State of New York
Office of the State Comptroller
Division of Management Audit and State Financial Services

DEPARTMENT OF ECONOMIC DEVELOPMENT

TOURISM PROMOTION PROGRAM

REPORT 98-S-42

H. Carl McCall

Comptroller

State of New York
Office of the State Comptroller

Division of Management Audit and
State Financial Services

Report 98-S-42

Mr. Charles A. Gargano
Commissioner
Department of Economic Development
30 South Pearl Street
Albany, NY 12245

Dear Mr. Gargano:

The following is our audit report on the Department of Economic Development's State tourism program.

This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law. We list major contributors to this report in Appendix A.

Office of the State Comptroller
Division of Management Audit
and State Financial Services

January 7, 2000

Executive Summary

Department of Economic Development Tourism Promotion Program

Scope of Audit

Article 4 of the Economic Development Law (Law) empowers the Department of Economic Development (Department) to plan and conduct a program to attract tourists and visitors, and to encourage and coordinate the efforts of other public and private sector organizations in promoting the State. The Department's Marketing, Advertising and Tourism Division (Division), which coordinates the State's tourism efforts, budgeted about $11 million for its I♡NY campaign in the 1998-99 fiscal year.

Article 5-A of the Law authorizes the Department to administer a matching funds program to assist local not-for-profit tourism promotion agencies (TPAs) plan and execute county and regional tourism programs to benefit the local economy. There are 50 TPAs in all: 46 represent individual counties and 4 represent more than one county. In applying for matching funds, a TPA must include a budget for the programs the funds will support, and state the amount of local monies available to pay for the programs. The Division approves TPA applications and allocates funding based on the rules stated in its Matching Fund Guidelines (Guidelines). The Legislature appropriated local assistance matching funds totaling about $12.1 million during the three-year period ended March 31, 1999.

Our audit addressed the following questions about the Department's administration of the State's tourism promotion program for the period January 1, 1996 through November 30, 1998:

- Does the Department administer the program in compliance with Articles 4 and 5-A of the Law?
- Is the program effective in promoting and generating tourism?

Audit Observations and Conclusions

We found that the Department has carried out the planning, research and marketing activities specified in Article 4, and has made progress in its efforts to develop and promote tourism at the State level. However, the Division has used essentially the same process for managing this program since it began in 1977 when the local matching fund appropriation was only $600,000. We believe it is time for the Division to take a critical look at this program considering the importance of tourism to the State and that the State funding for local tourism programs has more than quadrupled. The Department needs to require more financial and program-results information from TPAs and consider prioritizing its distribution of local assistance funds based on the economic benefit these local programs can bring to their areas or regions of the State.

Article 5-A states that TPAs should provide the Division with annual financial statements prepared according to generally accepted accounting principles. However, the Division requires only quarterly and annual expenditure reports from TPAs to document their use of matching funds and that they matched the State aid with local monies. The expenditure reports and the associated detail documentation that accompanies them require a time-consuming review by Division staff, yet provide little data to them about the full scope of local programs. We recommend the Division obtain complete financial statements as required by statute to allow them sufficient information for funding decisions. (See pp. 4-5)

The Division is supposed to review and approve the TPAs' promotion plans and budgets before allocating funds. The Law also specifies that the most local assistance matching funds a county can receive from the State is 5 percent of the total annual appropriation; the least it can receive is $20,000. However, the Division reviews the TPA budgets only to ensure they have plans and local monies sufficient to meet the matching funds requirement. We found that many TPAs may routinely overstate their budgets to increase the awards they receive. For example, almost all TPAs budgeted the maximum allowable for their 1996-97 programs, but 45 of the 50 TPAs reported they spent a total of 30 percent less than they budgeted for the programs. To better ensure it is distributing funds where they can produce the best results, we recommend the Division review historical spending patterns and consider adjusting future payments to TPAs that underspend their approved program budgets. (See pp. 5-7)

The Law strongly encourages regional promotion, and allows up to 30 percent of the total assistance appropriation to be used as a bonus for regional advertising. TPAs with only county-specific programs may compete with, or duplicate, the programs of other counties in the region, resulting in money being spent unnecessarily or unwisely. We recommend the Division identify more effective ways (i.e., incentives) to encourage TPAs to focus on regional campaigns. (See pp. 7-8)

The Law requires that in distributing matching funds, the Division should choose among all competing applications those which provide the greater economic benefit. Performance expectations and a system to measure and evaluate success are needed to effectively monitor the extent to which the matching funds program helps to improve local economies. The Division has not developed program performance standards applicable for local tourism promotion programs. We recommend the Division work with the TPAs to develop performance standards and outcome measures, including measures tailored to specific regions. (See pp. 8-9)

Comments of Department Officials

Department officials agree to take steps to increase regional tourism programs and develop performance measures, but they do not agree that the other program changes we recommend are advisable.

Contents

Introduction

Background

Article 4 of the Economic Development Law (Law) empowers the Department of Economic Development (Department) to plan and conduct a program designed to attract tourists and visitors to New York State, and to encourage and coordinate the efforts of other public and private sector organizations in promoting the State. The Department's Marketing, Advertising and Tourism Division (Division) coordinates the State's tourism efforts. The Division champions New York State as an ideal travel and tourism destination and promotes the "I Love New York" (I♡NY) trademark, an advertising campaign that began in 1977.

The Division divides the State into 11 distinct geographic vacation regions: New York City, Long Island, Hudson Valley, the Catskills, Capital-Saratoga, the Adirondacks, Thousand Islands-Seaway, Central-Leatherstocking, Finger Lakes, Greater Niagara, and Chautauqua-Allegheny. In the 1998-99 fiscal year, the Division budgeted about $11 million for its efforts to promote New York State, including publishing the State Travel Guide, advertising in the media, and participating in various national and international trade shows.

Department statistics show that tourism is New York State's second largest industry, employing more than 700,000 people and generating about $30 billion in 1997 (the latest year such data was available). According to studies performed by Division consultants and other tourism organizations, New York State ranked fourth among the 50 states in terms of total travel dollars spent by U.S. travelers in 1997, and that tourism is increasing in the State. The Department targets its advertising within New York State as well as out-of-State. According to officials, market research studies showed that promotions in Canada, in neighboring states (particularly in the Washington, D.C. to Boston corridor) and among State residents (who might otherwise vacation elsewhere) produce the best results.

Article 5-A of the Law authorizes the Department to administer a matching funds program to assist local tourism promotion agencies (TPAs) — organizations designated by the counties or New York City as the agencies authorized to apply for and receive these local assistance funds. A TPA must be a nonprofit organization, such as a local chamber of commerce, a trade association, or a convention and visitors bureau. The role of the TPA is to plan and execute county and regional programs in coordination with the Division's statewide campaign, and to stimulate tourist travel, cultural activities and convention business to benefit the local economy. There are 50 TPAs in all. The five counties comprising the New York City region and the two counties comprising the Long Island region have each established single TPAs. So have 6 of the 14 counties in the Finger Lakes region and three of the eight counties in the

Central-Leatherstocking region. The remaining 46 TPAs represent individual counties.

The matching funds program is also intended to develop partnerships between the public and private sectors in the tourism industry. In applying for matching funds, a TPA must include a budget for the programs that the funds will support, and indicate the amount of local monies (usually from private businesses) available to pay for the programs. The Legislature appropriated local assistance matching funds of nearly $3.53 million, $4.28 million and $4.28 million, respectively, in the 1996-97, 1997-98 and 1998-99 fiscal years. The Law specifies that the least amount of matching funds any county can receive (provided the TPA can match the amount in local monies) is $20,000; the most any county can receive is 5 percent of the total appropriation. The Law also authorizes the Division to use as much as 30 percent of the total appropriation as bonuses for counties that participate in regional promotions. The Division states the rules and regulations for the program in its Matching Fund Guidelines (Guidelines), and uses the Guidelines in approving funding applications, allocating and distributing program funds, and alerting the TPAs to the local matching requirements.

Audit Scope, Objectives and Methodology

We audited selected aspects of the Department's tourism program for the period January 1, 1996 through November 30, 1998. The objectives of our performance audit were to assess the Department's compliance with Articles 4 and 5-A of the Law and its overall effectiveness in promoting and generating tourism within New York State. To accomplish these objectives, we interviewed Division officials, reviewed and analyzed tourism-related reports, and examined Division Guidelines and practices for allocating local assistance matching funds.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations of the Department which are included within the audit scope. Further, these standards require that we understand the Department's internal control structure and compliance with those laws, rules and regulations that are relevant to the operations which are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach to select activities for audit. We therefore focus our audit efforts on those activities we have identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, we use finite audit resources to identify where and how improvements can be made. We devote little audit effort to reviewing operations that may be relatively efficient or effective. As a result, we prepare our audit reports on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

Response of Department Officials to Audit

A draft copy of this report was provided to Department officials for their review and comment. Their comments have been considered in preparing this report and are included as Appendix B.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Department of Economic Development shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Tourism Promotion Program

We found the Department has carried out the Division-based planning, research and marketing activities specified in Article 4 of the Law for promoting New York State. The Department developed a five-year Master Plan in 1994, which outlined specific goals and objectives. The Department has met the overall goals of that plan, and is now developing a new five-year Master Plan for the period 1999 to 2004. The Department also hires independent advertising firms to guide the Division's marketing strategy (e.g., where to advertise, how to determine the demographics of the target market), and contracts annually with research firms to evaluate both the effectiveness and the economic impact of the State's tourism advertising program. As a result, the Division has made good progress in its efforts to develop and promote tourism at the State-wide level.

We believe the Department can, however, better ensure that localities carry out tourism promotion programs with the greatest economic impact, if it applies some of these same planning and decision-making techniques in its administration of the local assistance matching funds program. The Division has used essentially the same process for managing this program since it began in 1977 when the local matching fund appropriation was only $600,000. We believe it is time for the Division to take a critical look at this program considering the importance of tourism to the State and that the State funding for local tourism programs has more than quadrupled.

The Law does not require that any comprehensive planning and program evaluation be done for local tourism programs, which annually total over $8.5 million ($4.28 in State assistance and at least as much in local matching monies). However, the Law does state that, in distributing matching funds, the Division should choose from among all competing applications those which provide the greater economic benefit. Such prioritization demands both financial and program results information, which the Division does not currently require from the local tourism promotion agencies (TPAs).

Financial Statements

Article 5-A of the Law requires each TPA to provide the Division with annual financial statements prepared according to generally accepted accounting principles. Such financial statements for these nonprofit organizations should show revenue sources, expenditure breakdowns by program, and administrative costs. However, the Division's Guidelines do not require TPAs to submit annual financial statements; instead, they

require only that TPAs submit standard quarterly and annual expenditure reports to document that the TPAs used program matching funds for approved programs and that they at least matched the State aid with local monies. The Division is supposed to include a summary of TPA financial statements in its annual report to the Legislature. However, since it does not receive this information, the Division shows only a summary of local assistance program expenses in the annual report. As a result, the Legislature is not informed about, nor is the Division aware of, the full scope of local tourism efforts in New York State.

Department officials state that, although this financial reporting requirement is in the Law, it was not the Legislature's intent that the TPAs submit complete financial statements, but it instead expected final reports of matching fund activities. They added that the Legislature has never raised concerns over this matter and conclude the Division complies with the Law. Department officials also state that full financial reporting would not likely show the full scope of local tourism efforts because some TPAs are involved in non-tourism activities and there are other tourism organizations which have not been designated as TPAs.

We believe the Division cannot properly analyze the effectiveness of a TPA's advertising and promotion efforts without a complete financial reporting of the TPA's activities and spending. Complete financial reporting would provide a more complete picture of a TPA's actual program activities and financial standing. In current practice, the quarterly expenditure reports provided by the TPAs and the detailed documentation that accompanies them (which sometimes includes invoices and canceled checks), require a time-consuming review by Division staff, but provide insufficient information about the results of program activities. Assuming TPAs submit annual financial statements, a simple certification of their quarterly expenditures may be all the Division needs to ensure the TPAs' spending levels are on target and their programs are progressing as planned. Although Department officials state that the Division has an extensive outreach program at the TPAs, they nonetheless believe this level of documentation is needed for them to assure the integrity of the program.

Program Budgets

The amount of local assistance funds awarded to TPAs is based on their program budgets for authorized tourism advertising and promotion programs. The Division is supposed to approve the TPA-proposed plans, as well as the accompanying budget to carry them out. However, it is Division practice to review the TPA budgets only to ensure the existence of a qualifying advertisement plan and the commitment of local funds sufficient to meet the matching funds requirement. The Division does not

evaluate whether a TPA's total program budget is reasonable based upon its historical expenditure patterns and program initiatives stated in the funding application. We found that most TPAs routinely apply for the maximum grant allowed and many may overstate their budgets to maximize the amount of their local assistance awards.

We compared the TPA local assistance budgets to expenditure reports for the 1996-97 program year. We found that 45 of the 50 TPAs representing 53 of the 62 counties submitted matching fund applications with budgets indicating they intended to spend $176,330 on eligible tourism promotion programs for each county. This was the maximum matching fund award allowable per county for that year (or 5 percent of the $3,526,600 appropriation) and the most a TPA could include in its funding application, according to Division Guidelines. However, the subsequent expenditure reports for 46 of the 50 TPAs showed that the actual total costs to implement the tourism programs for 46 TPAs averaged $125,600 per county or in the aggregate nearly $2.7 million (30 percent) less than the $9.1 million they had budgeted. Conversely, four TPAs reported they spent more then they had budgeted for their tourism programs: the New York City and Long Island TPAs reported having spent more than they budgeted ($55,700 and $92,300, respectively), as did the Schenectady ($13,800) and Franklin ($700) TPAs. The Division, however, does not consider actual expenditures when awarding matching funds.

The same expenditure reports also showed that 28 of the 50 TPAs reported that their program expenses and commitments were within 2 percent of the amount of their actual local assistance award — or just enough to satisfy the local matching fund commitment. However, their program budgets, as submitted to the Division, had anticipated much higher expenses. We conclude that the TPAs either do not report their tourism program expenses beyond the required local match, or that they inflate the budgets they submit in their applications to maximize the local assistance award. The Division does not determine the reasons why TPAs report spending less than they budget for programs; it is optional for TPAs to show expenses outside of the matching fund component.

For comparative purposes, we recalculated 1996-97 local assistance awards using amounts TPAs reported they spent or committed for that year, rather than the amounts they budgeted on funding applications. In this recalculation based on actual expenditures, local assistance funds would have been redistributed from TPAs that reportedly spent much less than their application budgets to those that spent the same as, or more than, what they budgeted for their programs. For example, Washington County TPA received almost $42,000 for 1996-97 based on its budgeted program

costs; if funds were allocated based on reported expenditures, however, this TPA would have received only about $29,000, or about 30 percent less. On the other hand, the Finger Lakes Association TPA, which received over $335,000 in local assistance, would have received over $382,000, or about 14 percent more in local assistance.

Department officials state that the TPAs are not required to fulfill all of the funding commitments which they include in their funding applications; they only need to fulfill that portion of their commitment which the Department matches. It is also optional for TPAs to submit information on tourism programs and expenditures beyond what is actually matched by the Department. However, since the actual awards are substantially less than the original amounts budgeted, it appears that many TPAs overstate their budgets to maximize their award, knowing they will not have to commit the larger amount. The Division should require complete financial reporting and consider adjusting future local assistance awards to TPAs that submit budgets that are not reasonable considering their historical expenditure patterns.

Regional Promotion

While the Law recognizes that TPAs are formed locally and can represent individual counties, it also strongly encourages regional tourism advertising and promotion. There are 50 TPAs in all. The five counties comprising the New York City region and the two counties comprising the Long Island region have each established single TPAs. So have 6 of the 14 counties in the Finger Lakes region and three of the eight counties in the Central-Leatherstocking region. The remaining 46 TPAs represent individual counties. Most of these individual county TPAs spend a majority of their budgets advertising and promoting their own counties, rather than promoting the vacation regions to which they belong. (There are two exceptions: the county TPAs in the Adirondacks and the Chautauqua-Allegheny vacation regions spend a large portion of their budget on regional tourism programs.)

The Law allows as much as 30 percent of the total local assistance appropriation to be used as a bonus for regional tourism promotion. However, only about 18 percent of the 30 percent local assistance funds available for regional tourism bonuses are awarded based on regional program development. Clearly, the regional bonus in itself is not sufficient to encourage most TPAs to work cooperatively.

County TPAs that advertise destinations, activities and events within their individual counties may directly compete with other counties in the same vacation region. There may also be duplication of advertising and promotion efforts, resulting in money being spent unnecessarily or

unwisely. We believe the Division could do more to encourage regional tourism promotion, possibly by prioritizing regional programs, especially when county-specific programs are competing or duplicative. A regional approach to tourism advertising and promotion may also realize economies of scale (e.g., coordinated brochures and publications, Internet sites, etc.) and better exposure for counties with limited resources.

Performance Reporting

The Division has not worked with TPAs to develop program performance standards that are applicable for local tourism advertising programs. If such standards were developed, TPAs could refer to them in planning their programs and in reporting on program achievements, and Division managers could use them to gauge the relative success of local tourism advertising programs. Currently, some TPAs do note certain accomplishments (such as the number of tourism brochures printed) when they report the amount of local assistance funds they received and the amount they spent (including local monies) on authorized tourism programs. However, the Division should encourage measuring and reporting on results-oriented outcomes, such as the number of tourists visiting a specific area, that would provide a more meaningful measure of success in economic terms. Without performance expectations and a system to measure and evaluate success, the Division cannot effectively monitor whether the matching funds program is working to improve local economies.

Further, the Division reports trends in statewide tourism-related statistics, such as the hotel occupancy rates, travel expenditures, etc. However, it does not routinely accumulate tourism-related statistics at the county or regional level. We believe knowledge of these local and regional trends would help the Division assess the extent to which local tourism funding is achieving the desired economic impacts. We also believe certain outcome measures should be tailored to individual vacation regions. For example, while hotel occupancy may be a good tourism indicator in city areas, such as the New York City vacation region, it may not be a good tourism indicator in rural areas, such as the Adirondacks vacation region, because there are fewer hotels in that region. Department officials state that relevant statistics are not available to assess the impact of tourism promotion on a county or regional basis. However, they added that they will take steps to develop and implement relevant performance measures. To enhance accountability for the results of tourism promotion statewide and to improve individual local programs' effectiveness, the Division should:

- Require TPAs to submit complete financial statements, as required by Law.

- Require TPAs to submit program budgets that show total program costs.

- Reevaluate the formula for allocating matching funds to TPAs.

- Encourage the development of regional promotion programs.

- Develop additional program performance standards with meaningful outcome measures.

Recommendations

1. Require that TPAs submit annual financial statements to the Division that are in accordance with generally accepted accounting principles, as required by Law. Compile TPA financial statements and present appropriate summary information in the Division report to the Legislature.

   (Department officials state they do not believe that annual financial statements would necessarily provide a more comprehensive picture of a TPA's tourism program. They will, however, now require that TPAs provide information regarding all expenditures and programs for tourism promotion beyond the amount of the match.)

2. Determine what level of detail expenditure documentation TPAs must submit quarterly to allow the Division sufficient information for oversight and funding decisions.

   (Department officials indicate that the current level of detail provided by the TPAs is sufficient to effectively monitor their use of matching funds.)

3. Reevaluate the methodology for allocating matching funds to TPAs to ensure a more equitable distribution of program appropriations:

   - Require TPAs to submit reasonable program budgets.

Recommendations (Cont'd)

- Review the TPAs' historical spending patterns and consider adjusting future local assistance payments to TPAs that consistently and significantly overstate their budgets.

- Identify more effective ways (i.e., incentives) to encourage TPAs to focus on regional campaigns.

(Department officials indicate that they recognize the benefits of regional advertising and programming and will consider the recommendation provided. However, they also indicate that it is their opinion TPAs submit reasonable budgets; and they have assurances that if TPAs receive the total award they apply for, the budgeted matching funds would actually be available.

Auditors' Comments: Based on our review, it appears that many TBAs overstate their budgets to maximize the award, knowing that the actual awards they will have to match will be substantially less. One TPA official stated he would prefer a "more realistic grant request process vs. the overbudgeting we must do now. It scares our businesses at commitment letter time and we have to spend time explaining the process.")

4. Work with TPAs to develop performance standards and indicators; use and report program outcomes to monitor the success of individual and statewide tourism promotion efforts.

(Department officials agree that, in line with available resources, additional performance measures will be developed and implemented.)

Major Contributors to This Report

Frank J. Houston
Dominick B. Vanacore
Roger C. Mazula
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Aurora Caamano
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Empire State Development

Charles A. Gargano
Commissioner

September 9, 1999

Mr. Frank J. Houston
Audit Director
Office of the State Comptroller
Division of Management, Audit & State Financial Services
270 Broadway, 19th floor
New York, NY 10007

Dear Mr. Houston:

Thank you for your letter of August 11, 1999 together with the Office of the State Comptroller's (OSC) draft audit report (98-S-42) on Empire State Development's tourism promotion programs.

Attached is Empire State Development's response to your draft audit, to be included with your final report.

We thank you for your review of our program.

Sincerely,

Charles A. Gargano

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Empire State Development

EMPIRE STATE DEVELOPMENT

Response to the Office of the State Comptroller's Draft Audit Report (98-S-42)

On the State Tourism Promotion Program

The Department is pleased that OSC's audit of our tourism promotion program concluded that the Department has complied with Article 4 of the New York State Economic Development Law (the "EDL" or "law"), as well as "made good progress in its efforts to develop and promote tourism at the State –wide level." We champion New York as a preeminent multi-seasonal tourism destination. Our "I Love New York" campaign has helped the tourism industry expand in the State. This is evidenced by annual increases over the past several years in tourism employment, travel expenditure, hotel occupancy and the number of travelers to New York State.

According to the most recent statistics, New York State ranks third in the nation in both travel expenditures and hotel occupancy (71% in 1998). In addition, a May 1999 report by the US Commerce Department on international travel to the US showed New York State holding 22.3 percent market share in 1998, up from 21.8 percent in 1997, ranking us third in the nation. New York was the only state in the top five to show a gain in 1998 over 1997.

The majority of the preliminary findings and recommendations of OSC's audit pertain to the Department's administration of the "New York State Tourist Promotion Act," commonly known as the Matching Funds Program. The Department has carefully reviewed the analysis and recommendations of OSC insofar as they relate to the program. Before addressing the specific recommendations outlined in your draft audit, it is critical to recognize that the program is, for all practical purposes, an "aid to localities" measure mandated by the New York State Legislature. The Department is charged with carrying out the legislative intent and mandates as defined by the Law. Additionally, the program appears in the State Budget as a separate line item from the "I Love New York" program.

The Department's position is that local knowledge and initiative should drive local tourism promotion. It appears that OSC has recommended a series of small steps that cumulatively amount to micro-management by State Government. This will destroy the very local initiative that the program is designed to foster.

Empire State Development Corporation
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Financial Statements:

At the outset, the Department recognizes that the language of the EDL requires that we obtain from TPAs an "annual financial statement" prepared "in accordance with generally accepted accounting principles." However, the Department has historically never required such a financial statement, but has required a final report in line with the interim quarterly reports required under the Matching Funds Guidelines. It is the Department's position that the legislative intent of the requirement is not for TPAs to literally provide an annual financial statement in accordance with generally accepted accounting principles, but that the TPAs provide a final report on their activities under the Matching Funds Program.

It is important to note that, as required by section 166 of the EDL, the Department annually submits a report on the activities of the program to the Governor and the Legislature. The information provided by the TPAs in their final reports is incorporated into the Department's report. Additionally, the annual matching funds guidelines, which do not require the submission of an annual financial statement prepared in accordance with generally accepted accounting principles, are included in the report. The matter of requiring such financial statements has never been raised by the Legislature. The Department believes that the report to the Legislature provides a sufficiently comprehensive and detailed picture on the scope of local tourism efforts in the State. The Legislature of course can always request additional information and clarifications. However, the Legislature has seen fit to limit its informational requirements to the level at which it is currently being provided.

In its audit, OSC overstates the value of annual financial statements from individual TPAs as a tool for analyzing the scope and effectiveness of local tourism promotion.

For example, the organizations that are designated as TPAs in most, if not all, cases serve other functions as well. This is clearly the case for chambers of commerce, tourism associations, convention and visitor's bureaus, and county tourism offices. Therefore, the preponderance of data that the full financial statements will contain is unlikely to be relevant to tourism matters. Moreover, financial statements, by their very nature, do not permit the kind of program evaluation that OSC contemplates.

The Department has always believed that the quarterly and final reports submitted by the TPAs, as well as the supporting documentation provided for all matching funds expenditures, provide us with comprehensive and valuable information, which fulfills the intent and scope of the financial reporting requirements of the Tourist Promotion Act. The TPAs must and do show the sources of the commitments they make in the applications submitted and again show those sources when they are awarded their grants. We are therefore able to ensure that the TPAs have fully complied with the other fiscal requirements of the program, and have not used other State funds as part of their local matching share.

Annual financial statements from the TPAs would not necessarily provide the Department with a more comprehensive picture of the overall tourism program in any particular county or region. These financial statements would not of course reflect the scope of all *other* tourism efforts in a particular county or region. For example, in the case of the City of New York, while the Convention and Visitors Bureau ("CVB") is the designated TPA, it is not the only entity engaged in tourism promotion and related marketing in the five boroughs. There are many other organizations (public and private) engaged in this endeavor. Therefore, even with a complete annual financial statement from the CVB, one would not obtain a comprehensive picture of tourism promotion in the City of New York.

OSC's assertion that "the Division cannot properly analyze the effectiveness of a TPA's advertising and promotion efforts without a complete financial reporting of the TPA's activities and spending" is false. Because the Department's role goes well beyond simply administering the matching funds program, we are well-positioned to evaluate TPA activities and spending. Although our primary responsibility with regard to tourism is to market New York in its entirety and create a strong and exciting overall image for the State as a preeminent travel and tourism destination, we also work with the TPAs to improve the economic health of the individual counties and regions. It is important to note that we regard the TPAs as experts on their local areas, and fully cognizant of specific, local needs. However, the Department has an extensive program of outreach to the individual counties and regions, and provides comprehensive programmatic and technical support. This is evidenced for example by regular meetings with the TPAs, cooperative tradeshow and advertising programs, the Department's hospitality program, and our centralized database system and applicable technical support. It is this comprehensive outreach that allows the Department to better coordinate local tourism efforts and to identify TPAs who might need technical assistance. We believe that this hands-on interaction, together with the reporting requirements presently in place under the matching funds guidelines, provide the Department with detailed and valuable information concerning the TPAs. However, to the extent that the Department would benefit from obtaining information on tourism promotion engaged in by a TPA above and beyond the Matching Funds Program, the Department will require in the next applicable Matching Funds Program year, that the TPAs in their final reports provide information regarding all expenditures and programs for tourism promotion beyond the amount of the match.

Program Budgets:

Your analysis and findings concerning program budgets reveal a serious misunderstanding of the budget process. There is a distinct difference between the program budget as submitted by a TPA in its application and the program budget which the TPA is then obligated to fulfill as part of the Department's match.

As part of the application process, the TPAs submit proposed advertising plans and initiatives as well as program budgets for their implementation. The Department recognizes that the TPAs also submit proposed plans and budgets that maximize the share of Matching Funds they can receive. However, at the time of application, the TPAs must document and certify that the local share stated for matching purposes is available. This is done through letters of intent from private and local government entities attesting to their commitment of funds subject to the match and their willingness to participate. This assures us that if they were to receive the total amount they applied for, then those resources would actually be available to match. It is important to note that under the law and the Matching Funds Guidelines, the "commitment" made by a TPA in its initial application is not the same "commitment" it is then obligated to fulfill. The TPA is only obligated to fulfill that portion of its initial application "commitment" which is actually matched by the Department. Since the actual grant awards are substantially less than the original amounts requested, the programs are amended to reflect the amount of money each TPA will collect for its share of the match. This does not, however, change the viability and effectiveness of the portions of the advertising plans that are actually matched. These portions have been approved by the Department during the application process as part of the overall program. The Department believes that this process allows us to effectively evaluate those elements of the program which are funded through matching funds, as is our responsibility under the law.

In its review of the 1996-97 program year, OSC compared budget plans submitted by the TPAs in their applications with their reported expenditures. OSC recalculated local assistance using the Department's funding formula, but instead of using the TPA budgets from the funding applications, they used the "amounts TPAs reported they spent or committed for that year." The audit states that "(i)n this recalculation based on actual expenditures, local assistance funds would have been redistributed from TPAs that reportedly spent much less than their application budgets to those that spent the same as, or more than, what they budgeted for their programs." The Department questions the validity of this audit finding. The comparison by OSC includes counties that chose to report all of their tourism expenditures versus those counties that only reported their matching funds expenditures as required by the guidelines. It is currently optional for TPAs to submit information on tourism programs and expenditures beyond what is actually matched by the Department. Because not all TPAs necessarily reported the full and complete scope of their tourism expenditures beyond what the Department matched, the comparison, and therefore the recalculation, cannot be accurate.

The recommendation that the "Division should consider adjusting future local assistance awards to TPAs that considerably underspend their authorized budgets", again reflects OSC's confusion over the obligation of a TPA to fulfill the matched portion of, as opposed to, the entire program budget in its application. As OSC's analysis is based upon the faulty premise that a TPA is somehow obligated to fulfill the entire program budget in its application, OSC's analysis is inherently flawed.

Regional Promotion:

With regard to OSC's comments on regional promotion, we agree that the EDL strongly encourages regional tourism advertising and promotion. However, the law does not mandate promotion of regions over counties. As previously discussed, the Matching Funds Program is an "aid-to-localities" measure of the Legislature. The Department does strongly encourage regional promotion. However, based upon applications received, TPAs can and do apply for more of a local, as opposed to a regional, match. A hallmark of the program is its flexibility, whereby a county can determine the extent to which regional participation will aid its overall economic development efforts. This is important because all areas within a particular region are not equal in attractions, facilities or targeted market segments. If there is a need to further regional marketing, it should not be at the expense of counties which have their own unique attractions. Maintaining the role of the county, which is the level of government responsible for selecting TPAs, in making such decisions of local importance, is consistent with the mandates of the Matching Funds Program. Though the TPAs may, in a sense, "compete" with one another to attract visitors to their specific counties, the overall effect is positive in that the individual promotions all attract visitors to the State and its regions. This said, we agree with OSC that more needs to be done with regional tourism promotion, and we will strongly consider the recommendations provided.

Performance Reporting:

With regard to your analysis and findings concerning Performance Reporting, while it is the desire of the Department to have standardized performance levels, the data needed to achieve them is all but impossible to obtain. This is largely because the New York State Labor and Tax and Finance Departments, as well as agencies at the Federal level, each with its own unique system, do not have in place a uniform, compatible and satisfactory code system for ascertaining tourism industry economic data. Without such a system in place, it is extremely difficult to determine the impact a tourism promotion effort has on any county or region.

It is the Department's belief that it would be cost prohibitive to require each county or region to provide the research necessary to ascertain and measure, county by county, 100% accurate performance. Most of their marketing dollars would be absorbed in this effort. It is important to recognize that each TPA is the marketing expert on the needs of its individual county or region. While we look to assist TPAs to succeed, we also look to them to choose the marketing approach that their county deems best. The Division makes recommendations and encourages various marketing concepts, which are reflected within the Matching Funds Guidelines. However, the program was set up as an extended county and regional marketing incentive to afford areas the opportunity to market in ways that they would not be able to achieve with their own operational budgets. Having said this, the Department agrees that, in line with available resources, some additional performance measures should be developed and implemented. We will do so in the next applicable Matching Funds Program year.

OSC contends that "without…a system to measure and evaluate success, the Division cannot effectively monitor whether the matching funds program is working to improve local economies." The fact of the matter is that – as OSC themselves have recognized -- travel and tourism into New York State has significantly increased over the last several years (as measured by hotel occupancy, visitor expenditure, and employment). Certainly, the matching funds program can claim some credit for this growth in travel and tourism.

Response to Recommendation No. 1:

As previously discussed, with regard to reporting by TPAs and the Department, it is the position of the Department that we are in compliance with the statute. However, to the extent that the Department would benefit from obtaining information on tourism promotion engaged in by a TPA above and beyond the Matching Funds Program, the Department will require, in the next applicable Matching Funds Program year, that the TPAs, in their final reports, provide the Department with information regarding all expenditures and programs for tourism promotion beyond the amount of the match.

Response to Recommendation No. 2:

The Department believes that the quarterly reporting information now provided by TPAs is needed in order to effectively monitor their use of Matching Funds and to ensure that Matching Funds program requirements are being met. The quarterly reporting also allows the Department to identify areas in programming which may benefit from direction or assistance from the Department to ensure success. The data provided the Department during the quarterly reporting process also allows for the detection of most errors or omissions prior to the closing of State or local fiscal periods.

Response to Recommendation No. 3:

Concerning the methodology for allocating matching funds, the Department notes that the formula used for the program has been utilized since the inception of the program, based upon the percentages dictated by law. The program was designed to be applied equally to all counties and to market county and regional efforts as the TPAs deemed necessary for their geographical areas. The program was not designed by the Legislature for the Department to afford one county a greater opportunity for funding than another. Under the program there exists an equitable distribution of appropriations.

For the reasons previously discussed, the Department believes that program budgets submitted by TPAs accurately reflect the intentions of the TPA, subject to overall program funding availability. In addition, the Department during the application process approves the program plans actually carried out by the TPAs.

With reference to adjusting future local assistance payments to TPAs, please see the Department's discussion under "Program Budgets" herein. It is our belief that OSC's analysis reflects OSC's confusion over the obligation of a TPA to fulfill the matched portion of, as opposed to, the entire program budget in its application. As OSC's analysis is based upon the faulty premise that a TPA is somehow obligated to fulfill the entire program budget in its application, OSC's analysis is inherently flawed.

Within the context of the discussion above, the Department recognizes the benefits of regional advertising and programming and has taken concrete steps to encourage regional marketing. The Department will encourage TPAs to apply more of their Matching Funds dollars towards the regions.

Response to Recommendation No. 4:

Within the context of the discussion above, the Department agrees that, in line with available resources, additional performance measures should be developed and implemented, and will do so in the next applicable Matching Funds Program year.

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