

August 12, 1993
ILR 93-O

Representative Byron Harward
Utah State House of Representatives
State Capitol Bldg
Salt Lake City UT 84114

Subject: Division of Travel Development

Dear Representative Harward:

Per your request, we have completed an audit of publications ordered and used by the Division of Travel Development within the Department of Community and Economic Development. Also, at the request of the Business, Labor, and Economic Development Interim Committee, we have done some limited work on the effectiveness of the division's advertising and international travel promotion programs. In our opinion, publications, advertising, and travel promotion lack appropriate management controls and performance indicators; consequently, publications inventory is not well controlled and division management does not know to what degree the current advertising and travel promotion programs affect tourism in the state.

Specifically, we found problems with administration of some of the division's programs and assets. Better management and controls are needed in the publications program, both in warehousing and in planning and control of printed materials. The advertising program consists of two contracts with advertising agencies that total \$1.5 million, or 40 percent of the division's budget, yet we found inadequate administrative review and control over expenditures and some of the activities covered by the contracts. The international program needs more management direction, effectiveness measures, and tighter internal controls.

The Division of Travel Development is a division within the Department of Community and Economic Development. It is responsible for the promotion of tourism and travel to the state. As such it operates various programs, including publicity and publications, information services, in-state travel promotion, sales promotion, national travel promotion, international travel promotion, and advertising. The publications program is responsible for the promotional data given out to inform people about Utah's travel and tourism

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opportunities. This program also oversees the printing of revenue-generating materials such as posters, calendars, and regional maps. The advertising contracts separately promote warm weather travel and winter travel to the state. The international program is responsible for promoting international travel to Utah from several identified markets. There is a board of travel development associated with the division, with seven appointed members from various parts of the state. The division has an annual budget of approximately \$3.7 million, \$1.5 million of which is spent on advertising. There are 19.5 authorized FTEs.

The audit process was complicated by the replacement of the division director during the audit, because the former division director was often referred to as a source for information on many of the issues we reviewed. The former director had also been the division contact with the advertising agencies. The interim director was very cooperative and a new director was appointed at the end of the audit process. Finally, our work in the international program and advertising was limited because of time constraints.

Improvements Are Needed in Warehousing and Purchase of Printed Materials

In reviewing the Division of Travel Development's publications, we found that better control over the warehousing of printed materials is needed, and planning and controls over publications should improve. We believe that as many as 216,000 regional recreational maps were unnecessarily destroyed during a warehouse move; if sold, these maps would have had a wholesale value of \$324,000. Staff responsible for inventory were unaware of the missing material, showing the need for better management and control of warehouse inventory. Other inaccuracies exist in warehouse inventory reports. Damage is occurring to revenue-generating posters and maps because of packaging and storage problems, while some posters are unusable and should be removed from inventory.

The planning for and control of publications needs to improve. The Travel Guide should not be dated, thereby enabling full use before new brochures are given out. Next, lack of planning for demand resulted in too many maps being printed; even with the loss of the 216,000 maps, remaining inventory could take another 13 years to liquidate. Better controls over the receipt of payment for printed materials are needed to minimize the possibility of theft, and policies should be developed to increase controls over gifts of printed materials such as scenic calendars.

Controls Over Warehoused Materials Need to Improve

Better controls are needed over the inventoried printed materials the division purchases and prints. Materials intended for sale have been destroyed, inventory reports fail to keep accurate track of valuable stock, damage is occurring to stock because of the packaging and storage methods used, and some stock is obsolete but has been kept in storage. Division staff should periodically verify actual stock levels against reports to ensure that materials are accounted for and records are accurate. The division should also ensure that packaging from printers is adequate to prevent damage and that storage methods are used that will also guard against unnecessary damage. Finally, staff need to determine when stock is unusable and remove it from storage to keep storage costs down and stock current.

The division contracts for warehousing of its materials with a private warehouse. A change in warehouses occurred in late August 1991 and again at the end of July 1992.

Warehouse Stock Has Been Destroyed. When the division moved from one warehouse to another, it appears that approximately 216,000 maps were sent to the landfill instead of being moved with the rest of the materials. If sold, the maps could have a wholesale value of \$324,000. However, later we will discuss the fact that the maps were ordered in such large quantities that we are not sure whether all stock will ever be sold. Therefore, actual value of the destroyed maps is unknown. Division staff told us they were unaware that any maps were missing from inventory, and had never noticed the discrepancies between the inventory reports of the two warehouses. Staff said the division changed warehouses because of dirty conditions and because materials were stored in different parts of the warehouse.

A comparison of accrued revenue against inventory levels showed that much less revenue had been earned than should have been, given the remaining stock of maps. Staff suggested that the warehouse facilities they had used were poor and it was not surprising that some maps were missing. Given the dissatisfaction with the warehouses, it appears to us that a higher degree of oversight of the inventoried stock would have been called for. However, the warehouse manager told us that no one from the division came to check on the material even after he called to say there was a lot of material (1770 cartons) left behind in the pile to be destroyed.

Discussions with warehouse managers at the two warehouses involved revealed that a large quantity of materials was left at Delivery Service and Transfer (DS&T), the first warehouse. This was done on the authority of a division staff member who went to the warehouse and showed the second warehouse manager (Litho Marketing) what to take and what to leave for disposal. Materials were designated for disposal if they were obsolete or damaged. A memo was written by the division's administrative assistant on August 19, 1991 authorizing DS&T "to destroy any materials that are not moved to the current facility." The DS&T warehouse manager said he called the administrative assistant because there was a lot of material in the pile to be destroyed, and was told the staff had determined what to move and what to leave. Although he could not understand why maps should be destroyed, from then on he assumed the maps were to be disposed of. A DS&T work order dated September 28, 1991 shows the delivery to the landfill of "1,770 cartons of Travel Council warehouse stock." The administrative assistant told us that the warehouse never told her that the maps were still there, or she would have moved them to the new warehouse.

Inaccuracies Exist in Inventory Reports. The lack of staff knowledge of the missing maps

indicates inadequate administrative control over the warehouse stock; this lack of control is also supported by numerous inventory report inaccuracies that have gone unresolved. We visited the current warehouse facility on two occasions to count a sample of inventory. We found differences in our actual observations of stock levels compared against the inventory reports. Our January 1993 count found differences in 6 of 11 or 55 percent of the sampled items. For example, we found 66 more boxes of 1992 Travel Guides than the report listed, and 700 fewer Monument Valley posters than were reported. Our May 1993 count at the warehouse showed variances from the reported stock on three of the five types of SuperHost materials; for example, there were nine fewer boxes of SuperHost binders counted than reported, and seven more boxes of leader training manuals counted than reported.

In addition to the above inaccuracies, other reporting problems were found. For example, the December 1992 inventory report used November's beginning inventory count instead of ending inventory, which threw off the report in every category in which stock had been withdrawn in November. Staff were unaware of the problem until we showed it to them months later; at the writing of this report, the mistake has not been rectified by the division. In addition, inventory reports from the first to the second to the third warehouse show differences the division has not resolved. Ending counts at one warehouse for some materials differ from beginning counts at the next. Some of these differences reflect obsolete stock purposefully disposed of, but other differences, such as the map counts, should have alerted staff to the fact that there was a problem with inventory accuracy. Finally, the second warehouse kept counts by pallet instead of boxes or packages which did not allow for accurate control of stock.

Stored Materials Have Incurred Damage. Our warehouse observations revealed damage to various materials, most notably boxes of regional maps and scenic posters. We observed boxes of maps crushed under the weight of boxes stacked up to 16 cases high along with the wooden pallets. Warehouse managers commented to us that the map boxes were not sturdy enough to bear a lot of weight without crushing; one of them recommended that we should address the necessity of the division requiring printers to use industry-standard boxes that withstand the rigors of transport and storage. Publication staff provided bid specifications for the Travel Guide that indicate packaging must be "sturdy suitable shipping cartons not to exceed 35 pounds each;" we would add that printers need to be told that pallets will be stacked directly on top of pallets, and that the cartons need to be sturdy enough to take that amount of weight. We also observed that posters were sustaining damage because packaging is inadequate to protect them. Almost all posters are packaged in brown wrapping paper in quantities of 100 or more. We saw that many packages were ripped and torn, with posters inside torn, crumpled, and dirty. As a result, these posters cannot be sold. Packaging becomes very important for long-term storage, and some posters have been warehoused since 1989; also, inadequate packaging increases the likelihood of damage with frequent moves such as these materials have undergone. One warehouse manager told us that he had refused to deliver the poster packages to Council Hall because inadequate packaging increased the likelihood of damage.

Division staff indicate there is no accounting for damage at the warehouse. The items sustaining damage are revenue generators, but there is no system in place to account for damage when it occurs. We believe that the division should know costs they incur through damaged stock. Further, since there is damage because of packaging, it seems reasonable to us that the division should take steps to ensure the integrity of its materials. Beyond a system to account for damages, steps should be taken to minimize damage, as discussed above.

Obsolete Posters Should Be Disposed Of. We found that two posters stored in quantity at the warehouse are not in circulation for differing reasons. If these posters cannot be used, they should be disposed of. One poster, called "Glowing Reports," is a poster of a skier in neon-colored clothing on a bright blue background; 8,200 posters are currently in stock. According to the publications director, this poster was ordered because of the bright ski clothing that was in style a few years ago; however, the poster did not sell. Another poster, "River Running," was printed with a picture of Wyoming's Snake River instead of a Utah river; 1,500 are in stock. The posters were printed before the staff realized that the river pictured was in Wyoming. This poster cannot be sold. Our recommendation is that the skiing poster should be sent to travel agents and other travel industry people free of charge to use as a promotional device, and the river poster should be discarded. Maintaining these posters in the small, often overstocked warehouse serves no purpose.

Improvements Needed in Planning For and Control Of Publications

The planning for and control of publications needs to improve. First, while Travel Guide use is good, better planning for full use should include not dating the piece; this would enable all supplies to be used before the new brochures are released. Also, the publications director should consider alternate ways to provide dated information currently included in the Guide. Second, lack of planning for demand resulted in too many recreational maps being printed, so that even with the loss of stock discussed above, remaining inventory could take another 13 years to liquidate. Third, better controls over the receipt of payment for printed materials are needed. Finally, better controls over scenic calendar gifts are needed, since calendars are given away to employees, board members, an advertising agency, and the Legislature without any guiding policy in place.

Travel Guide Planning Could Improve. The usage level of the main response brochure, the Travel Guide, is good but can improve. Better planning should include removing the date from the piece which would allow all existing stock to be used before issuing the new year's brochure. Consideration should be given to finding alternate ways to send out dated information such as lodging rates that are currently included in the Guide.

The Travel Guide is a 90-page brochure designed to provide facts about the travel regions of Utah that includes the various types of information needed when planning a vacation to the state. It is the main brochure or primary response piece sent out in response to inquiries, with 450,000 printed in 1993 for \$187,000. It has traditionally been dated on the cover. Twenty-five pages of accommodations information and a two-page calendar of events are included. Staff gave as the reason for dating the piece that they want a fresh look for the brochure; however, a change of date by itself is insufficient to change the look, and the cover design remained the same from 1992 to 1993. Further, using up the remaining stock does not prevent a fresh look with the new brochure, but only delay its use slightly.

We found that about 3 percent, or 12,160 of the 1992 Guides were still in the warehouse at our mid-January 1993 count. Staff indicated that outdated Guides are given to schoolchildren to use in reports or in quantity to attendees at conventions. While these are worthwhile uses for Utah information, it does not serve the purpose of the Travel Guide, which is to promote travel to the state. Two nearby states with whom we spoke do not date their primary response piece; two others do. Because Utah has brochures left over, we believe the division should not date the

Guide in order to maximize intended use.

In addition to dropping the date from the cover, the publications staff should also consider alternate ways to include accommodations and campground information. One way other states accomplish this is to provide categories of rates (budget, moderate, or luxury) instead of specific rates; some states publish a separate, inexpensive accommodations directory. Either of these methods would easily avoid the necessity for dating the primary response piece, and the first option would also make updating the Guide easier.

Planning for Map Demand Was Inadequate. We were unable to show that there was adequate planning for the original regional recreational maps ordered in 1987 or the second order the following year. The lack of planning for demand resulted in too many maps being printed, so that even with the loss of stock discussed above, remaining inventory could take years to liquidate.

We were unable to establish that demand was considered in the order process. The division's publications staff say a former assistant director determined the quantity of maps to order; no records were found to explain how the quantities were set. The original order was for 520,000 maps or 104,000 sets of five regional maps costing \$178,000. We were told that the reprint in 1988 was based on first-year sales levels and an intention to have an equal number of maps in each region so that full sets were in stock. However, first-year revenue indicates a maximum of 84,000 maps sold if all were sold at wholesale, while 370,000 maps were reordered for \$91,000. Further, remaining stock ranges from 20 to 750 boxes for the various regions, which would indicate unequal demand for the different regions.

Remaining inventory of 395,400 maps at fiscal year end 1993 could take approximately 13 years to liquidate at fiscal year 1993 sales levels. Maps have been on sale since July 1987, but remaining stock represents about half the maps printed. We question whether the maps are becoming out of date, especially with the building of the Jordanelle reservoir, which would appear on all three northern region maps if they were updated. Continuing to sell the current maps until stock is depleted may not be realistic, and further reinforces the need for adequately planning for demand. We suggest that since the cost of printing the maps has been recovered, the maps could be sent to travel regions and welcome centers to be given away or sold at a reduced price; maps and brochures only do the state good if they are in the hands of visitors and travelers.

Better Controls Over Receipt of Revenue Are Needed. In seeking to identify why map revenue differed from inventory reduction, we reviewed the sales of materials to determine whether adequate controls exist over stock and revenue. Better control of receipts from sales is needed, along with tighter control of the inventory kept on hand at the Council Hall building. Fiscal year 1992 sales of material totaled \$181,500. This figure includes sales of maps, posters, and other printed materials, t-shirts, hats, and other tourist souvenirs, and videos.

Unpaid invoices for ordered materials are filed at the administrative assistant's desk. As payments are received, the administrative assistant keeps the checks until a stack builds up; checks are not deposited daily or on a schedule. For example, the revenue report showed that almost \$12,000 in receipts had built up between deposits over the week of December 2-9, 1992. Other deposits, though smaller, ranged from hundreds to thousands of dollars. Deposits should be made on a more timely basis.

In addition to the need for more frequent deposits of checks, staff need to ensure the security of the checks until they are deposited with the Treasurer. Checks should not be left unattended on or in the administrative assistant's desk but should be put into the division's safe as soon as the mail has been opened. Staff told us that a wallet had been stolen from the same desk where these checks are kept; this further points out the necessity for immediately securing the checks in the safe until deposits are made.

Improved controls over invoices are needed to guard against the possibility of fraud or theft. At present, invoices are not checked periodically to ensure that all are accounted for. Although a copy of each invoice is filed numerically, this file is not reconciled against the paid and unpaid files to determine whether any are missing. Thus, it is possible that unpaid invoices could be destroyed with the corresponding checks stolen when received. The paid and unpaid files should, therefore, be reconciled against the numerically filed invoices on a regular basis.

Finally, a small quantity of posters and maps for sale is kept in a basement storeroom at Council Hall along with the inventory of gift items used by the international program. Better security over this storeroom is needed; we found the door open with no staff present on several occasions.

The Division Needs a Policy for Calendar Gifts. Division management should develop a policy to control the giving of calendars. The division produces a scenic calendar for sale and use as a promotional gift. In 1992, 35,000 calendars were printed; of these, records show that about 1,930 or 5.5 percent were given away. Wholesale value for these gift calendars is \$9,200, and \$17,400 retail. Of those given away, over 72 percent were given to division employees, department employees, board members, an advertising agency, and the Legislature, while only 28 percent were given to travel industry people. There are no guidelines in place to determine how many calendars should be given to employees or to any other group or individual.

Our discussions with other states included asking whether they give gifts to their employees. We found that other states do not give calendars or other gifts to their employees. However, other states do give gifts to board members, including plaques or a framed letter of appreciation from the governor to retiring board members.

The division gave 190 calendars to its seven board members, 420 to its own employees plus another 50 to the division director, and 100 to one of its advertising agencies. Although we understand that the use of the calendar in an office could promote the scenic locations of the state, we question why employees or board members should receive so many calendars, and why the advertising agency received any as gifts.

The former division director told us that an unwritten tradition of calendar gifts existed. Using the distribution he described, about 950 calendars would be given away to the board, governor's office, Legislature, and employees. However, this informal tradition has not been followed, since over 1,900 calendars were given to these and others in 1992. For better control and accountability, a policy should be developed that reflects a reasonable distribution to guide the use of the calendar as a gift.

Advertising Contracts Have Been Poorly Administered

The contracts with two advertising agencies represent approximately 40 percent of the Division of Travel Development's budget, yet inadequate administrative review and control of advertising expenditures and activities has occurred. As a result, the division has paid more than it need have for its advertising. Improved controls are needed to ensure that unnecessary costs are not incurred. In addition, some of the advertising media chosen may not be the most cost-effective. Also, we found that non-advertising projects have been completed by the contractors for the division, but could have been done in-house at lower cost. Finally, provisions in the advertising contract are not specific enough to prohibit some of these practices and should be rewritten.

The division has contracted with two advertising agencies to provide advertising promoting tourism in Utah. Approximately \$1.0 million is spent advertising warm weather tourism and \$0.5 million promoting winter tourism. Advertising media include magazine, radio, mass mailing, and outdoor or billboard advertising; in past years, television advertising has also been used. The following figure summarizes the advertising expenditures for fiscal year 1992.

Type	Cold Weather	Warm Weather	Total	Percent
Magazine	\$385,650	\$473,051	\$858,701	58.5 %
Radio	0	278,656	278,656	19.0
Outdoor	15,000	208,642	223,642	15.2
Direct Mail	40,000	11,834	51,834	3.5
Miscellaneous	4,711	50,856	55,567	3.8
TOTAL	\$445,361	\$1,023,039	\$1,468,400	100.0 %

Advertising Expenditures Have Involved Unnecessary Cost

A lack of administrative controls has resulted in unnecessary costs to the division. The examples to be discussed in this section cost the division or state \$28,800. High production markup charges and job processing fees have increased costs for nearly all the warm weather advertising; excessively high radio production costs have also been incurred; and unnecessarily early media pre-payments have cost the state interest earnings. Better oversight by division management could have prevented these unnecessary costs.

We found that one of the contracted advertising agencies charges a markup on subcontracted production costs that is higher than that charged by the other agency, and also higher than the industry standard markup, according to our consultant. We believe that the higher markup should be adjusted to be no higher than that charged by the other agency. A 25 percent markup on outside production costs was charged versus a 17.65 percent markup by the other agency which resulted in approximately \$11,000 in extra costs in fiscal year 1992. In addition, this agency charges a job processing fee of \$25 each time a new job or activity over \$100 is initiated, resulting in \$1,025 in fees in fiscal year 1992. Our understanding is that the markup includes overhead costs to the advertising agency; overhead costs should include accounting or computer expenses. An audit by DCED's internal auditor in late 1991 made recommendations that

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addressed these concerns, but they were not implemented by division management.

A second illustration of unnecessary costs is overly expensive radio advertisement production costs. One of the ad agencies produced two 60-second ads costing a total of \$21,000 to be aired at stations in surrounding states. Production costs included a \$14,000 charge for out-of-state radio production that involved only \$1,500 in production costs, \$10,000 for rights to use the ads, plus markup and job fees. Other production costs were also incurred at some in-state production companies. We question why the \$14,000 expenditure was necessary when numerous in-state production companies and talent were available and were, in fact, used as well. Our consultant and a local free-lance producer both indicated that ads of this nature could be produced for about \$3,000 instead of \$21,000. Because the ad agencies have no incentive to obtain services at the least cost, better control is needed to ensure that unnecessary costs like these are not allowed.

Media prepayments to one agency have cost the state about \$800 in interest earnings. Although discounts were extended to the division, the total lost interest earnings on unnecessarily early payments resulted in a loss to the state. The advertising agency bills the division for media costs at the time space is ordered. However, we found that the ad agency kept the funds on hand an average of 60 days or more, so it did not need the funds in advance. The advertising contract allows billing at the time of media placement; this is a lack of control in the contract itself. A change in the contract is needed to prevent this loss of interest earnings while protecting the division's right to cash discounts for timely payment.

Better Controls in Other Areas May Save Money

During our review of the advertising contracts, we found some practices that could result in extra cost to the division and therefore should be addressed by improved oversight and control. Improvements include the need for detailed billings and adequate review of billings by management and the need for preapproval of project expenditures as required.

Our review of ad agency invoices showed that only a summary level of information was submitted; more detail is needed for a review to determine that all charges are necessary, reasonable, and that double billing or other mistakes do not occur. In fact, we found an instance where the former director approved an invoice for payment that involved a \$35,000 overcharge. The ad agency found the mistake later and reimbursed the division, but this illustrates the lack of oversight exerted. One of the ad agency account executives commented to us that the division's management was not very inquisitive when it came to the details of the billings, and was only concerned with not overspending the budget as a whole. We believe that vendor or subcontractor invoices should be included with the bill from the ad agency, and should be reviewed prior to approval for payment.

A corollary concern to the lack of detail on billings is the high percentage of internal time charges we found at one of the agencies. Internal time charges are charges for the advertising agency's own staff time on projects; items such as design, layout, copy writing, and production supervision are types of internal charges. Our consultant indicated that this is an area where ad agencies can overcharge, so we believe there is a need for review by an individual familiar with advertising to determine if time charges are reasonable. Billings do not break out internal ad agency time charges, nor are staff costs-per-hour provided on invoices or in the contract. We found that about 15 percent of one agency's total budget was spent on internal time costs while the other spent only 1.5 percent of its budget on those costs. While we cannot show that the charges are unreasonable, the difference in percentage of budget spent suggests that closer review of ad agency expenditures is warranted.

A contract provision that advertising expenditures must be preapproved in writing has not been followed. The contract states that "estimates of all costs of this advertising (both media and agency-prepared material) will be presented to State for approval and signatures before it is approved by any other entity and is actually scheduled or put into work." While the overall budget for the year is presented to the board for approval, the details of how the magazine budget, for example, will be spent are not submitted to the board. The director is supposed to approve written estimates of proposed expenditures for the various advertising campaigns. However, the former director told us he gave only verbal approval for expenditures. Because approvals were verbal, no records exist to show that enough detail was presented to provide for adequate oversight.

Some Advertising Media Used May Not Be the Most Cost-Effective

While the division spends over 15 percent of its advertising budget on outdoor (billboard) advertising and 19 percent on radio, totaling \$502,000, the division does not collect data to show the impact of these media. We question the use of advertising that has no response vehicle to assess effectiveness and believe the advertising budget would be better spent on proven advertising methods. More assessment should be done to ensure that the division is buying the

best advertising for its money.

While this section deals with billboard and radio advertising's lack of proven effectiveness, it should be noted that assessment measures are gathered for other types of advertising used, such as magazine and direct mail. In addition, one of the billboards used each year includes an 800 number and calls are being tracked for the first time in fiscal year 1993. Our concern is that there has been a low priority given to effectiveness assessment, particularly for the 34 percent of the advertising budget that we discuss in this section.

Outdoor or billboard advertising to promote Utah tourism consists of four billboards: two in Los Angeles, one in San Diego, and one in Phoenix. Both warm weather and winter advertising messages are put on these boards, with changes occurring seasonally. The agencies use computer-generated vinyl coverings for the ads instead of less expensive painted paper or hand-painted vinyl; ad agency staff indicated that the vinyl boards provide a sharper image that is better for scenic advertisements. Extensions are also used, which require extra production, installation, and maintenance charges.

There is no attempt to assess whether the billboards have an impact on tourism. Because the billboards are meant to enhance Utah's image, no response in the form of an 800 number is used for the three warm weather boards. The only available measure of effectiveness for these is the "gross number of impressions" estimated by the outdoor company for its billboard locations. This is an estimate of the number of cars/occupants driving by the billboard location. We question the use of a medium that cannot be assessed for cost effectiveness and we are also concerned that the division expends extra funds for the most expensive production methods for the billboards. Further, only one of six western states surveyed uses billboards, and few states nationally use this advertising medium. It is possible that the \$200,000 could be better spent in a broader-based medium such as magazines with proven response rates and the ability to show cost effectiveness.

Further, a radio campaign costing over \$63,000 last year was broadcast to the greater Los Angeles country-western market, but the division has no information on the effectiveness of that campaign. The fifth annual radio campaign by a Los Angeles country-western radio station involved three weeks of running ads for Utah on the station and a one-week-long remote broadcast from several Utah locations. Although the broadcast ads included an 800 number to call for more information, complications resulted in division staff rather than the answering service taking the calls. Calls were not tracked as to source, so no information is available on the results of this promotion versus the simultaneous fall magazine campaign. We also were unable to find these data for the previous year's radio promotion.

Some Auxiliary Projects Should Be Done In-House at Less Cost

Several auxiliary or non-advertising projects done for the division by an advertising agency should have been done by division staff instead. Organizing the annual Governor's Conference on Tourism, ordering plaques and other material for the board and alcohol for gifts would have been done at lower cost in-house and provided for greater accountability.

The division spent \$13,900 or 54 percent of total expenditures for the 1992 Governor's Conference on Tourism unnecessarily. These expenditures included the agency's markup on

ordered materials, job fees, and \$11,250 for consulting services provided by an ad agency employee. The total expenditures for the conference from the advertising budget in fiscal year 1992 were \$25,530.

The ad agency consultant ordered the printing of the registration packet, conference program, and other materials, and developed and supervised production of a reminder or "teaser" to send to possible participants. The printed materials were the same in design and layout as the previous year's, and an assessment by the director of the Legislative Printing Office indicated that although the quality of the work was good, the complexity of the job was not high; in his opinion, staff at the division could have handled the ordering without problem. We concur, especially since the design and basic layout were unchanged.

Staff charged with organizing the conference indicated to us that the assistance of the ad agency employee was essential. This consultant developed the concept of the teaser, supervised the layout and printing of the materials, arranged for signs and name tags to be used at the conference, and finally, assisted division staff at the conference. With the exception of the creative work on the teaser, these tasks are simply organizational details repeated from year to year for the conference. The division paid \$11,250 (\$10,000 plus \$1,250 markup) in 1992 for these services, which would be equivalent to 600 hours' time of the staff member assigned to the conference. We believe that staff could have handled the conference organization internally and saved the state money.

For reasons of reducing added cost and increasing accountability, the ordering of such items as plaques, binders, and alcohol for gifts should not be handled by the advertising agency. These items were paid out of the advertising budget, but are not advertising expenditures. The plaque expenditure totaled \$371, of which over \$100 or 27 percent was for markup and job fees. The binders were ordered for the use of board members at meetings; the total of \$300 for binders was spent on internal ad agency time and the job fee, which means that the entire expenditure would have been saved had division staff ordered the binders themselves. Finally, no cost was added to the \$145 spent on alcohol that was bought to give to visiting Italian dignitaries. However, for accountability, we believe this item should have been ordered from the division's budget and gone through normal review procedures. In fact, the ad agency executive told us they ordered the alcohol because it was so hard to get such a purchase through Division of Finance review.

Advertising Contracts Should Be Rewritten

While the contracts with the two advertising agencies contain the basic provisions common to all state contracts, provisions detailing advertising services should be strengthened by being made clearer and more specific. The lack of such specificity has allowed some of the charges and practices that have been discussed; in most cases, the concerns discussed above are the result of insufficient oversight and control, including the deficiencies in the contract. We recommend that revisions be developed in conjunction with the division's Attorney General representative, so that the legal review not given to the current contract will be obtained.

Provisions should be added to incorporate the annual marketing plans into the contract by reference. The accepted markup percentage should be indicated so that both agencies charge the same markup, and we believe that the division should not allow a markup any higher than the 17.65 percent generally accepted in the industry. The contract should also indicate what can and

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cannot be marked up in more detail than is currently used. Finally, job processing fees should be prohibited.

Further provisions are needed to incorporate by attachment a list of hourly charges for personnel from each agency, so that division management can better analyze the internal time charges on billings. The need for increased level of detail to be provided on billings should be addressed along with the type of supporting documentation to be provided for review.

International Program Needs More Direction

The Division of Travel Development's international program promotes travel to Utah from other countries, emphasizing the Pacific Rim and Western European markets. We believe the program needs more management direction and also needs to reevaluate the emphasis given to these two primary markets. Also, program management should be

involved in promoting both markets. Finally, program analysis and effectiveness measures are needed to identify the results of existing promotional efforts and assess the impact of proposed activities.

In addition to the need for direction and assessment of the program as a whole, some areas need improved controls. This report identifies a need for improved controls over inventory and records of gifts given to tour participants. Also, nontravel costs should not be reimbursed as travel expenses.

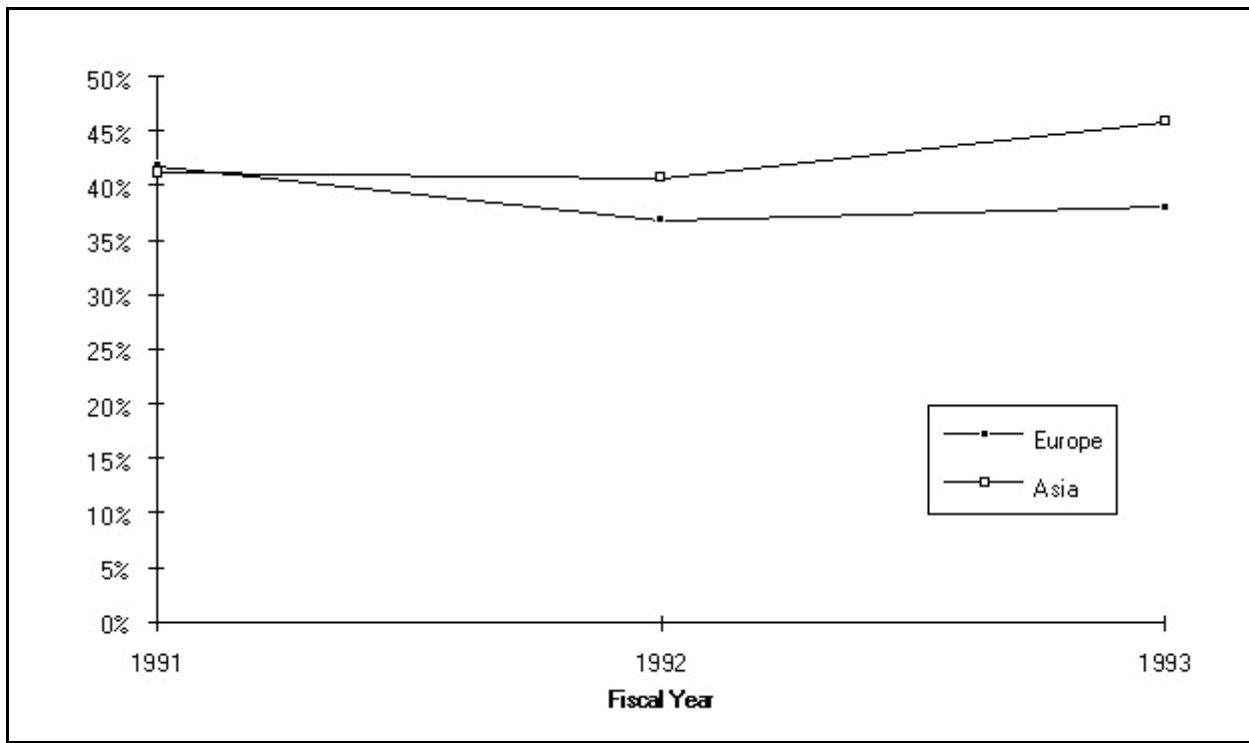
The mission of the international program is "to enhance awareness of Utah as a travel destination for the international traveler by facilitating group tour and fly/drive development, expansion and promotion with concentration in the Asian and Western European marketplace." To accomplish this mission, division staff, contracted representatives, and international office staff travel overseas to participate in travel trade shows and trade missions and also conduct seminars and sales calls. In-state activities include setting up and conducting familiarization or "fam" tours for foreign tour operators, executives, and press writers to acquaint them with Utah. The division director, assistant director, Asian travel development specialist, national travel development director, and some support staff have traveled overseas in this effort. The program has one assigned full-time staff and a fiscal year 1993 budget of \$433,100.

Primary Markets Need to Be Reevaluated

Division management should reassess the importance of the two main international tourism markets to determine an appropriate proportion of budget and effort to be put into Europe and the Pacific Rim. Recent creative marketing efforts developed by the assistant director and the Asian travel development specialist have increased visitation from the Pacific Rim market. However, the European market provides significantly more visitors and tourism revenue to Utah. Thus, we are concerned at the recent shift in emphasis from Europe to the Pacific Rim. If there is a connection between dollars and effort spent and tourism generated, then an appropriate proportion of the international program's funding and activity should be put into the large European market.

Using the breakdown of budgeted activities given to us by staff and including the amount for contracts with foreign office representatives, we found that a shift in expenditures has occurred from fiscal year 1991 to 1993, as illustrated in the figure below.

Figure II
European Versus Asian Market Expenditures
as a Percentage of International Budget
Fiscal Years 1991 - 1993



In addition to the emphasis reflected in the budget, staffing also reflects the importance of the Pacific Rim market to the division. The Asian travel development specialist and the assistant director of the division have focused on developing the Asian market. Responsibility for the European market was assigned to the national travel development director, who said she spent about 70 percent of her time on the European market. The division has full-time foreign office representatives in both Tokyo and Brussels. The activities of Foremost West, a contracted international representative for Utah and three other nearby states, are divided among markets; the Foremost West director estimates his organization spends 60 percent of its time on Europe and 15 percent on Asia, with the remaining time spent on worldwide activities.

We found that the fam tours and trade missions that are an integral part of the division's travel promotion occur more frequently for the Asian market. In fiscal year 1993, 56 percent of the fam tours conducted were for Pacific Rim groups, with 23 percent for European groups. Of four trade missions conducted by division staff, three went to Japan and one to Europe. A third major activity, travel trade shows, is an area with less activity in the Pacific Rim market. Twenty percent of the shows attended by the division are for the Asian market, with the remainder oriented to Europe, Mexico, or worldwide.

More Visitors and Revenue Come From Europe. Although much of the division's recent activity has focused on developing the Pacific Rim market, data show that the European market is a larger tourism market for Utah. Information showing the importance of the international markets is available from the US Travel and Tourism Administration (USTTA). The figure below summarizes international visitation to Utah in 1991. As the figure indicates, more travelers come to Utah from Western Europe than from the Pacific Rim. Further, the trend since

1985 shows a greater increase in visitation from European markets than from the Pacific Rim.

Figure III			
International Tourism Markets for Utah			
1991			
Market	1985 Visitation	1991 Visitation	Percent Increase
Western Europe	60,555	192,332	218%
Pacific Rim	10,000	19,000	90

As seen in Figure III, visitors to Utah from Western Europe (Germany, United Kingdom, France, and Italy) total far more than visitors from the Pacific Rim (Japan and Korea). The increase from 1985 to 1991 also indicates that growth is greater from the European market, with a 218 percent increase for Western Europe versus 90 percent for Asia. According to the director of Foremost West, the USTTA data provided above are considered in the industry to be as reliable as possible since they came from in-flight surveys, conducted on international flights to gain knowledge of the travel market.

As can be seen in Figure IV, the revenue from European visitation is significantly higher than from the Pacific Rim.

Figure IV		
Estimated Revenue from Tourism		
1991		
Market	Visitation	Revenue
Western Europe	192,332	\$88,502,564
Pacific Rim	19,000	12,523,000

Allowing for the fact that the data are estimates, the available information shows that continued emphasis on the European market is in Utah's best interests. If as staff assert there is a relationship between dollars spent by the division and tourism revenue generated, then the division should give priority to the European market which brings significantly more revenue to the state.

Other States Put More Into Europe Than Asia. Finally, our discussions with nearby states' tourism promotion offices revealed that more of their budgets are directed to the European market rather than the Pacific Rim. This is because the Rocky Mountain region gets far more visitors from Europe, and therefore benefits more in revenue generated from that market. Although most felt that Japan is an important market, we found that their intent is to continue to emphasize Europe as the primary market. Idaho told us they had reviewed their travel data and reorganized their efforts away from the Pacific Rim market when they realized they were not getting back in revenue the amount invested in their travel promotion efforts there. Colorado told us they had recently lowered Japan from third to fourth in priority because the European market was the better place to put their time and budget. Arizona also indicated they emphasize

the Canadian and European markets much more than the Pacific Rim area, and indicated that Mexico was their first priority market. We believe Utah needs to research the value of each market and allocate budget funding accordingly.

Management Involvement Needed in Both Markets

Division management needs to be involved in promoting travel from both primary markets. As discussed above, the assistant director of the division has spent most of his time successfully developing the Pacific Rim market. The Asian travel development specialist also has focused on the Pacific Rim market, while the former national travel development director had responsibility for both the domestic and European markets. Because the European market brings far more visitors and tourism revenue to Utah than the Pacific Rim market, we believe that the administration of the program needs to focus on both important markets.

We received conflicting information on the direction and control of the European segment of the international program. According to the assistant director, his responsibility over the European market was withdrawn by the former division director, who then dealt with the national travel development director instead. This was confirmed by the former division director. He also said he spent about 20 percent of his time on international activities, and his focus was on Asia for the last three years. The national travel development director told us that she was the only division staff working the European market, and that her time was also required in the domestic market. She was unaware that the assistant director had been told he did not have responsibility over the European market. Finally, information from the European office representative indicates that she continued to ask for direction from the assistant director, but felt she received little response and was left to develop activities on her own.

These conflicting reports indicate confusion in the program over the location of responsibility for the important European market. Records show that division management traveled much more frequently to Asia than Europe in recent years, and we were provided with some effectiveness measures for the Pacific Rim market that were not available for the European market. The focus of both the assistant director's and the Asian travel development specialist's efforts has been the Pacific Rim market. While the Pacific Rim is an important market and growth has been achieved, division management should provide oversight to both important travel markets for Utah. As shown, the European market provides the vast majority of visitors and revenue to Utah. The division's administration must put appropriate effort into all the important tourism markets.

Effectiveness Data Needed to Justify Activities

Although some international visitation and revenue data are available for Utah, effectiveness measurements are lacking for the program's overall efforts. Further, insufficient information is available on the European market in comparison to information available on the Asian market. We found that the assistant director has developed numerous creative marketing efforts for use in Asia, and some effort is made to track the results of programs such as fam tours. Similar information on effectiveness is needed for Europe, and both markets need to be analyzed further to determine the results of the program's efforts.

In addition to gathering visitation and revenue information, the division needs to develop ways to measure the success of its efforts to promote tourism in both major markets. More results research and program analysis are needed for the international program. Although the assistant director indicated they pursue the Japanese market because of high expenditures per tourist per day, we found that the higher numbers from Europe bring in much more tourism revenue in total. Thus, we feel that the division may not be putting enough effort into research to fully understand its international markets. Further, research on the outcome of efforts is needed to show whether the program is working effectively. For example, some other states told us they survey tour operators to obtain information on the increase in tour packages that include their states. Other states also conduct surveys of fam tour participants to determine whether group or individual tours or other programs have been added that benefit the state. Finally, one state told us conversion studies can be done; these studies show how many tourists came as a result of a specific promotional activity.

The division has documented some results of its efforts in the Pacific Rim market; similar information should be gathered for the European market. For example, lists of visitors by source (package tours, individual visitors, etc.) are available from the Japanese foreign office; this type of information should be gathered for Europe as well. The number of tourist days (one tourist spending one day) is compiled for the Asian market but not the European.

When we discussed effectiveness measurement and research on the program with the Asian travel development specialist, he told us they could not take the time and effort needed to do such research. He felt they were not able to devote staff time to program analysis because they were busy implementing the program. Division management has indicated there is no budget for research. However, in tight budget times, effectiveness becomes critical to ensure that the most benefit is obtained for each dollar spent. In our opinion, research efforts that direct a program to areas that will return the most to the state would be time and effort well spent.

Better Accountability of Gifts Is Needed

The international program's practice of giving gifts to tour operators and executives needs better controls. There are no policies or procedures guiding the giving of gifts, there are inaccuracies in the gift inventory, and there are no records to track the type of gift, recipient, or reason for giving a gift.

Gift giving to travel trade representatives such as tour operators or company executives is a common component of tourism promotion. All the states with whom we talked give gifts as part of their efforts; like Utah, most give gifts primarily to fam tour participants. Gifts range from small tokens such as state pins or a neckerchief to more expensive briefcases or so-called "coffee table" scenic photography books of the state. Utah also has a range of gifts, from small state pins to more expensive items such as golf putters and embroidered shirts. These items are kept in a store room in the basement of Council Hall, along with a small quantity of printed material for sale that includes a selection of posters, maps, and brochures.

As with other areas of activity at the division, there are no procedures in place to guide the giving of gifts. Agency management indicated that they use their judgment when determining what gifts to give, but no guidelines are in place, nor are there records kept of what gifts are

given. Management indicated that gifts are decided on a case by case basis. When we asked to see some record of what gifts were given to whom, staff were unable to provide any records, but said they could go back and try to reconstruct what had been given on recent fam tours.

Although there is an inventory record made of the store room contents, we found discrepancies between the physical inventory and the inventory report, and were told by the division's accountant that he finds such discrepancies each time he performs a reconciliation. The accountant had no record of withdrawals for the seven discrepancies we found. This is because employees do not always fill out the withdrawal form when taking items from inventory.

We believe that improved accountability is needed for gifts bought with public funds. Better controls over the store room are needed; we found the room open and no one nearby when we went to make our physical count. Stricter control over withdrawals are needed, with accurate reports kept and restrictions over access to the inventory. To ensure that only appropriate use is made of the gifts, a policy should be developed for gift giving that includes the value of gifts to be given to the various organizations and individuals with which the staff deals. Then, records should identify what gifts are given to whom for what purpose. For example, one state told us that for better public accountability, they keep lists of recipients and provide them to their auditors.

Overseas Travel Needs Better Accountability

Our review of travel done by international program staff found a lack of adequate control and accountability. Nontravel costs incurred during trips are submitted as travel expenses and reimbursed as such. This results in a lack of accountability and inflates the division's out-of-state travel costs as well.

A review of international travel reimbursement request forms for division travelers found such things as entertainment (meals, greens fees, perfume), rooms and train tickets for non-state employees on their reimbursements. Since there are no categories for entertainment on travel reimbursements, expenditures were submitted under a variety of areas such as meals, miscellaneous, lodging, and transportation. For example, for a September 1991 trip to Tokyo, \$7,908 were claimed as miscellaneous expenses that included \$2,450 for a promotional function, \$980 for a client dinner, and \$4,350 for expenses for a seminar. On the same trip, the lodging reimbursement included \$5,668 for 92 rooms for seminar participants. A May 1992 trip to Tokyo included \$7,100 under miscellaneous that included expenses for golf for twelve, golf club rental, a gift, seminar expenses, and freight charges. Six meals involved client entertainment. Another traveler to Japan in May claimed \$557 under transportation that paid for two US Travel and Tourism Administration employees to travel from Tokyo to Osaka. Most of these expenses were incurred for entertainment and promotional purposes rather than state employee travel; more accountability is needed to distinguish the actual travel expenses of division employees from added costs of entertainment or promotion. Breaking out these expenses allows both entertainment and travel costs to be tracked and better controlled.

In another category of expenses, we found freight charges, booth setup charges, customs fees, and seminar room rentals reimbursed as travel miscellaneous. Although these expenses were part of the trade show or mission being conducted, they should not have been reimbursed as travel miscellaneous, a category usually reserved for such items as phone calls, tips, and taxi

fares. Division administration should work with the Division of Finance to develop alternate procedures for covering costs that are not specific travel costs normally reimbursed with a travel reimbursement form.

Recommendations

1. We recommend that division staff periodically verify actual inventory levels against inventory reports to maintain adequate control over warehoused inventory.
2. We recommend that the division put a system in place to account for cost of damaged stock, and that publications staff coordinate with printers to ensure that packaging is adequate to minimize damage.
3. We recommend that staff remove obsolete or unsellable stock from inventory.
4. We recommend that the division remove the date from the cover of the Travel Guide and develop an alternate way to disseminate dated information like accommodations rates.
5. We recommend that giving the regional maps away or selling them at a lower price to reduce inventory levels be considered.
6. We recommend that the division install adequate controls over invoices and revenue received from the sale of materials.
7. We recommend that the division develop a policy to control the use of calendars as gifts.
8. We recommend that the division monitor the advertising contracts to ensure that unnecessary costs are prevented, proven cost effective media are used, and non-advertising projects are not done by the ad agencies.
9. We recommend that the assistant director be involved in both the European and Asian markets to provide direction to the entire international program.
10. We recommend that effectiveness data be gathered for all important markets and be used to analyze program activities and plan future promotional efforts.
11. We recommend that better controls be put in place over gifts given to promote travel to Utah.
12. We recommend that the division develop procedures to pay nontravel costs separately from actual travel costs.

We hope this letter has provided the information you need on these issues. A response from the Division of Travel Development is attached. If you have any questions or need further information, please contact us.

Sincerely,

Representative Byron Harward
August 12, 1993
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Wayne L. Welsh
Auditor General

WLW:LSM/lm

Representative Byron Harward
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