

# LEGISLATIVE AUDIT DIVISION

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## MEMORANDUM

**TO:** Legislative Audit Committee Members

**FROM:** David W. Singer, Associate Management & Program Analyst

**CC:** Scott Osterman, Director, Department of Commerce  
Adam Schafer, Deputy Director, Department of Commerce  
Jennifer Pelej, Division Administrator, Montana Office of Tourism and Business Development

**DATE:** February 2021

**RE:** Performance Audit Follow-Up (21SP-09): *Tourism Marketing and Promotion* (orig. 18P-03)

**ATTACHMENTS:** Original Performance Audit Summary

### Introduction

The *Tourism Marketing and Promotion* (18P-03) report was issued to the Legislative Audit Committee in October 2019. The audit included four recommendations to the Department of Commerce (department). In January 2021, we conducted follow-up work to assess implementation of the report recommendations. This memorandum summarizes the results of our follow-up work.

### **Overview**

The original audit found tourism grants were being awarded without documented justification or rationale. There was also limited guidance addressing how to evaluate and report the impact of an awarded grant project. Research and evaluation requirements for Tourism Region and Convention & Visitor Bureau (CVB) marketing plans were not clearly defined, and the documentation of tourism-related activities was not prioritized. We recommended the department develop and implement procedures to document and support grant award and nonaward decisions and develop a process to evaluate the impact of tourism grants. We also recommended that the department revise, clarify, and enforce tourism and CVB marketing method research and evaluation requirements. Lastly, we recommended that they prioritize and require documentation of the grant award process as well as the tourism region and CVB required financial reporting process. Through our follow-up work, we found that three recommendations have been implemented and one is in the process of being implemented.

### Background

The Department of Commerce is responsible for marketing and promoting Montana to encourage nonresidents to visit the state and its communities. To help accomplish this, the department's Office of Tourism and Businesses Development (MOTBD) administers a Tourism Grant Program and oversees Lodging Facility Use Tax (bed tax) resource expenditures by Tourism Regions and Convention & Visitor Bureaus.

The Tourism Grant Program awards funds to projects that strengthen Montana's economy through the development of Montana's tourism and recreation industry and that have the potential to increase nonresident visitation. The program is funded through a portion of the state's bed tax revenue collected from hotels, bed and breakfasts, guest ranches, resorts, and campgrounds. Approximately \$750,000 is awarded each year. Currently, registered nonprofit 501(c) organizations, Tribal governments, or City or County governments in Montana are eligible for tourism grants. In fiscal year (FY) 2020, there were 47 applicants. Twenty-five received grant funding and entered into a contract with the department. As a requirement of the grant contract, grantees submit a final report that describes the accomplishments of their grant project.

MOTBD also distributes a percentage of bed tax funds to the six Tourism Regions and 18 CVBs in Montana. In FY 2020, MOTBD distributed \$7,423,323 to the Tourism Regions and CVBs. Tourism Regions and CVBs are nonprofit organizations that use these funds to develop and implement marketing plans that help promote Montana's tourism and recreation industry. Regions and CVBs follow department regulations and procedures approved by the Tourism Advisory Council (TAC). This requires them to submit research and evaluation of each marketing method contained within their marketing plan and provide updated financial information each fiscal year.

### **Audit Follow-up Results**

The following sections summarize the progress toward implementation of the original audit report recommendations. During the follow-up audit, we interviewed department staff and examined the Tourism Grant Program's updated standard operating processes to learn about the current grant application review and award process. We then reviewed applications and documents that support final grant award decisions for applicants from the FY 2020 tourism grant application cycle. In addition, we reviewed a final report template, grant contract template, and other tools and resources the department developed to establish the contents of grantees' final report and assist grantees in evaluating the impact of their grant projects. We also reviewed the current "Regulations and Procedures for Regional/CVB Tourism Organizations Use of Lodging Facility Use Tax Revenue" (2019) to determine if the document further clarified research and evaluation requirements. Lastly, we reviewed Tourism Region and CVB marketing plans and updated budget reports to determine if research, evaluation, and budget information was complete and met current requirements.

### **RECOMMENDATION #1**

**We recommend the Department of Commerce develop and implement procedures to document and support grant award and nonaward decisions for tourism grants based on established grant award criteria.**

#### ***Implementation Status – Implemented***

The original audit found that the department did not have procedures that outlined expectations for reviewing and awarding tourism grants. A review of all 78 applications from the 2017 application cycle found that decisions made by the final review team were not supported by documentation. The original audit identified several cases where application scores either were not present or award decisions did not correspond with scores. While the department stated that established criteria were used to determine which applications should be awarded grants, there was no documentation that linked these criteria to grant award decisions.

In response, the department developed a standard operating process during the original audit. This document is reviewed and revised at least annually. As part of follow-up work, we reviewed the Tourism Grant Program's current standard operating process (2020 SOP). The 2020 SOP outlines the steps of the current grant application review and award decision process in much greater detail than the initial SOP

developed by the department during the original audit. In addition to specifying the individuals who review tourism grant applications and their roles, the 2020 SOP references the documentation that is used and maintained at each step of the application review process.

As part of follow-up work, we also interviewed department staff and examined application review documents from the FY 2020 grant application cycle. We found that there is now documentation used throughout the review process that supports grant award and nonaward decisions. The tourism grant review team maintains a consolidated score sheet that ranks all applications by their average score. This document now provides a written rationale that supports the decision for full funding of the requested amount, partial funding, or no funding of each proposed project. The FY 2020 consolidated score sheet showed that scores consistently corresponded with award decisions.

## **RECOMMENDATION #2**

**We recommend the Department of Commerce develop and implement:**

- A. A process with defined criteria to measurably evaluate the impact of tourism grants or document why an individual grant's activities are not measurable, and**
- B. Clear guidelines for grantees to follow and a structured template to use as part of a final reporting process.**

### **Implementation Status – *Implemented***

- A. The original audit found that the department did not have an internal grant administration procedure to provide grantees guidance on how to evaluate the impact of the awarded grants. During follow-up work, we reviewed the Tourism Grant Program's 2020 SOP. For applicants who need or would like assistance choosing and implementing evaluation metrics, the department has now defined a process in their 2020 SOP to help grantees measure the impact of their project on nonresident visitation. This process involves distribution of a survey to visitors to collect information such as where visitors are from and how they heard about the project or the event they are attending. This process was made available by the department to assist grantees for the FY 2020 grant cycle.
- B. Grantees are required to submit a final report within one year of the project's completion or before September 1 of the subsequent fiscal year. The original audit found that the grant contract and department guidance did not provide details on what contents needed to be included in the final report to evaluate a project's success. As part of the follow-up audit, we reviewed a final report template and grant contract template that the department developed in response to the recommendation. The final report template specifies and makes more consistent the information that should be contained within the final report submitted by grantees. The department's current grant contract now specifies five questions—similar to those found within the template—that grantees must answer as part of the final report.

## **RECOMMENDATION #3**

**We recommend the Department of Commerce work in conjunction with the Tourism Advisory Council to improve its oversight of Tourism Regions and Convention & Visitor Bureaus by:**

- A. Revising and clarifying regulations and procedures for marketing methodology research and evaluation requirements.**
- B. Enforcing regulations and procedures including ensuring bed tax marketing methodologies have required marketing methodology research and evaluation requirements.**

### **Implementation Status – *Being Implemented***

Tourism Regions and CVBs receive proceeds from bed tax revenue to promote tourism via approved marketing plans. It is a requirement of Tourism Regions and CVBs to submit research and evaluation of each marketing method contained within their marketing plan.

- A. The original audit found that requirements did not clearly define what is expected for Tourism Regions and CVBs to submit for research and evaluation of marketing methods. In response to the recommendation, the Tourism Advisory Council (TAC) reviewed the “2016 Regulations and Procedures for Regional/CVB Tourism Organizations Use of Lodging Facility Use Tax Revenue” document and recommended revisions, which were approved; the revised document (“2019 Regulations and Procedures”) was implemented for FY 2020.

During follow-up work, we reviewed the updated document and compared it to the previous version. We found that the “2019 Regulations and Procedures” further clarified evaluation requirements for Tourism Regions and CVBs. Specifically, a section was added to the document that consolidated and provided an overview of general evaluation requirements, including the submission of updated budget information. Additional metrics to be used to evaluate marketing methods, such as social media, publicity, and film, were added in an appendix of the document.

The “2019 Regulations and Procedures” still does not clarify what Tourism Regions and CVBs are expected to submit to fulfill the research requirement. The department indicated that the TAC is currently discussing how to define expectations for research of marketing methods and incorporate these clarifications in the next version of the document. The department said that this next set of revisions is intended to be implemented for FY 2023. Department staff said that they have been working closely with Tourism Regions and CVBs to clarify what they need to submit for marketing method research in the interim.

- B. The original audit also found that for FY 2017 there were several Tourism Regions and CVBs who had marketing methods without required research or evaluation reports, and the department did not routinely follow up with these organizations to ensure missing reports were submitted as required. As part of our follow-up work, we reviewed the FY 2020 marketing plans of two Tourism Regions and two CVBs to determine if the department ensured that research and evaluation reports were present and consistent with requirements specified by the “2019 Regulations and Procedures” for all marketing methods contained within their marketing plans.

We found that evaluation reports were present for all marketing methods. The only exception to this was in situations where Tourism Regions and CVBs were unable to implement a marketing method as a result of the COVID-19 pandemic and therefore had nothing to evaluate and report. The vast majority of evaluation reports reviewed met all requirements, including those unique to the marketing method as specified in the “2019 Regulations and Procedures.” In addition, we found that the majority of marketing methods now have research. However, one CVB had multiple marketing methods that did not have supporting research available even though they had completed the marketing methods. The department stated that the CVBs that do not yet have research available are working to establish evaluation metrics and collect data that can be used as supporting research in upcoming years. The department expects that marketing method research will be fully complete for all Tourism Regions and CVBs in the FY 2022 marketing plans.

#### **RECOMMENDATION #4**

**We recommend the Department of Commerce:**

- A. Prioritize documentation regarding awarding and issuing tourism grants and required financial reporting processes for Tourism Regions and Convention & Visitor Bureaus by clearly defining documentation requirements in policies and procedures.**

**B. Require documentation of tourism-related activities managed by the department, including tourism grants and required financial reporting processes for Tourism Regions and Convention & Visitor Bureaus.**

**Implementation Status – *Implemented***

- A. The original audit found that the department inconsistently documented activities related to Tourism Region and CVB financial reporting processes and the distribution of funding to tourism grants. As part of follow-up work, we reviewed the department’s 2020 SOP and the department’s “2019 Regulations and Procedures” document. As discussed in our analysis of the department’s response to recommendations one and three, we found that the department has clearly defined documentation used to support grant award decisions as well as the financial reports required to be submitted as part of evaluation.
- B. Tourism Regions and CVBs are required to submit an updated budget that compares estimated budget amounts versus actual expenditures for marketing methods and segments and a pie chart that illustrates how their budget was allocated across their marketing segments. The original audit found that for FY 2017, none of the Tourism Regions and CVBs submitted an updated chart showing how the budget was allocated across marketing segments. Similarly, not all provided an updated budget that could be compared to the estimated budget amounts. As part of follow-up work, we reviewed updated budgets and budget charts for two Tourism Regions and two CVBs from FY 2020. The Tourism Regions and CVBs reviewed submitted reports that included actual versus estimated budgeted amounts for marketing methods and segments and pie charts that illustrated how their budget was allocated across marketing segments and methods.