

**OKLAHOMA TOURISM AND
RECREATION DEPARTMENT**

MULTICOUNTY ORGANIZATIONS

PERFORMANCE AUDIT

JULY 1, 2002 THROUGH JUNE 30, 2003



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

March 22, 2005

Robb Gray, Executive Director
Oklahoma Tourism and Recreation Department
15 N. Robinson, Suite 100
Oklahoma City, OK 73102

Transmitted herewith is the performance audit over multicounty organizations of the Oklahoma Tourism and Recreation Department for the period July 1, 2002, through June 30, 2003. The procedures we performed were at the request of the Executive Director and in accordance with 74 O.S. 2001, § 1852.1 B. and 74 O.S. 2001, § 213.2.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of the engagement.

The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and issuing reports that serve as a management tool to the state to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in blue ink that reads "Jeff A. McMahan".

JEFF A. McMAHAN
State Auditor and Inspector

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OKLAHOMA TOURISM AND RECREATION DEPARTMENT

MULTICOUNTY ORGANIZATIONS PERFORMANCE AUDIT

Audit Summary



JEFF A. McMAHAN, CFE

OFFICE OF THE STATE
AUDITOR & INSPECTOR

Why the audit was performed

This performance audit was conducted pursuant to 74 O.S. 2001, § 1852.1 B., 74 O.S. 2001, § 213.2, and at the request of the Executive Director of the Oklahoma Tourism and Recreation Department.

The objectives of the audit were:

1. Determine if the structure (number and location) of the multicounty organizations (MCO) is situated to provide effective and efficient promotion of the multi-county regions.
2. Determine if the marketing plans (including review of the performance measures) and the independent audits of the MCOs are providing relevant information to OTRD management.
3. Determine if the allocation and reimbursement of matching funds is operating in an effective and efficient manner.

- Overall, the program appears worthy with positive objectives and accomplishments.
- The current number and locations of MCOs appears reasonable since all represent tourism attributes of the state. – page 9
- Administrative costs appear high and somewhat redundant. We recommend reducing administrative costs which should further enhance the promotional activities of the program - page 9
- Oklahoma Administrative Code (OAC) 725:20-7-9 should be revised to reflect the updated guidance of *Government Auditing Standards*. – page 11
- The Oklahoma Tourism and Recreation Department (OTRD) should continue to require each MCO to submit a marketing plan and independent audit. – page 11
- The “three year average of allowable expenditures” is a reasonable method for determining the allocation of funds to each MCO. – page 13
- OTRD should conduct training sessions specifically related to marketing/promotion on a semi-annual or annual basis with management of the MCOs. - page 14

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BACKGROUND

Established under 74 O.S. 2001, § 1830, a multicounty organization (MCO) is a non-profit organization whose primary purpose is to promote the tourism attributes of a multiple-county region. They must be identified as a tourism “country” or “lake” area. There are currently 18 MCOs.

- Arbuckle Mountain Area
- Eufaula Lake Association
- Fort Gibson Lake Association
- Frontier Country
- Grand Lake Association
- Great Salt Plains Association
- Great Plains Country
- Green Country
- Hudson Lake Association
- Kaw Lake Association
- Keystone Lake Association
- Kiamichi Country
- Lake and Trail Country
- Oklahoma Route 66 Association
- Red Carpet Country
- Tenkiller Lake Association
- Texoma Lake Association
- Upper McClellan – Kerr Association

Funds appropriated by the Legislature to the Oklahoma Tourism and Recreation Department (OTRD) are allocated to the MCOs who have submitted an acceptable marketing plan and certified audit to OTRD per Oklahoma Administrative Code (OAC) 725: 20-7-4 (a). The MCO requests reimbursement (a match) from OTRD for allowable administrative and promotional expenditures up to their allocated amount. The amount allocated is based on 100% of the average amount expended for administration and promotion over the three most recent fiscal years regardless of whether the expenditures were reimbursed.

SCOPE

This audit was conducted pursuant to 74 O.S. 2001, § 1852.1 B. and 74 O.S. 2001, § 213.2 and was performed in accordance with generally accepted *Government Auditing Standards*. The audit period is July 1, 2002 through June 30, 2003.

OBJECTIVES

We identified the following as our objectives:

- I. Determine if the structure (number and location) of the MCOs is situated to provide effective and efficient promotion of the multi-county regions.
- II. Determine if the marketing plans (including review of the performance measures) and the independent audits of the MCOs are providing relevant information to OTRD management.
- III. Determine if the allocation and reimbursement of matching funds is operating in an effective and efficient manner.

OBSERVATIONS AND RECOMMENDATIONS

1. Determine if the structure (number and location) of the MCOs is situated to provide effective and efficient promotion of the multi-county regions.

METHODOLOGY

The following procedures were performed:

- We researched 74 O.S. 2001. § 1830 and OAC 725: 20-7-1 through 20-7-9 regarding MCOs.
- We held discussions with OTRD staff regarding the process of becoming an MCO.
- We obtained the fiscal year 2003 independent auditor's report for each MCO.
- We sent a survey to each MCO which included questions related to duplication of effort between MCOs.
- We visited five judgmentally selected MCOs (Frontier Country, Great Salt Plains Lake Association, Arbuckle Mountain Area, Green Country, and Tenkiller Lake Association) to discuss their responses to our survey questions and observe their operations.

OBSERVATIONS

What is the process for becoming an MCO?

We discussed the process for becoming an MCO with OTRD personnel and the following was noted:

- Prior to July 1, 2001, the organization must have been a non-profit association registered with the Secretary of State, comprised of more than one county area, governed by a board of annually elected directors, and have established administrative and promotional policies.

If an organization met the above requirements, they then must do the following to be allocated matching funds:

- Submit an acceptable marketing plan
- Submit a certified audit for the previous fiscal year

OTRD personnel stated there has never been any concern about duplication of efforts nor evaluation of promotion of different areas. However in 2001, 74 O.S. 2001, § 1830 A. 1 a. was revised to read "...multicounty organization shall mean a non profit organization which satisfies the following requirements...promote tourism attributes of a multiple county region...

and participating in the matching funds program on July 1, 2001..." This appears to be OTRD's solution for controlling the number of MCOs in the state because if you were not an MCO before this date, you could not become one. Prior to July 2001, it appears OTRD did not consider the need for promotion (is



Bricktown in Oklahoma City - Frontier Country

there anything to promote in this area and/or is there someone already promoting it) in certain areas before allowing an MCO to organize.

Where are the MCOs located?

There are 18 MCOs promoting the tourism attributes of Oklahoma.

The state is divided into six “countries” that promote, on average, 13 counties. Within these “countries” are 12 additional MCOs that promote more specific tourism attributes such as lakes. A map detailing the locations of all MCOs can be seen in Appendix A of this report.

While observing the locations on the map discussed above, the following was noted:

- Lake and Trail Country, which includes 10 counties in south central Oklahoma has one lake association (Texoma Lake Association) and one other association (Arbuckle Mountain Association) within its borders.
- Kiamichi Country, which includes 7 counties in southeastern Oklahoma, has a portion of one lake association (Eufaula Lake Association) within its borders.
- Red Carpet Country, which includes 16 counties in northwestern Oklahoma, has one association (Great Salt Plains Association) and a portion of a lake association (Kaw Lake Association) within its borders.
- Great Plains Country, which includes 14 counties in southwestern Oklahoma, has a portion of one association (Oklahoma Route 66 Association) within its borders.
- Frontier Country, which includes 12 counties in central Oklahoma, has a portion of one association (Oklahoma Route 66 Association) within its borders.
- Green Country, which includes 18 counties in northeastern Oklahoma, has six lake associations (Grand Lake Association, Hudson Lake Association, Keystone Lake Association, Ft. Gibson Lake Association, Tenkiller Lake Association, and Upper McClellan-Kerr Association) and a portion of three other associations (Eufaula Lake Association, Kaw Lake Association and the Oklahoma Route 66 Association) within its borders.



Seminary Hall on the campus of Northeastern State University in Tahlequah – Green Country

Are promotional efforts being duplicated?

When considering the geographical locations of the MCOs, it appears several may be duplicating the promotional efforts (promoting the same attractions) of other MCOs. As part of a survey sent to each MCO, the following was noted:

Table 1 – Summary of responses to the question “Do you feel the marketing efforts of your organization are being duplicated by another MCO in close proximity to you?”	
	# of Responses
Yes	6
No	12
Total	18

SOURCE: MCOs response to surveys and auditor analysis

The survey suggests 1/3 feel there is a duplication of effort; however; only three of the six felt the duplication had a negative impact on their promotional efforts.

Merriam-Webster Online Dictionary at www.m-w.com defines promote as “to contribute to the growth or prosperity of.” 74 O.S. 2001, § 1830 states the purpose of the MCO is to “promote” the tourism attributes of a region; it would appear duplicating promotional efforts on the same attractions may not necessarily be ineffective. We realize that MCOs representing more specific regions than those covering a multi-county area may be promoting the same attribute as a larger MCO, but it appears the more information brought to the public regarding the state’s tourism assets, the more effective it is for the overall mission of the program. Additionally, MCOs promoting specific lakes or areas may have additional insight into their region that MCOs representing a larger territory may not have.

Are administrative costs being duplicated?

OAC 725:20-7-6 (a) and (b) states “(a) Administrative expenditures are made by a MCO for the administration of fund raising to accomplish the association’s tourism promotion objectives. (b) Reimbursement of matching funds for administrative expenditures by an MCO shall not exceed forty percent (40%) of the total expenditures reimbursed with matching funds.”



Lake Eufaula-Eufaula Lake Association

The following table illustrates the amount of funds reimbursed to each MCO for allowable administrative expenditures:

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Table 2 – Schedule of Administrative Reimbursements

MCO	FY 03 Allocation	Administrative reimbursement FY 03	Percent of allocation for administration	Region of state
Lake & Trail Country	9,889	3,956	40%	S. Central Oklahoma
Texoma Lake	85,838	14,106	16%	S. Central Oklahoma
Arbuckle Mountain	29,742	4,194	14%	S. Central Oklahoma
Keystone Lake	14,649	5,824	40%	NE Oklahoma
Tenkiller Lake	46,238	17,449	38%	NE Oklahoma
Grand Lake	129,934	47,213	36%	NE Oklahoma
Green Country	198,402	53,156	27%	NE Oklahoma
Eufaula Lake	68,526	17,379	25%	NE Oklahoma
Hudson Lake	6,917	1,500	22%	NE Oklahoma
Upper McClellan - Kerr	8,429	1,257	15%	NE Oklahoma
Ft. Gibson Lake	1,211	0	0%	NE Oklahoma
Great Salt Plains	11,141	2,853	26%	NW Oklahoma
Red Carpet Country	93,210	16,423	18%	NW Oklahoma
Kaw Lake	38,191	5,178	14%	NW Oklahoma
Great Plains Country	55,669	10,980	20%	SW Oklahoma
OK Route 66	10,812	0	0%	NE, Central, & SW Oklahoma
Kiamichi Country	39,366	15,746	40%	SE Oklahoma
Frontier Country	258,438	102,764	40%	Central Oklahoma
Total	1,106,602	319,978	28%	

SOURCE: Allocation amounts and administrative reimbursement provided by OTRD personnel.

As discussed earlier, duplication of effort related to promotion allows the tourism attributes of Oklahoma to possibly reach a wider target market. However, as demonstrated in table 2 above, the duplication of administrative costs appears to be an inefficient and ineffective use of resources. The 40% cap on administrative costs appears high as does the average administrative allocation for all MCOs at 28%. These percentages are significant when we consider that promotion is the true mission of the program.

Duplication of administrative costs appears to be an inefficient and ineffective use of resources.

RECOMMENDATION

The current number and locations of the MCOs appears reasonable since they all represent tourism attributes of the state; however, OTRD may wish to consider restructuring the overall amount available for allowable administrative costs as well as limiting administrative matches to certain MCOs that are promoting the same tourism attributes. This would ensure the limited funds available for promotion are used in the most efficient manner possible.

While a certain amount of administrative costs are necessary, we recommend OTRD explore options to modify the statutory requirement in turn reducing administrative costs especially where redundant. This would allow more funding to be spent on promotional activities, which is the stated objective of the

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program. We believe that a cap on administrative costs in the 10% to 20% range would be reasonable.

**MANAGEMENT'S
RESPONSE**

OTRD agrees with the recommendation that there appears to be administrative overlap, and a long-range goal might be to consider administration-sharing between MCOs. OTRD pledges to work with those organizations to identify potential partnerships and methods for MCOs that might reduce administration costs, thus making more money available for marketing programs.

II. Determine if the marketing plans (including review of the performance measures) and the independent audits of the MCOs are providing relevant information to OTRD management.

METHODOLOGY

The following procedures were performed:

- We requested and obtained all marketing plans submitted to OTRD for the audit period.
- We requested and obtained all independent audits submitted to OTRD for the audit period.
- We asked management of each MCO to discuss the usefulness of the required marketing plans.
- We researched OAC 725:20-7-3 and 725:20-7-9 requiring each MCO to submit a tourism marketing plan and an independent audit to be eligible for matching funds.

OBSERVATIONS

What is a marketing plan, and is it necessary?

OAC 725:20-7-3 requires each MCO to submit a tourism marketing plan to OTRD each fiscal year that includes:

- The multicounty region of the state the MCO represents
- The tourism attributes of the region
- The target market and the method of communication to reach them
- A budget specifying the projected costs of each method of promotion
- Evaluative measures used to gauge whether a promotion effort reached the intended target market and how many inquiries to the MCO was a result of the promotion effort
- Plans on how the MCO will attract tourists to their region



Turner Falls in Davis - Arkansas Mtn. Association

We obtained the marketing plans for each MCO and performed tests to ensure they included the elements specified above. All plans were complete with the exception of five MCOs which did not include evaluative measures. OTRD personnel stated the intent of the performance measures is for the MCO to assess the results of their measures over time and strive for improvement which could lead to increased allocations. Funding to these MCOs was not reduced or eliminated as a result of not providing the required information in their plan. OTRD states they primarily use the marketing plans as a way of knowing the

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MCO's participation at travel shows, as well as having an idea of the amount and type of materials provided to tourism information centers for distribution.

We asked management from each MCO if they felt it was necessary for them to prepare marketing plans as required by OTRD. Of the 14 that responded, 11 stated the plans were helpful and required them to have a plan of action and stay focused on the objectives of the program.

Are the independent audit reports necessary?

OAC 725:20-7-9 requires each MCO to submit a financial related audit as defined by *Government Auditing Standards* each fiscal year to OTRD. The audit shall be performed by a public accountant or certified public accountant registered with the Oklahoma Accountancy Board.

The OTRD allocates funds appropriated by the Legislature to each MCO based on 100% of the average amount expended for administration and promotion over the three most recent fiscal years regardless of whether the expenditures were reimbursed. These amounts are taken from the independent audits. One of the required facets of these audits is the identification of allowable and discretionary (non-matchable) expenditures. OTRD management uses the allowable expenditures as a cap for reimbursement if this total is less than the amount allocated to the MCO.

RECOMMENDATION

The independent audits are necessary and should be a continued requirement of this program; however, as mentioned above, OAC 725:20-7-9 requires each MCO to submit a financial related audit as defined by *Government Auditing Standards* each fiscal year to OTRD. *Government Auditing Standards* was revised for periods ending on or after January 1, 2004, and the term "financial related" audit is no longer relevant. OTRD should revise OAC 725:20-7-9 (a) to include the updated guidance of *Government Auditing Standards* and include language requiring the public accountant or certified public accountant to be registered with the Oklahoma Accountancy Board to perform audits of governmental entities.



Great Salt Plains Lake - Great Salt Plains Association

While a few of the marketing plans appear vague, OTRD should continue to require each MCO to submit them since it keeps OTRD informed of each MCO's efforts. In addition, the plans are useful to the MCOs in that they provide a guide in their mission of promoting their specific tourism attractions.

**MANAGEMENT'S
RESPONSE**

We agree and we will implement the specified recommendations.

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III. Determine if the allocation and reimbursement of matching funds is operating in an effective and efficient manner.

METHODOLOGY

The following procedures were performed:

- We requested and obtained a schedule of allocations to each MCO for the audit period.
- We requested and obtained all independent audits submitted to OTRD for the audit period.
- We researched OAC 725:20-7-4 regarding the allocation of matching funds to MCOs.
- We sent a survey to each MCO which included questions regarding their opinion on the current allocation method.

OBSERVATIONS

As discussed earlier in the background section and Objective II, funds appropriated by the Legislature to OTRD are allocated to the MCOs who have submitted an acceptable marketing plan and certified audit per OAC 725: 20-7-3 and 20-7-9. The MCO requests reimbursement from OTRD for allowable administrative and promotional expenditures up to their allocated amount. The amount allocated is based on 100% of the average amount expended for administration and promotion over the three most recent fiscal years regardless of whether the expenditures were reimbursed. The following table details the allocated amounts and the allowable expenditures for each MCO:

Table 3 – Schedule of allocation amounts and allowable expenditures		
MCO	FY 03 Allocation	Allowable Expenditures Incurred per FY 03 Audit
Frontier Country	258,438	259,659
Green Country	198,402	197,228
Grand Lake Association	129,934	129,934
Red Carpet Country	93,210	93,211
Texoma Lake Assoc.	85,838	203,318
Eufaula Lake Assoc.	68,526	93,493
Great Plains Country	55,669	55,339
Tenkiller Lake Assoc.	46,238	59,522
Kiamichi Country	39,366	21,702
Kaw Lake Assoc.	38,191	38,191
Arbuckle Mtn. Area	29,742	18,570
Keystone Lake Assoc.	14,649	14,649
Great Salt Plains Assoc.	11,141	11,141
OK Route 66 Assoc.	10,812	10,812
Lake & Trail Country	9,889	21,056
Upper McClellan-Kerr Association	8,429	9,398
Hudson Lake Assoc.	6,917	12,794
Ft. Gibson Lake Assoc.	1,211	7,597
TOTAL	1,106,602	1,257,614

SOURCE: OTRD personnel and FY 03 independent audits

As table 3 generally indicates, the MCOs with greater allowable expenditures receive a larger allocation. Five of the MCOs feel this allocation method is unfair and caters to the larger MCOs who have a larger revenue base.

Possible alternatives to this method as proposed by these specific MCOs include:

- Funds would be allocated on a sliding scale. For example, if the organization raised and expended \$10,000, they would receive a 15,000 (150%) match, if they raised and expended \$20,000, they would receive a 28,000 match (140%), etc. The scale would be capped at \$250,000 which would receive a \$182,500 (73%) match.
- Each MCO would receive an equal amount to be used for administration and promotion (example \$10,000) and then the 3 year average would be used to allocate the remaining balance.
- Establish a minimum allocation for each MCO based on the number of advertisements, events listed, attractions, etc. in their publication. Also, a maximum allocation amount for each MCO should be established.
- The funds should be divided equally or use figures from tourism related tax revenue to determine how the funds should be distributed. The lower tax receipt areas would receive most of the help.

The three year average of allowable expenditures appears to be a reasonable method for determining the allocation amounts.

It appears awarding additional funds to MCOs that do not have a great deal of allowable expenditures may allow certain MCOs to produce additional publications and/or start/increase a salary for employees; however, it would not necessarily aid the program in meeting its mission in a more effective manner.

RECOMMENDATION

The present method of using a three year average is reasonable and should be continued.

MANAGEMENT'S RESPONSE

The funding formula for the program has been based on the methodology used and agreed to by the participating MCO members. We feel it is a way to reward those organizations who have successfully leveraged private funds. The Department, however, recognizes that those organizations with the greatest need for funding are often the ones who do not benefit from this formula. The fewer dollars they receive, the greater challenge they maintain in effectively marketing their respective areas. Perhaps greater policy review is warranted in determining the number of organizations in the program and the allocation of matching funds.

Other Items Noted

OBSERVATIONS

We asked management of each MCO if OTRD had provided any type of training related to marketing/promotion. Of the 14 that responded, eight stated that no specific training has been provided but they would like for OTRD to begin offering training in this area.

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RECOMMENDATION We recommend OTRD conduct training sessions related to specific marketing/promotion techniques on a semi-annual or annual basis with management of the MCOs. This should ensure they have been provided with the most current methods of marketing/promoting their tourism attributes in an effective and efficient manner and should further enhance the program.

MANAGEMENT'S RESPONSE We appreciate the observation that OTRD should help develop more training opportunities for MCO personnel, as it relates to marketing program(s) development. Currently, there are two educational events each year, in which MCOs participate to varying degrees. Those include the annual Governor's Conference on Tourism each fall, and the Oklahoma Travel Industry Association's Spring Educational Workshop.

We believe those educational opportunities are important, but we recognize that we can do more to provide educational experiences as part of the MCOs monthly organizational meetings, of which OTRD always is a part. We will work the MCO leadership to determine areas of focus for the training, and will begin providing such training-in addition to the two annual conferences/workshops-as part of the FY 05 departmental plan.

We acknowledge that additional training opportunities would serve to enhance regional and state marketing efforts, and foster greater communication between the Department and all the MCOs.

Comments

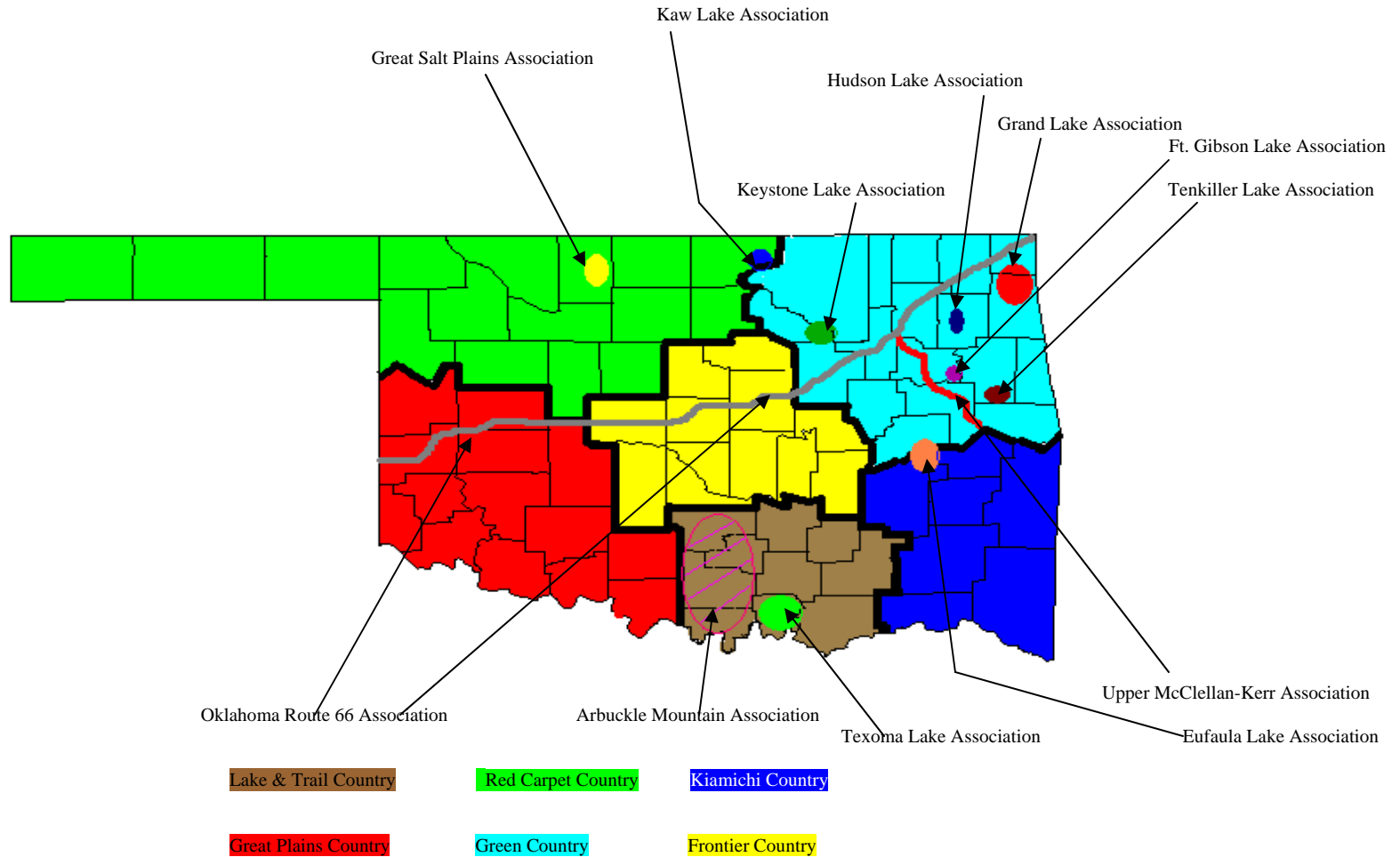
We would like to mention that we reviewed several publications produced by various MCOs from across the state and all of them were very professional in appearance and informative as to the tourism attributes of the respective regions. Additionally, we visited five MCOs across the state. Management was extremely cordial, professional, and knowledgeable of their region.

Overall, the program appears to be worthy with positive objectives and accomplishments.



Countryside - Kiamichi Country

APPENDIX A LOCATIONS OF MCOs



SOURCE: Map outline provided by www.baby.indstate.edu/gga/gga-cart/baseok.gif

Locations of MCOs are approximate and were prepared through auditor analysis.