industry as a whole and its contribution to the State. It is also the best measure of the HTA overall success in terms of marketing and product development if the goal of HTA is to increase the size and health of the industry.

I believe that more states would consider using expenditures as a critical measure of success if they had better expenditure data. Total visitor expenditures are comprised of three basic parts: visitor arrivals, length of stay, and per person per day spending. On the first, no other state can count visitors as accurately as Hawaii since all visitors come either by air or sea. On the length of stay, we have an incredible sample of domestic visitors since we have the Agricultural Declaration form on all flights originating from US destinations. Additionally, we survey approximately 4,000 international visitors a month at the airport and have surveys on every cruise ship coming to Hawaii. Our visitor expenditure surveys are also very good with large sample sizes.

DBEDT has significantly expanded and refined the measures over the past few years. The HTA has supported this effort and provided valuable advice and comment. DBEDT will be reporting monthly expenditure information as requested by the HTA to help them better measure their efforts on a more timely basis.

Most other states, including Louisiana, rely on syndicated surveys with limited sample size. They cannot count visitors as accurately nor do they have the ability to conduct a good survey of departing visitors because so many of their visitors drive in.

As the report points out, it is extremely difficult to directly measure the impact of a multi-media, multi-year program. Measuring the success of generic Hawaii marketing is even more difficult because you are not selling a specific hotel room or airline seat. It is further complicated by the large amounts of private sector marketing that takes place.
Visitor expenditures are clearly better measure than visitor arrivals alone but subject to problems because visitor expenditures are affected by many factors that the HTA cannot control. HVCB has in the past attempted to look at the impact of a specific marketing campaign with some success and has done rate of return analysis of the specific programs. For example, the study done by Longwoods International found that $1.071 billion in visitor expenditures were generated by $7.87 million in advertising expenditures in the HVCB's 1994 campaign, a rate of return of $9.6 received for every dollar spent. This study is extremely expensive to conduct and only measures a specific campaign. These kinds of studies should be conducted to measure success of particular programs but cannot serve as an overall measure of success.

It should also be pointed out that total expenditures is the key measure but not the only measure used by the HTA. The HTA also looks at performance by Major Market Area in terms of arrivals, per person per day and per trip spending, and other such measures. It has begun to look at the share of business visitors to ensure that the goals of the HTA in these areas are met.

While I do believe that expenditures are the best overall measure, I agree that they cannot be the only measure. Rate of return measures for specific programs need to be developed and used. The HTA has recently moved in this direction but more needs to be done. Further, other measures of success, including hotel occupancy rates, market share analysis, and visitor satisfaction rates, need to be a larger part of the overall determination of success. I admit that some of the fault is on the part of DBEDT. We need to more actively adopt indicators and prepare an analysis of the health and success of the visitor industry on a regular basis.

Thank you again for providing me with the opportunity to comment on the report