



Secretary of State **Oregon Audits Division**



Travel Oregon

Travel Oregon Should Strengthen Controls over Contracting and Improve Accountability of Compensation to Inform Decision Makers

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Report 2020-03

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Executive Summary

Why This Audit is Important

» The Oregon Tourism Commission, otherwise known as Travel Oregon, is a semi-independent state agency that plans, coordinates, develops, and markets tourism for the state.

» Travel Oregon aims to encourage economic growth and enhance the quality of life in Oregon through a strengthened economic impact of the state's \$11.8 billion tourism industry, which employs 112,200 Oregonians.

» Travel Oregon's annual funding tripled in the past decade from under \$12 million per year to over \$38 million per year due, in large part, to increases in the lodging tax rate. House Bill 4146, passed in 2016, increased the transient lodging tax rate from 1% to 1.8% for the period from July 1, 2016, to July 1, 2020, when the rate goes to 1.5%.

Travel Oregon Should Strengthen Controls over Contracting and Improve Accountability of Compensation to Inform Decision Makers

What We Found

1. Travel Oregon has generally demonstrated a commitment to ensuring contracts are in place to provide for the needs of the agency. We identified some areas where Travel Oregon could strengthen controls over contracting. ([pg. 8](#))
2. We found that Travel Oregon's managers are some of the highest compensated managers compared to state agency managers who oversee more expansive and complex budgets; manage large numbers of employees and contractors; and perform many diverse, technical, and critical government services, including essential public health and public safety responsibilities. Travel Oregon manager salaries have increased by 76% since 2012. According to Travel Oregon management, they hired a consultant in 2016 to conduct a comparative salary analysis that the agency used as a basis for determining salary ranges for Travel Oregon personnel, but the agency was not able to provide detailed documentation from 2016 that was used to set staff compensation. ([pg. 10](#))

What We Recommend

We recommend Travel Oregon take steps to further strengthen contracting procedures and consider whether to competitively bid all contracts over a certain threshold. We further recommend Travel Oregon retain consultant studies and other documentation to support compensation decisions. To improve transparency and accountability, we also recommend Travel Oregon annually provide compensation information by position to the Legislative Fiscal Office as part of its annual reporting of financial revenues and expenses.

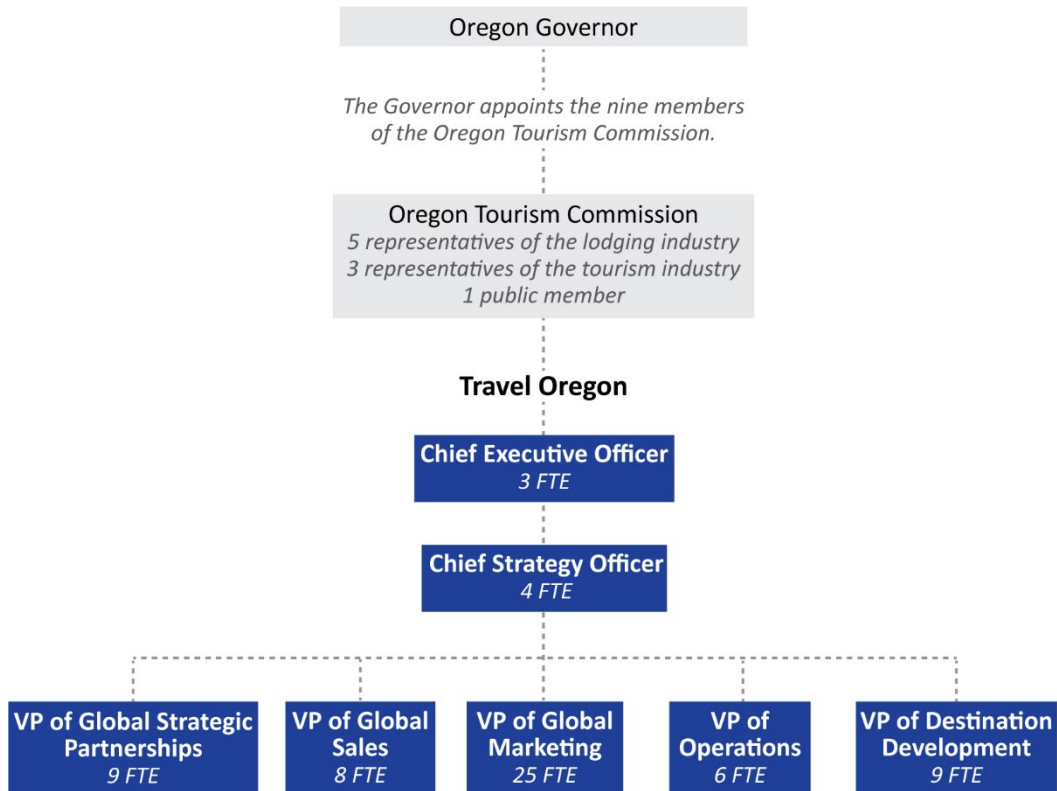
Travel Oregon agreed with all of our recommendations. Their response can be found at the end of the report.

Introduction

The Oregon Tourism Commission plays a role in growing the state economy through its investment in and promotion of tourism. Their mission is to inspire travel that drives economic development. They partner with tourism entities across the globe in service to the mission of the agency and to generate cooperation between the public and private sectors of the industry. Many of the commission's tourism promotions are made through contracts for services, making contracting processes key to effective operations.

Legislation in 2003 created the Oregon Tourism Commission, also known as Travel Oregon, to supersede the existing Oregon Tourism Program and to establish a 1% transient lodging tax continuously appropriated for tourism marketing programs.¹ Through legislation, the tax was increased to 1.8% effective July 1, 2016, and is to be decreased to 1.5% effective July 1, 2020.²

The 2003 legislation also converted the commission to semi-independent state agency status, resulting in more autonomy in how it operates and eliminating funding from the State General Fund and lottery revenues. Travel Oregon is exempt from state purchasing and procurement laws; budget laws; personnel, salaries and expense laws; and from state financial administration laws.³ As a semi-independent state agency, Travel Oregon is subject to laws, including those governing public records requests, government ethics, public meetings, and budget adoption and amendment.



¹ House Bill [2267](#) (2003)

² House Bill [4146](#) (2016)

³ Oregon Revised Statutes [284.118 \(1\)](#)

Travel Oregon has 64 positions, offices in Portland and Salem, and is funded mainly by the state's lodging tax. Travel Oregon's management team includes the Chief Executive Officer, Chief Strategy Officer, and five managers.

The nine-member oversight commission appoints the CEO, who is responsible for directing the administrative functions of Travel Oregon, including hiring employees and setting their compensation.⁴ Travel Oregon employees are also included within the Public Employees Retirement System.⁵

Figure 1: Travel Oregon is subject to several established oversight mechanisms⁶

Governor	<ul style="list-style-type: none"> • Appoints the nine members of the oversight commission; • May review Travel Oregon's comprehensive marketing plan; • May review Travel Oregon's biennial budget for all operations; and • Approves the appointment of Travel Oregon's executive director.
Oregon Tourism Commission	<ul style="list-style-type: none"> • Appoints the Travel Oregon executive director (CEO), reviews CEO performance and sets CEO salary; • Advises the Governor and directs Travel Oregon CEO on all matters pertaining to tourism; • Prepares and submits to the Governor for review a comprehensive marketing plan and implements the plan; • Develops biennial budget and submits to the Governor and legislature for review and recommendation; • Prepares and adopts administrative rules necessary for operation; • Prepares and submits annual report to Legislative Fiscal Office regarding revenues, expenses, and transient lodging tax funds; and • Various other responsibilities as stated in law.
Legislature	<ul style="list-style-type: none"> • The commission's budget is subject to review and recommendation by the Legislative Assembly. • The Senate confirms the nine members of the oversight commission appointed by the Governor. • The commission's annual financial statement of revenues and expenses, as well as its annual report of transient lodging tax funds, are subject to review by the Legislative Fiscal Office, who issued a review of Travel Oregon in December 2018.⁷
Secretary of State	A biennial financial review of Travel Oregon, which is conducted by a Certified Public Accountant firm contracted by Travel Oregon, is submitted to the Secretary of State. The scope of the review is agreed to by Travel Oregon and the Secretary of State. At a minimum, the financial reviews are to include: review of controls and processes related to cash, revenues and disbursements; budget to actual comparison; and follow-up on prior review findings. The Secretary of State has authority to conduct additional audits of Travel Oregon as the Secretary deems necessary.
Department of Administrative Services	Travel Oregon shall adopt personnel policies and contracting and purchasing procedures. The Oregon Department of Administrative Services is to review those policies and procedures for compliance with applicable state and federal laws and collective bargaining contracts.

⁴ Oregon Revised Statutes [284.142](#)

⁵ Oregon Revised Statutes [284.118 \(1\)](#)

⁶ Oregon Revised Statute [284](#)

⁷ Review of Semi-Independent Agency Reports, [December 2018](#), page 6 and Appendix B-17 through B-23

Travel Oregon promotes and coordinates tourism in the state

As noted in Travel Oregon's annual report, its efforts from 2016 to 2017 resulted in a 4.7% increase in direct travel spending, a 1% increase in overnight visitors, and a 5.5% increase in domestic visitor air arrivals.⁸ Travel Oregon is primarily funded by a state transient lodging tax on hotels, motels, campsites, inn dwelling units, and other types of commercial lodging properties that are used for temporary overnight human occupancy.⁹ These taxes are remitted quarterly by lodging operators to the Department of Revenue and then transferred to Travel Oregon after withholding a small portion to cover administrative costs.¹⁰ Travel Oregon uses this revenue to fund state and regional tourism programs as well as provide grants to local entities to promote tourism in Oregon.

Recent marketing campaigns have emphasized the state's natural appeal

According to Travel Oregon management, they market Oregon as a tourism destination through marketing campaigns, work with local communities to create innovative destination development initiatives, international outreach, and alignment with industry partners throughout the state.

Recent ad campaigns include "We Like It Here. You Might Too." and "Oregon: Only Slightly Exaggerated." Travel Oregon contracts with an advertising agency to develop the ad campaigns, as well as a web development company and social media company to present ad campaigns on various media platforms, including videos on the Travel Oregon website, internet searches, and commercials.

The fall 2016 "We Like It Here. You Might Too." campaign was to build awareness and consideration of Oregon's winter offerings, and position the state as a unique winter destination. The spring 2017 campaign was to build awareness and consideration of Oregon's broad range of travel products. According to a travel research firm Travel Oregon contracted with, the campaign generated 1.2 million incremental trips that would not have otherwise taken place,



We Like It Here. You Might Too. campaign
Source: Travel Oregon



Clear Lake, Oregon: Only Slightly Exaggerated campaign
Source: Travel Oregon

⁸ Oregon Tourism Commission Annual Report FY 2017-2018, page 6

⁹ Oregon Revised Statute [320.300 \(11\)](#)

¹⁰ Oregon Revised Statute [320](#), sections 315 and 335.

which brought \$331 million in incremental visitor spending and \$16.7 million in state and local taxes. For every \$1 invested, the ad campaign generated almost \$157 in visitor spending and about \$8 in tax revenue for the benefit of Oregon residents.¹¹

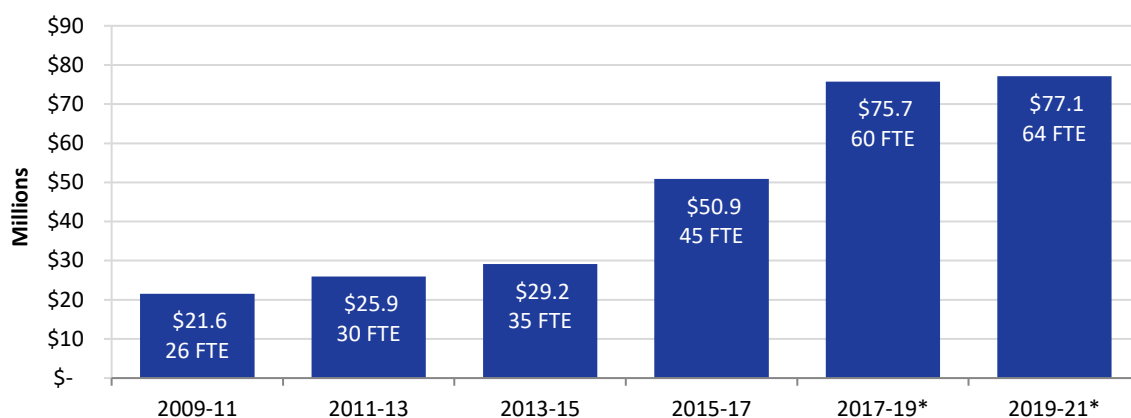
Travel Oregon works with regional partners throughout the state as tourism investments are important for local economies. Twenty percent of all lodging tax revenue received by Travel Oregon is used for implementation of the Regional Cooperative Tourism Program. According to tourism industry studies, a decrease in tourism investments is followed by a decline in overall visitation, a decline in economic benefits, and a decrease in tax revenues generated from visitor spending.¹²

Travel Oregon contracts with partners in Canada, the United Kingdom, Germany, France, the Netherlands, Scandinavia, Australia, New Zealand, Korea, China, and Japan. The agency works with travel trade managers in other countries to maximize Oregon products in tour operator brochures, online promotions, and trade and consumer media. Travel Oregon also works with other agencies such as Business Oregon, Department of Agriculture, and Port of Portland; public relations firms; and airlines to identify opportunities in global markets.

Changes in transient lodging taxes have dramatically increased Travel Oregon's budget and expenditures

Travel Oregon's funding significantly increased when the lodging tax increased from 1% to 1.8% effective July 1, 2016. Figure 2 shows the increase in the agency's expenditures and full time equivalent (FTE) positions over the last six biennia, with the largest increase occurring from 2015-2017 to 2017-2019. Expenditures are expected to decrease when the lodging tax rate lowers to 1.5% on July 1, 2020.

Figure 2: Travel Oregon expenditures increased due to changes in lodging tax rates and industry growth



Source: Travel Oregon Financial Reports and Strategic Plans

*budgeted spending; actuals not available

This funding source has increased Travel Oregon's state tourism budget ranking from 47th in 2003 to the 8th largest budget in the United States.¹³ As shown in Figure 3, as of fiscal year 2017, Oregon ranks sixth based on per capita spending.

¹¹ Longwoods International Return on Investment Report for Travel Oregon

¹² U.S. Travel Association "What's at Stake When Destinations Stop Marketing"

¹³ Oregon Tourism Commission Annual Report FY 2017-2018, page 4

Figure 3: Oregon ranks eighth for state tourism budget and sixth in per capita tourism budget

Rank	State	Total Budget	Rank	State	Total Budget	2017 Population	Per Capita
1	California	\$117,331,184	1	Hawaii	\$87,298,000	1,424,203	\$ 61.30
2	Hawaii	87,298,000	2	Wyoming	10,862,514	578,934	18.76
3	Florida	86,006,900	3	Montana	19,029,275	1,053,090	18.07
4	New York	60,000,000	4	South Dakota	15,600,000	873,286	17.86
5	Illinois	52,757,963	5	Maine	13,450,260	1,335,063	10.07
6	Texas	42,500,000	6	Oregon	32,139,400	4,146,592	7.75
7	Michigan	34,000,000	7	Utah	22,511,630	3,103,118	7.25
8	Oregon	32,139,400	8	North Dakota	5,165,748	755,176	6.84
9	Utah	22,511,630	9	New Mexico	12,815,807	2,093,395	6.12
10	Arizona	22,075,377	10	West Virginia	10,502,222	1,817,048	5.78

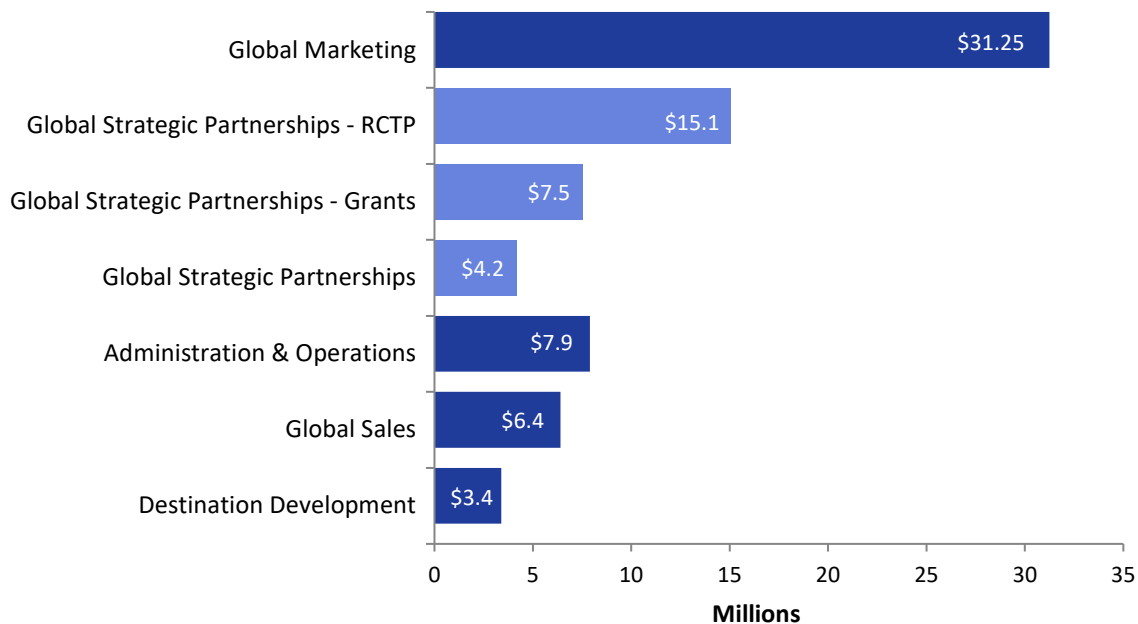
Source: Travel Oregon May 14, 2019 informational hearing follow-up memorandum to the Joint Committee on Ways and Means, General Government Subcommittee

Travel Oregon budgets for seven key spending areas

Oregon statutes designate 65% of Travel Oregon's annual budget to fund state tourism programs, 20% for a Regional Cooperative Tourism Program, and 10% for competitive grants, with the remainder for other costs such as administration. Travel Oregon's 2017-2019 budget of \$75.7 million is comprised of seven key program areas, as shown in Figure 4, aimed at marketing Oregon to domestic and international consumers. The agency partners with tourism entities across the globe to ensure Oregon is presented to potential consumers who may not know what the state has to offer a traveler.

Travel Oregon spends in three main areas (services and supplies, personal services, and regional and grant distributions) to achieve the seven program areas noted in Figure 4. Services and supplies include costs for employee travel within the United States and internationally, catering, trade shows, office expenses, advertising, marketing, professional services, and conferences.

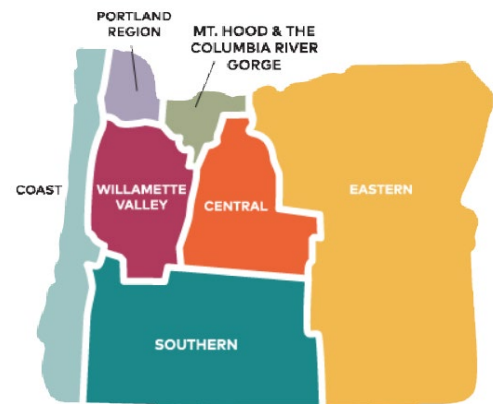
Figure 4: Travel Oregon budgets for seven key spending areas, 2017-2019 biennium



Source: Travel Oregon 2017-19 Strategic Plan

Global Marketing is responsible for leading communication strategies, website content, and marketing tools to inspire consumers to visit Oregon. This is achieved, in part, by contracting for professional services from an advertising agency, web development company, and social media company, which work together to present a cohesive message on Oregon's brand.

Global Strategic Partnerships develops and leverages partnerships across the state, increasing Travel Oregon's influence and reach statewide. This team also manages the two areas of spending that are designated in statute: RCTP (Regional Cooperative Tourism Program) and competitive grants.



Regional Cooperative Tourism Program map
Source: Travel Oregon

Travel Oregon is required to use 20% of transient lodging tax moneys to implement RCTP. These funds are distributed proportionately to seven regions based on each region's relative collection of transient lodging taxes. In July 2017, Travel Oregon began retaining 5% for RCTP administration prior to distribution. As shown in Figure 5, Travel Oregon distributed \$7.6 million for RCTP based on 2018 lodging tax revenues.

Travel Oregon is required to use another 10% of the tax dollars for competitive grants, which are used to assist eligible applicants with projects that contribute to the development and improvement of local economies throughout the state.

Figure 5: Travel Oregon allocates 20% for RCTP implementation

	Jan 1, 2017-Dec 31, 2017	Jan 1, 2018-Dec 31, 2018
Revenue Collected	\$37,988,750	\$39,673,864
20% RCTP allocation	\$7,597,750	\$7,934,773
Less Administration	\$230,761*	\$396,739
Total to Distribute	\$7,366,990	\$7,538,034
Actual Distribution	\$7,285,000	\$7,604,200**

*Travel Oregon removed 5% administration for the entire year (\$379,888) when determining total to distribute

** Distributed in July 2019

Administration and Operations facilitates the day-to-day business of Travel Oregon, including accounting, financial and facilities management, and human resources. Spending in this area is comprised of rent, personal services, and other operational costs. The budget for Administration and Operations does not include the amounts set aside separately for administration of the RCTP and grants programs.

Global Sales builds consumer awareness of Oregon through international consumer media and use of a global network of tour operators to feature Oregon products (attractions, hotels, experiences, etc.). The Global Sales team contracts with international companies to showcase Oregon features.

Destination Development is responsible for working with communities, businesses, and agencies across Oregon to help realize tourism potential and develop a stronger presence in Oregon's tourism economy.

Contract oversight is key to effective procurement for Travel Oregon

Contracts are legally enforceable business agreements with outside parties, usually for products or services. Contracts communicate expectations and establish consequences for nonperformance. Effective contract oversight increases the likelihood that goods and services will be provided as expected and decreases the risks of loss when problems can be identified and resolved in a timely manner.

Although exempt from state procurement and contracting laws,¹⁴ Travel Oregon is required to establish policies for administrative operations, and submit policies and procedures to the Department of Administrative Services (DAS) for review. Travel Oregon has established contracting and procurement procedures that require a contract or agreement for purchases exceeding \$5,000;¹⁵ allow for management to request a competitive bid process for contracts exceeding \$300,000; and provide guidelines for contract administrator responsibilities.

In response to a recommendation we made to Travel Oregon in February 2018,¹⁶ Travel Oregon submitted its contracting procedures to DAS in 2018 to review for compliance with applicable state and federal laws. DAS found the contracting and purchasing procedures to be in compliance. The use of contracts helps to ensure Travel Oregon meets its service and supply needs and protects itself from paying for services that were not part of a contract.

The majority of Travel Oregon's contracts are for services and supplies and exceed \$5,000 in value. Travel Oregon maintains a list of about 200 current contracts, which vary in amount and contract periods. Several vendors were listed as having more than one contract, mainly due to separate contracts for different services or time periods.

Travel Oregon contracts for the following services:

- Advertising;
- Marketing;
- Regional marketing (e.g., contract with the Oregon Coast Visitor Association);
- Professional Services;
- Project Management; and
- Travel.

¹⁴ Oregon Revised Statute 284.118

¹⁵ Increased to \$10,000 as of July 1, 2019; [Strategic Plan Progress Report](#)

¹⁶ [Management Letter No. 976-2018-02-01](#)

Audit Results

Travel Oregon is not subject to many of the existing mechanisms that provide oversight, transparency, and accountability for taxpayer dollars. With continuous funding, autonomy, and exemption from some state laws, it is therefore even more important for Travel Oregon to be independently transparent and accountable about its use of taxpayer dollars to ensure appropriate stewardship of public funds.

Travel Oregon executes contracts annually for millions of dollars to help fulfill its mission, which is to inspire travel that drives economic development. Overall, we found the agency has implemented adequate controls to oversee its contracts, but could strengthen some of its review over contracting processes.

As allowed by state law, Travel Oregon is able to establish its own compensation practices, separate from practices required of other state agencies. We noted that compensation has significantly increased since 2012. We noted further that the CEO's compensation is significantly higher than those of other state agency directors and that management is compensated more than managers with similar levels of responsibilities at other state agencies. While the Oregon Tourism Commission has the freedom to set the CEO's compensation and the CEO to set the employees' compensation, the agency should take steps to ensure it is accountable to taxpayers for how it decides to compensate staff with public monies.

Travel Oregon could strengthen controls over contracting

Travel Oregon has generally demonstrated a commitment to ensuring contracts are in place to provide for the needs of the agency, as well as constructing them in a manner that allows for appropriate monitoring and receipt of contract deliverables.

For the time period from July 1, 2017, to March 31, 2019, we reviewed contracts with 49 vendors that each had total payments exceeding \$5,000. Our review included 77 contracts totaling about \$26 million, including an advertising contract with \$8.4 million in expenditures and a contract with a national tourism entity with \$1.6 million in expenditures. We verified contracts were in place, contract administrators were assigned to each contract, and the contract allowed for verification of completed work. We also determined whether payments were made in accordance with the contract and did not exceed agreed-upon amounts, and whether contracts were executed prior to vendor invoicing. The scope was limited to administration of contracts and did not include the request for proposal process or the content of the contracts.

We concluded the agency's procedures provide for sufficient contract oversight. Specifically, we found:

- Contracts were in place for the types of services that required a contract. Absence of contracts was reasonable for certain expenditures exceeding the \$5,000 contract threshold. For example, payments for membership dues, event registration fees, telephone/internet service, and employee reimbursements would not necessarily need a contract.
- Contract administrators were assigned for each contract.
- The contracts reviewed allowed for monitoring of progress and verification of completed work.
- Vendor payments did not exceed contracted amounts.

However, we identified the following areas where Travel Oregon could strengthen controls over contracting:

- Payments were made in accordance with contract terms, except for nine vendors (including 21 contracts) when invoices did not provide the level of detail required by the contract. Additionally, two invoices included travel expenses when travel costs were not allowed for reimbursement under the contract terms.
- Contracts were executed prior to vendor invoicing, except for 14 vendors (for 24 contracts) when invoices were received for services prior to the contract execution date. Invoiced dates ranged from one day, up to 239 days prior to the contract execution date. For two of those vendors, the contractor had completed all work prior to the date the contract was finalized. Although Travel Oregon has procedures in place to ensure no payments are made until after the contract is executed, accepting invoices prior to contract execution increases the potential for Travel Oregon to pay for services not specified in the final contract.

Some inconsistency in contract terms or invoices increases the risk that Travel Oregon may not be able to hold contractors accountable

A statement of work is an integral piece of a contract that defines all aspects of a project to be completed. This can include project scope, deliverables, timelines, and payment terms. Within some contracts, we found language and dates in the statement of work that conflicted with other sections. For example:

- We found contracts where the statement of work included an allowance for reimbursement of travel and other expenses, while standard contract language indicated that travel and other expenses were not authorized.
- Generally, contracts were stated as being effective on the date they were signed by all parties. Yet, in some instances, a different term for the effective date of the contract was indicated in the statement of work. In one contract, the statement of work indicated an end-date one year prior to the date listed in the contract terms. In others, we found contract commencement dates in the statement of work to be earlier than the effective date signed by all parties.
- Two contracts included language limiting the hours of work, specifying the maximum number of hours to be billed each month, and stating that the contractor would describe in each invoice all services performed, the dates of performance, and by whom such services were performed. Travel Oregon did not ensure contract requirements were met, as the invoices included maximum allowable hours billed with no description.
- One contract included amendments to extend the effective dates of the original agreement. However, the second amendment included incorrect dates, creating a three-month gap when a contract or amendment was not in place.

Without consistent information throughout its contracts, Travel Oregon may not be able to hold contractors accountable. In the examples noted, issues could arise if there is a disagreement about when the work is to be completed or whether travel expenses are reimbursable. These discrepancies could lead to issues in determining allowable payments for contractor work.

Prior to 2020, largest Travel Oregon contract had not been competitively bid since 2010

Competitive bidding is a process of issuing a public bid with the intent that companies will put together their best proposal and compete for a specific process. Competitive bidding is common in government contracts, as it helps ensure lower costs in contracting, garner the most qualified companies to do the work, and avoid favoritism among contractors, either in appearance or in fact.

As allowed by state law, Travel Oregon's procedures do not require competitive bidding for large contracts. We reviewed the largest advertising contract, which accounted for \$8.4 million in expenditures between July 1, 2017, and March 31, 2019, and found it has not been competitively bid since 2010. Travel Oregon has contracted with the same vendor since the contract was last competitively bid in 2010. The most recent contract including amendments has an end date of December 31, 2019. Since 2013, Travel Oregon has paid this vendor about \$24.5 million. The advertising contract was published for public bid on January 2, 2020.

As noted previously, Travel Oregon is exempt from state contracting rules and, therefore, is not required to use a competitive contracting process. This allows Travel Oregon the flexibility to execute contracts quickly and to devote fewer resources to the contracting process. It also allows Travel Oregon to maintain contracts with the same vendor for long periods of time. Exemption from state procurement laws may, however, result in higher contract costs by not using a competitive bid process for larger contracts and in limited opportunities for businesses who might otherwise submit proposals to Travel Oregon.

As a comparison, state procurement rules allow state agencies to purchase goods and services up to \$10,000 without a competitive process, require three competitive price quotes for goods and services costing \$10,000 up to \$150,000, and require seeking competitive offers for all procurements exceeding \$150,000.

Travel Oregon could benefit from utilizing the competitive bid process more frequently, much like other state agencies do. Opening more contracts to competitive bidding, especially for high-dollar contracts, has the potential to help the agency lower costs and ensure taxpayers are seeing the most benefit from the spending of public monies.

Travel Oregon management compensation has significantly increased since 2012

Travel Oregon management compensation has increased about 76% since 2012 while similar positions at state agencies increased about 16%. Travel Oregon receives a steady funding stream provided by the state's lodging tax, is exempt from state personnel practices, and is allowed by law to set compensation for its management and its staff as it determines appropriate.

Travel Oregon's oversight commission has the responsibility and authority to establish the compensation for Travel Oregon's CEO. The CEO oversees the appointment of all subordinate officers and employees, prescribes their duties, and sets their compensation.¹⁷

ORS 284.118

Travel Oregon is exempt from general state personnel policies. Employees of the commission are eligible to receive the same benefits as state employees, such as health and PERS retirement benefits.

Personal services compensation includes salaries, retirement benefits through the Public Employees Retirement System, health care, and other salary-related costs. As Travel Oregon's budget significantly increased due to the increase in lodging tax from 1% to 1.8% in 2016, so has tourism promotion, the number of employees, and staff compensation.

Travel Oregon management salary considerably higher than state agency management

The CEO began his career with the state in 1994 and was appointed CEO in 1996. In June 2019, the CEO's monthly gross salary was \$31,802, which includes a monthly salary of \$29,987 and a monthly auto and cell phone allowance of \$1,798. This represents about a 129% increase in the CEO's annual salary since 2009, as shown in Figure 6. Including retirement and other salary-

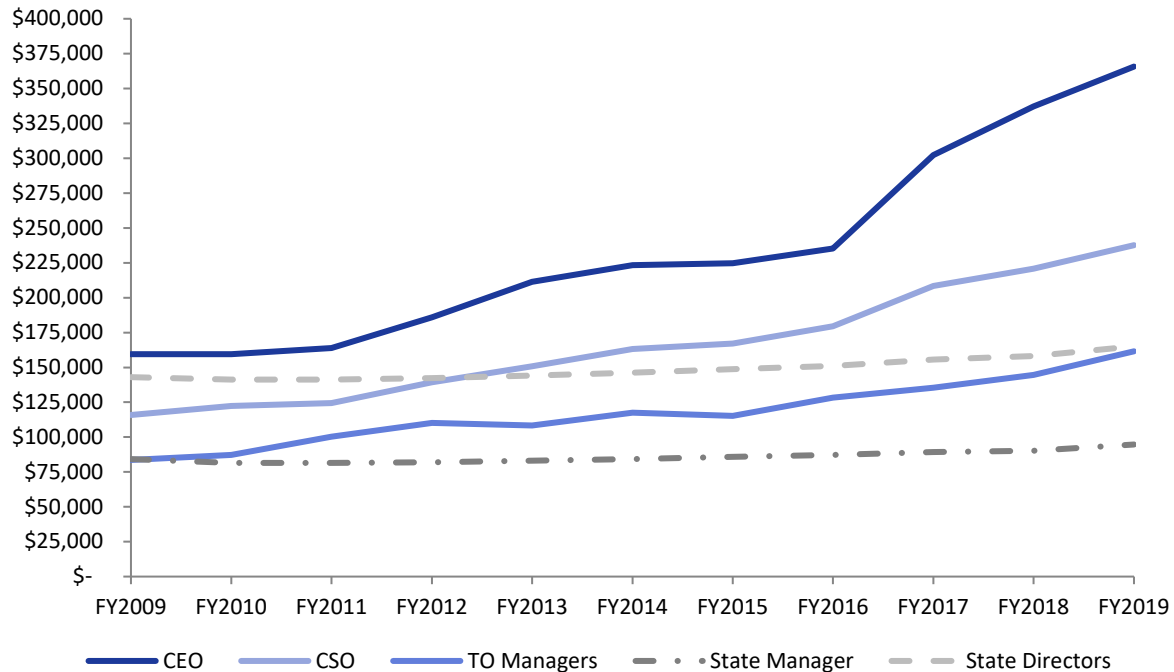
¹⁷ ORS 284.142

related costs such as health benefits, the CEO's June 2019 annual compensation package was about \$490,000. Based on the June 16, 2019, Oregon Tourism Commission minutes, the commission approved a 3% increase to the CEO's salary effective July 1, 2019.

The Chief Strategy Officer's (CSO) June 2019 annualized salary is about \$249,000, which includes an annualized auto and cell allowance of \$18,000, for an annual compensation package of about \$316,000. For the remaining five managers, their June 2019 average annual salary was about \$170,000 while the average salary for the remaining employees was about \$75,000.

For comparison purposes, Figure 6 also includes the average of most state agency director salary classifications as well as the average salary for the management position classification with comparable levels of responsibility as Travel Oregon's five managers.¹⁸

Figure 6: Travel Oregon Management salaries rise significantly over past 10 years



Source: Travel Oregon and Department of Administrative Services

Note: Travel Oregon and other State Manager and State Director salaries increased 6.95% in February 2019 due to changes and agreements related to the Public Employee Retirement System contributions made by employers.

Although not comparable in terms of position responsibilities, we identified salaries of some specific state agency directors who oversee large budgets and many employees as shown in Figure 7. Oregon State Lottery and Business Oregon are included, as they too have marketing campaigns and economic development as one of their strategic goals.

In fact, as of June 2019, the only state government salary exceeding Travel Oregon CEO's compensation is that of the Chief Investment Officer for the State of Oregon, who oversees an investment portfolio of about \$81 billion. Other significant compensation amounts we noted include those of supervising physicians at \$286,883 and investment officers at \$239,760.

¹⁸ Average calculated for agency directors using top three compensation steps of Principal Executive/Manager Classifications H, I, and J and for manager comparison the top three steps of Principal Executive/Manager Classification D. Current compensation amounts accessible at: [State of Oregon Classification and Compensation](#)

Figure 7: Travel Oregon CEO June 2019 salary exceeds state agency director salaries

Agency	Agency FTE	Agency 2017-19 Budget	June 2019 Director Salary
Travel Oregon	60	\$75,740,000	\$381,423*
Oregon Health Authority	4,282	\$21,831,107,508	\$200,388
Department of Human Services	8,617	\$11,659,409,042	\$200,388
Oregon State Lottery	483	\$2,165,871,773	\$200,388
Department of Transportation	4,503	\$4,260,451,400	\$199,940
Business Development	135	\$836,512,811	\$181,764

Source: Oregon State Payroll Application; 2019-21 Legislatively Adopted Budget Detailed Analysis

*Travel Oregon June 2019 salary includes annual salary and auto and cell phone allowances of \$21,500.

We also found that tourism offices in other states are structured and managed differently, making it a challenge to find similar practices for the purposes of comparison and benchmarking. For example, some state tourism programs are managed by nonprofits in conjunction with state oversight, while others operate as state agencies, but have partnerships with local entities and industries.

We noted compensation for directors overseeing state tourism programs varied, most likely due to the budget and size of the program. For example, the Arizona Office of Tourism's director's salary is \$175,000; the office is a state agency, the director has 24 years of tourism experience, and oversees an annual budget of \$31.5 million. The Colorado Tourism Office is also a state agency where the director has 20 years of tourism experience, oversees a budget of \$23 million, and has an annual salary of about \$130,000.

Oregon operates much like the state of Hawaii, with a dedicated funding source and broad autonomy. Similar to Oregon, the autonomous nature of its operations allows the Hawaii Tourism Authority to provide its CEO, appointed in December 2018, with a \$270,000 annual base salary that comes with a 5% raise and \$20,000 in annual incentive pay. Tourism is critical to Hawaii's economy and visitor spending is considerably higher than in Oregon; their annual lodging tax revenue budget is about triple the amount of Travel Oregon's.

The Legislature continues to request more detailed spending information from Travel Oregon

As a semi-independent state agency, Travel Oregon's budget does not receive the same type of scrutiny by the Legislature as other state agency budgets. Travel Oregon's budget is subject to review and adoption by public hearing, including input from industry stakeholders. As required by law, Travel Oregon presents its plan and budget to the legislative assembly for review. Over time, the Legislature has requested more information from Travel Oregon on operations.

2011 Legislation in 2011 required Travel Oregon to file a copy of its adopted budget and its annual financial statements with the Legislative Fiscal Office, similar to existing laws for other semi-independent state agencies.¹⁹

¹⁹ 2011 Legislation, [Senate Bill 939](#)

2016 In 2016, legislation passed that significantly increased Travel Oregon’s funding. The legislation increased the lodging tax from 1% to 1.8% to provide more regional tourism and competitive grant funding, including possible funding for the 2021 World Track championship in Eugene. According to the Legislative Fiscal Office, this legislation also provided the opportunity to amend the law to require Travel Oregon to submit more information about funds received and spent.²⁰ Travel Oregon’s staffing increased even though in the 2016 legislative fiscal impact, Travel Oregon noted that “the increase in the tax will double the monies distributed to the Commission and increase monies distributed by the Commission for tourism programs, but is not anticipated to increase the administrative staffing of the commission.”²¹

The 2016 legislation also required the Legislative Revenue Officer to lead a work group to study various issues related to the lodging tax.²² The work group report was issued in December 2016 and some of the findings reported include: no recommendation of additional statutory changes; encouragement of more communication and consultation between the different entities, and support for the regular reporting by the Tourism Commission to legislative committees.²³

2019 On April 25, 2019, the Joint Subcommittee on General Government held an informational meeting with Travel Oregon where the CEO presented summary-level information about the agency. During the meeting, there were committee requests for the CEO to ensure the presentation included discussion of Travel Oregon’s budget. Subsequent to the meeting, the subcommittee requested more detailed budget and spending information from Travel Oregon as part of the subcommittee’s continued deliberation on the semi-independent model and Travel Oregon.

Travel Oregon should retain appropriate documentation to support basis for compensation

Both Travel Oregon and its oversight commission have the authority to determine salary and compensation for the work of the CEO and of management. In fact, the agency told auditors and legislators that it contracted with an independent third-party compensation analyst to conduct a competitive salary analysis that the agency used as a basis for determining salary ranges for Travel Oregon personnel. However, when auditors asked to see the detailed documentation behind established salary ranges, Travel Oregon could not provide it.

The CEO stated that part of the consultant’s compensation review was to complete a comparative analysis of compensation for tourism directors at the state level, local level, and at Destination Marketing Organizations from across the country. Travel Oregon also stated that the analysis was conducted for all job descriptions and that five salary surveys were utilized to determine market value and competitive pay for each role and annual compensation adjustments were based on performance, range, and budget. According to Travel Oregon Management, this analysis was provided to commission members for their consideration in setting the CEO’s compensation.

In 2016, Travel Oregon implemented this model, which uses 13 pay ranges with annual increases that vary from 0% to as much as 8% for exceptional performance. For those at the top of the range, increases vary from 0.5% to 3% depending on performance ratings of meets, exceeds, or exceptional.

²⁰ 2016 Legislation, [House Bill 4146, Section 10](#)

²¹ 2016 Legislation, [House Bill 4146, Fiscal Impact Statement](#)

²² 2016 Legislation, [House Bill 4146, Section 7](#)

²³ Legislative Revenue Office Report #5-16, December 2016

We requested a copy of the salary analysis that informed the commission's decision to significantly increase the CEO's salary in 2016 and informed the CEO's decision to increase personnel salaries. According to Travel Oregon management, since the analysis includes salary information from other entities, they do not have direct access to the compensation analysis and relied instead upon the consultant's summary results. Since management was not able to provide detailed documentation from the consultant or evidence of a contract with the consultant, we were unable to independently verify the basis for the increase in the CEO's and management's compensation.

While Travel Oregon does not receive General Fund dollars from the state, it functions as a semi-independent state agency that is accountable to the citizens of Oregon who, in addition to out-of-state visitors, fund its budget through the transient lodging tax. By providing more detailed budget and spending information, including compensation information by staff position, Travel Oregon can provide increased transparency and accountability to the people of Oregon and better inform the Legislature.

Recommendations

To continue to fulfill its mission, we recommend Travel Oregon:

1. Strengthen contracting procedures by ensuring:
 - a. detailed invoices are provided as outlined in contracts;
 - b. reimbursements are made only for expenses that are allowed under contract terms;
 - c. contracts are executed in a timely manner; and
 - d. contract terms are consistent throughout the contract and statement of work, including contract effective dates, and expenses allowable for reimbursement.
2. Similar to state agencies, consider whether to competitively bid all contracts over a certain threshold with few exceptions. This would ensure competitive prices and allow other entities the opportunity to provide services.
3. Retain consultant studies and other documentation to support compensation decisions and, to increase transparency and accountability, annually provide compensation information by position to the Legislative Fiscal Office as part of Travel Oregon's annual reporting of financial revenues and expenses.

Objective, Scope, and Methodology

Objective

We focused on Travel Oregon expenditures. Since many of Travel Oregon's tourism promotions are made through contracts for services, our main objective was to determine if Travel Oregon has adequate processes in place to oversee contracts intended to fulfill the agency's mission of strengthening the travel industry. A second objective was to determine whether payroll expenditures are reasonable.

Scope

We focused on expenditures to vendors that exceeded \$5,000 during the period of July 1, 2017, through March 31, 2019, and on management compensation.

Methodology

To achieve our objective, we requested a listing of services and supplies payments to vendors Travel Oregon made between July 1, 2017, and March 31, 2019. We stratified the payments as shown below.

Payment range	Vendor Payments	Amount	Contracts Reviewed	Amount Reviewed
Less than \$5,000	513	\$713,543	0	
>\$5,000 and < \$300,000	245	\$8,684,438	46	\$1,633,796
> \$300,000	16	\$24,628,294	31	\$24,311,062
Total	854	\$34,026,275	77	\$25,944,858

We reviewed nearly all associated contracts for vendor payments over \$300,000, representing 31 contracts at a total value of \$24,311,062. We also selected a sample of 34 vendors from the mid-payment range, representing 46 contracts with a total value of \$1,633,796.

We reviewed the contracts to determine the quality of Travel Oregon's contract oversight processes. We selected vendor services from Travel Oregon's services and supplies transactions. Some transactions were not associated with a contract. For these transactions, we determined whether a contract should have been in place. We compared invoices to contract language for consistency with contract terms.

We also reviewed payroll compensation for Travel Oregon management. We reviewed expenditure data and compared to compensation of state agency management. We asked for, but the agency was not able to provide, detailed information to support Travel Oregon's compensation ranges.

We interviewed Travel Oregon management and staff, the commission chair, and certain regional partners. We reviewed relevant agency policies and procedures, commission meeting minutes, and Oregon Revised Statutes. We also reviewed tourism industry reports and articles from 2017, 2018, and 2019.

During the scoping of this project, we reviewed legislative documents and contacted the Legislative Fiscal Office to determine areas they would like further review of, which included

distributions to Regional Cooperative Tourism Programs. These distributions are discussed in the introduction section of the report.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We sincerely appreciate the courtesies and cooperation extended by officials and employees of Travel Oregon during the course of this audit.

February 7, 2020

Kip Memmott, Director
Secretary of State, Audits Division
255 Capitol St. NE, Suite 500
Salem, OR 97310

Dear Mr. Memmott,

This letter provides a written response to the Audits Division's final draft audit report titled Travel Oregon Should Strengthen Controls over Contracting and Improve Accountability of Compensation to Inform Decision Makers.

On behalf of the Oregon Tourism Commission, we appreciate the Oregon Secretary of State Audits Division for their work on this audit. We are pleased that the Audits Division confirms that Travel Oregon contracts are constructed in a manner that "allows for appropriate monitoring and receipt of contract deliverables."

We also appreciate that the Audits Division recognizes the organization and construct of the agency through Legislative action in 2003 was intentional and for a specific purpose. The legislature established what is referred to as an "industry-specific sales tax" on overnight visitors to establish a state agency dedicated to growing Oregon tourism as part of a larger initiative to generate economic stimulus and further diversify the state's economy.

Since the establishment of Travel Oregon, Oregon's share of national travel spending has grown by more than \$1 Billion and has delivered economic growth across all regions of the state. Between 2003 and 2017, visitor spending increased by 107%. The agency's various campaigns continue to realize excellent return on investment and support each of Oregon's seven tourism regions. Every dollar spent in advertising and strategic marketing results in \$157 dollars in direct tourism spending in communities throughout Oregon. That visitor spending translates to \$8 dollars of additional state and local taxes. The investment in tourism envisioned nearly two decades ago is working. Tourism in Oregon supports local jobs, generates increases in local tax, contributes to improvements in local tourism infrastructure, strengthens local business opportunity and aims to create a better life for all Oregonians.

Our state tourism office is recognized nationally for innovation and effectiveness. Travel Oregon's work on the ground in destination and community development, the focus on cooperative and beneficial private/public partnerships and a targeted focus in key global markets remains the means by which we leverage the resource on behalf of the state. We are honored to do the work and know that investments in tourism are investments that benefit all Oregonians now and for generations to come.

Travel Oregon is a public agency that has oversight by the Governor's Office, Oregon Legislature and the tourism industry. The agency is responsible for reporting on financials, subject to biennial financial reviews submitted to the Oregon Secretary of State, makes reports on agency progress, return on investment and geographic equity which is provided to Legislative Offices annually. Travel Oregon is subject to "Sunshine" and public records laws, Oregon Government Ethics laws, Public Meetings Laws, including laws related to budget adoption and modification. Further, Travel Oregon is responsive to audits, such as is the case with this report.

Travel Oregon agrees with all recommendations and will work to implement them. The agency is committed to continuous improvement and we are grateful for the constructive conversations that took place with Audits Division staff during the audit process. We are proud of our contributions to supporting local communities and

growing Oregon’s economy through tourism in a way that is consistent with Oregon values. This audit provides useful information in our continuous work to improve how we deliver services and returns on investments for the regions we work with and the Oregonians we serve.

Below is our detailed response to each recommendation in the audit.

RECOMMENDATION 1 To continue to fulfill its mission, we recommend Travel Oregon: Strengthen contracting procedures by ensuring: <ol style="list-style-type: none"> detailed invoices are provided as outlined in contracts; reimbursements are made only for expenses that are allowed under contract terms; contracts are executed in a timely manner; and contract terms are consistent throughout the contract and statement of work, including contract effective dates, and expenses allowable for reimbursement. 		
Agree or Disagree with Recommendation	Target date to complete implementation activities	Name and phone number of specific point of contact for implementation
Agree	7/31/2020	Jeff Hampton 971-717-6205

Narrative for Recommendation 1

Travel Oregon regularly submits standard contracts to Oregon Department of Justice (DOJ) during each biennium for review and update. We will request additional review in light of the recommendations provided by the Audits Division to ensure language in standard Professional Services contracts incorporates the recommendations provided by the Audits Division as appropriate. New contracts will include updated language and existing contracts will be updated upon amendment, if any. Our implementation schedule will be determined at least in part by DOJ schedule for review and receipt of final DOJ recommended language. Travel Oregon Contracting and Procedures documentation required by law will be updated to reflect changes as necessary and re-submitted to DAS for review in compliance with law.

RECOMMENDATION 2 Similar to state agencies, consider whether to competitively bid all contracts over a certain threshold with few exceptions. This would ensure competitive prices and allow other entities the opportunity to provide services.		
Agree or Disagree with Recommendation	Target date to complete implementation activities	Name and phone number of specific point of contact for implementation
Agree	7/1/2020	Jeff Hampton 971-717-6205

Narrative for Recommendation 2

Travel Oregon current contracting and procurement procedures were provided to Department of Administrative Services (DAS) for review and approval in 2018. This submission for DAS review includes a threshold at or above which competitive bid for contract may be considered. The agency has gone out for competitive bid or proposal in the past two years for contracts with a maximum not-to-exceed amount much lower than the current threshold. The agency will update Contracting and Procurement procedures per Audit Division recommendation by establishing a threshold amount for competitive bid and will identify what, if any, exceptions to that threshold may apply. The procedures documentation will be resubmitted to DAS per state law.

RECOMMENDATION 3		
Retain consultant studies and other documentation to support compensation decisions and, to increase transparency and accountability, annually provide compensation information by position to the Legislative Fiscal Office as part of Travel Oregon's annual reporting of financial revenues and expenses.		
Agree or disagree with recommendation	Target date to complete implementation activities	Name and phone number of specific point of contact for implementation
Agree	Reporting to LFO: 10/1/2020	Jeff Hampton 971-717-6205

Narrative for Recommendation 3

Travel Oregon provided the Audits Division with summary information on the competitive, market-based, pay-for-performance compensation approach the agency has adopted. The agency will purchase and retain detailed source data whenever possible in the future. It is our understanding that the Oregon Department of Administrative Services is undertaking a review of the statewide compensation schedules. Once completed, Travel Oregon will undertake a new agency-wide compensation analysis inclusive of the then current statewide compensation schedule in the data set. The agency will retain this detail data and other resulting materials as back up to support compensation decisions.

Travel Oregon will continue to provide information requested by legislative offices, including Legislative Fiscal Office and Legislative Revenue Office. We will provide reporting on compensation by position and other information in the manner prescribed by law in addition to information as requested to ensure transparency.

Please contact Jeff Hampton at 971-717-6205 with any questions.

Best regards,



Todd Davidson
CEO



Audit Team

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About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of the office, Auditor of Public Accounts. The Audits Division performs this duty. The division reports to the elected Secretary of State and is independent of other agencies within the Executive, Legislative, and Judicial branches of Oregon government. The division has constitutional authority to audit all state officers, agencies, boards and commissions as well as administer municipal audit law.

This report is intended to promote the best possible management of public resources.
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