

United States Government Accountability Office Washington, DC 20548

March 21, 2012

Congressional Committees

Subject: Corporation for Travel Promotion: Establishment and Planned Programmatic Activities

According to the Department of Commerce (Commerce), the travel and tourism industry generates nearly \$1.1 trillion in economic output for the U.S. economy and supports more than 7.5 million U.S. jobs each year. Even though the United States received more than 60 million visitors in 2010, a 2009 congressional report¹ noted a decline in the U.S. share of the international travel market from 9.4 percent in 1992 to 6.2 percent in 2007. Concern over this decline led Congress to explore efforts to reinvigorate the tourism industry and recapture lost market share. According to the report, government officials and other experts identified the lack of a coordinated international marketing campaign as a primary factor contributing to this decline. The U.S. Travel and Tourism Advisory Board, which advises Commerce, also cited this lack of coordination and recommended the creation of a national tourism policy. To address this issue, Congress established the Corporation for Travel Promotion (CTP) under the Travel Promotion Act of 2009 to create and execute a nationally coordinated travel promotion program.² This legislation, enacted in March of 2010, also mandates GAO to review CTP's programmatic activities within 2 years of its enactment.

As we informed your offices in briefings and other communications on our preliminary findings in December 2011, the CTP is in the early stages of planning and is beginning to implement major programmatic activities to promote travel to the United States. In this report, we expand upon our earlier briefings to describe (1) the status of CTP's establishment and (2) the activities CTP has planned and undertaken to promote travel and tourism to the United States. Enclosure I contains our briefing slides from December 2011, which have been updated for clarity.

To determine the status of CTP's establishment and the activities CTP has planned to promote travel to the United States, we reviewed pertinent CTP planning, budget, and legal documents, and interviewed CTP officials. We also interviewed an official with the accounting firm that conducted CTP's first mandated financial audit. We sought to obtain data on the impact CTP activities have had on travel to the United States, though such metrics are still under development. We conducted this performance audit from September 2011 to March 2012 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

¹S. Rep No. 111-25, 111th Cong., 1st Sess., p. 2 (2009).

²Pub. Law 111-145, sec. 9.

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.

Background

The U.S. travel and tourism industry has gone through a series of declines and recoveries over the last 10 years. Following a steep 3-year decline after the terrorist attacks of September 11, 2001, travel to the United States experienced an annual increase in the number of international visitors, ranging from 3 to 12 percent annual growth for calendar years 2004 through 2008 (see fig. 1). After a decline in 2009, Commerce's Office of Travel and Tourism reported that 2010 was a record-setting year in terms of the number of international travelers visiting the United States. Notwithstanding the growth in 6 of the last 7 years, the United States has reportedly lost a significant share of the international travel market over the last decade. According to a study commissioned by the U.S. Travel Association, an advocacy organization for the travel industry, international tourist arrivals worldwide grew to 880 million in 2009, up by nearly 200 million since 2000, while overseas visits to the United States fell by 9 percent during the same time period. According to this study, not keeping pace with the growth in international travel has cost the United States an estimated \$509 billion in lost spending by visitors.

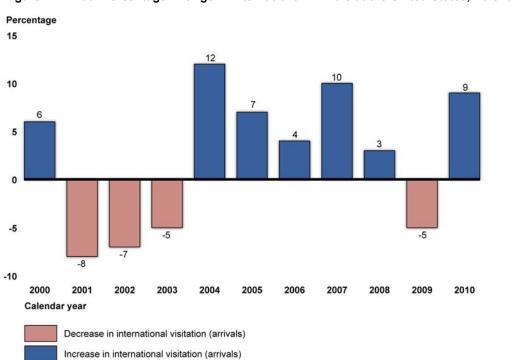


Figure 1: Annual Percentage Change in International Arrivals at the United States, Calendar Years 2000-2010

Sources: Department of Commerce, Office of Travel and Tourism Industries.

Note: Data reflect the number of arrivals, not the number of individual visitors. The term "arrivals" reflects the number of times a passenger arrives in the United States, which maybe more than once per year for any individual.

In an effort to reinvigorate the tourism industry and recapture lost world market share, Congress established CTP under the Travel Promotion Act of 2009. CTP is not a federal agency; instead it was conceived as a nonprofit, public-private partnership with the mission of promoting increased international leisure, business, and scholarly travel to the United States. CTP is charged with executing a nationally coordinated travel promotion program, which includes accurately

communicating U.S. travel policies and providing international exposure for areas of the United States not traditionally visited by international travelers. CTP expects to position the United States as a compelling destination for international travelers and increase visitors by promoting multiple destinations and attractions in the country through an integrated marketing and communications strategy. It expects that promotional efforts will result in financial benefits to the U.S. economy, such as increased spending from visitors and new jobs in travel and related sectors.

U.S. law requires CTP's annual budget to be provided through a combination of private and public funds. Fifty percent of the budget is intended to come from private sector contributions. At least 20 percent of private sector donations must be in cash, while the rest may be in the form of in-kind contributions. Although CTP is a nonprofit corporation, matching private contributions are not tax deductible. The other 50 percent of CTP's budget is funded through matching funds drawn from the Electronic System for Travel Authorization (ESTA), administered by the Department of Homeland Security.³ The ESTA system assesses a \$14 fee per foreign visitor traveling to the United States from visa waiver countries; \$10 of this amount is used to fund CTP.⁴ CTP staff noted that, because funding is provided through ESTA fees, no taxpayer funds are used to establish or operate the corporation. In fiscal year 2012, which by law⁵ is the first year of CTP's operation in which it can obtain federal matching funds, CTP will receive funding through ESTA fees that will match private funding at a 2 to 1 ratio; after the first year, federal funds will match private funding at a 1 to 1 ratio.⁶

CTP Has Taken Several Steps to Begin to Promote Travel to the United States but Is Not Yet Operating at Full Capacity

In September 2010, as directed by the Travel Promotion Act, the Secretary of Commerce appointed a board of 11 directors to govern CTP. Board members represent private and public sector areas related to travel and tourism—including lodging, city and state convention and visitors' bureaus, small business, travel distributors, airlines, and others. Subsequently, under the direction of the board, CTP was incorporated in November 2010 as a nonprofit corporation in Washington, D.C. Once incorporated, CTP was able to initiate operating activities such as hiring staff and entering into contracts. Thus, the board conducted a search and hired a Chief Executive Officer (CEO) in May 2011. By December 2011, other senior staff positions had been filled. With the CEO in place, CTP began operations and has worked to develop strategic objectives, establish an organizational structure, and plan programmatic activities.

⁵Public Law 111-198, sec. 5(b)(5).

⁶After fiscal year 2012, federal funds will match private funding at a 1 to 1 ratio up to \$100 million each year from fiscal year 2013 through fiscal year 2015.

³For GAO's work related to ESTA, see GAO, *Visa Waiver Program: DHS Has Implemented the Electronic System for Travel Authorization, but Further Steps Needed to Address Potential Program Risks*, GAO-11-335 (Washington D.C.: May 5, 2011).

⁴The Visa Waiver Program allows eligible nationals from 36 member countries to travel to the United States for tourism or business for 90 days or less without a visa. The 36 countries currently participating in the Visa Waiver Program are Andorra, Australia, Austria, Belgium, Brunei, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Monaco, the Netherlands, New Zealand, Norway, Portugal, San Marino, Singapore, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, and the United Kingdom.

The CEO organized CTP into four teams, each responsible for meeting one of its four strategic objectives. Led by the CEO, the four teams cover marketing, business development, strategic outreach, and operations. Specifically,

- the marketing team is responsible for overseeing and coordinating development and implementation of a marketing strategy designed to attract increased international travel to the United States;
- the business development team is responsible for attracting the necessary private investment through different revenue programs to encourage participation from the U.S. private sector;
- the strategic outreach team is tasked with maintaining communications with stakeholders, which include Congress, the private sector, and the general public; and
- the operations team has responsibility for general administrative activities, including budget operations.

Senior staff are in place for all four teams, as are some support staff. As of December 2011, 14 staff had been hired; CTP officials expect to have a total of 42 staff on board once the hiring process is completed.

CTP expects to reach a budget of \$150 million in 2012 by raising \$50 million in private sector contributions, which would qualify it to receive a match of \$100 million in federal funds collected through ESTA. Of the expected \$150 million budget, \$110 million would constitute the cash component of the operating budget, while the \$40 million would be in-kind contributions. Since fiscal year 2012 is considered CTP's first year of operations, federal funding will match private sector contributions in a ratio of 2 to 1. As of November 2011, over \$4 million in cash and over \$12 million in in-kind contributions had been committed by private sector donors. CTP expects to reach an annual budget of \$200 million within 2 to 3 years, with half of that amount coming from private sector contributions.

According to CTP staff, of the \$110 million in cash in the 2012 budget, 90 percent will be used to conduct programmatic activities, including contracting an advertising agency to implement a global marketing campaign. This campaign includes an initial 3-month contract to develop and launch a brand—the first phase of the global marketing campaign—and a Master Service Agreement with contractor responsibilities for subsequent core activities of the global marketing campaign. The initial 3-month contract was an interim agreement allowing the marketing and advertising campaign to proceed promptly with specific assignments and deadlines falling within the first 90 days. The Master Service Agreement is a long-term contract that will include the core activities of the global marketing campaign to promote international travel in the United States. CTP has chosen J. Walter Thompson (JWT) Worldwide in New York City to develop a brand and conduct a global advertising campaign. As of November 2011, the initial 3-month contract to develop a brand has been implemented, and as of early February 2012 CTP was in negotiations with JWT to sign a Master Service Agreement that will include JWT's costs and responsibilities for core activities for the global marketing campaign.

<u>CTP Conducted a Structured Selection Process to Contract the Advertising Agency, but</u> <u>Federal Guidelines that Would Facilitate Evaluation Have Not Been Adopted</u>

Before selecting JWT, CTP hired an international consultant to conduct a search for advertising agencies qualified to conduct the global marketing campaign. The CTP selection committee which included board members and staff, selected JWT from among 14 advertising agencies identified by the consultant using performance criteria that included global brand leadership, global presence, related sector experience, and account management and operation capabilities. CTP staff explained that the cost of services was not a leading component of the performance criteria, but it was one of many business factors considered to rank the agencies competing for the global marketing campaign contract. CTP staff noted they had considered cost since the finalist competing agencies all provided draft cost proposals for the 3-month initial contract. According to CTP officials, although the cost proposals submitted by all finalist agencies were considered within acceptable range by CTP's contract review committee, JWT was the most cost-effective.

After the initial 90-day contract was implemented, CTP entered into negotiations with JWT on the Master Service Agreement without conducting any further cost comparisons or a bidding process. CTP officials explained they did this since JWT had already been awarded the initial contract. According to CTP officials, while certain considerations were given to costs of services in ranking the agencies competing for the global campaign contract, JWT was not selected principally based on such costs, but on the extent to which it met CTP's performance criteria and on the quality of its work proposal. The Master Service Agreement will include JWT's costs and responsibilities for core activities for the global marketing campaign. Under the Master Service Agreement, the scope of work will be determined on an annual basis and will be based on agreed-upon services to be provided by JWT for that year. CTP staff stated that under this contract, JWT will play a key role in developing and implementing the global marketing campaign.

The Travel Promotion Act of 2009 does not require CTP to follow federal procurement laws and regulations, but the Act imposes accountability measures on CTP, by requiring the corporation to engage an independent accounting firm to conduct an annual financial audit of its operations. Federally chartered nonprofits that receive federal funding, such as CTP, may adopt, as a matter of good practice, certain federal policies and procedures to guide the implementation of their programs. According to an official with the accounting firm that conducted CTP's first financial audit, the corporation had not decided whether to adhere to federal guidance often followed by similar nonprofits, such as OMB circulars A-110⁷ or A-133.⁸ These circulars provide guidance on financial and program management, property standards, and procurement standards; and facilitate the conduct of audits and evaluation of the entity receiving federal

⁷OMB Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations* (11/19/1993) (further amended 09/30/1999), Relocated to 2 CFR, Part 215. This circular sets forth standards for obtaining consistency and uniformity among federal agencies in the administration of grants to and agreements with institutions of higher education, hospitals, and other nonprofit organizations.

⁸OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations (includes revisions published in the Federal Register* 06/27/2003 and 06/26/2007). This circular is issued pursuant to the Single Audit Act of 1984, P.L. 98-502, and the Single Audit Act Amendments of 1996, P.L. 104-156. It sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of States, local governments, and nonprofit organizations expending federal funds.

funds, respectively. This official explained that, since a determination has not been made whether CTP would follow these circulars, the audit team did not assess CTP's contracting practices, such as the process followed to select JWT, because it lacked criteria for such an assessment. Therefore, this official noted the scope of the audit was limited to whether CTP's financial statements are prepared, in all material respects, in conformity with generally accepted accounting principles. According to CTP staff, they have not made a determination to follow OMB circulars A-110 and A-133 because they are seeking legal counsel and are waiting a determination about their applicability.

CTP Major Programmatic Activities to Promote International Travel Are under Development

CTP has taken initial steps to implement preliminary programmatic activities to promote international travel to the United States, but core programmatic activities are still under development and are expected to be implemented beginning in May 2012. To begin implementing these activities, CTP with the creative assistance of JWT has created a new brand identity with a globally relevant name and brand attributes—Brand USA—that will serve as the platform for a global advertising campaign. Since the introduction of the brand at the World Travel Market Show in London in November 2011, CTP has been operating as "Brand USA." CTP considers launching the brand a major step because this is the brand and logo that international travelers will recognize as part of the advertising campaign.

CTP's major planned programmatic activity will be coordinating the global marketing campaign it is designing and implementing with JWT. According to CTP officials, as Brand USA, they expect to work with JWT and other partners to execute a marketing program that includes a global advertising campaign, public relations strategies, a social media outreach plan, promotional and incentive campaigns, trade shows and sales missions, and educational campaigns for prospective visitors about U.S. entry policies. CTP expects the global advertising campaign to be launched at a trade shown known as the International Pow Wow, in Los Angeles in April 2012. The advertising campaign will include a variety of media types, including television, print, billboards, digital, and mobile ads. After the trade show in Los Angeles, CTP plans to launch advertising campaigns in three major markets for U.S. travel, including Canada, Japan, and the United Kingdom, later followed by emerging markets, such as Brazil and South Korea.⁹ The marketing tools and audiences in each country will be determined by an analysis of existing and original market research, and tactics will be geared toward the cultural preferences of the markets in which they are deployed. In addition, CTP officials said they were developing a global network of representational firms to manage trade press and other communications in various countries. These firms will disseminate CTP materials in key markets, even where CTP's advertising campaign has not been launched. According to CTP staff, not all the components of the marketing campaign have been developed, and they have not made final decisions on the selection, timing, and cost of marketing campaigns in all the countries discussed.

As part of their programmatic activities, CTP officials are working on developing metrics to assess the impact of their efforts in increasing international travel to the United States. According to CTP staff, they have assembled a panel of industry experts who are working to select appropriate metrics that will allow them to measure the impact of CTP's promotion efforts

⁹These target markets were narrowed down from the initial list of potential markets considered by CTP at the time of our briefing for congressional committees of jurisdiction in December 2011.

and develop a process to determine the return on investment. The panel includes experts in the area of travel and tourism from federal and state agencies, academia, and the private sector. The metrics plan is expected to track awareness and perceptions of Brand USA marketing efforts and messaging, consideration of travel to the United States in response to the Brand USA marketing, incremental trips originating in the launch markets, and travel behaviors and attitudes of foreign travelers when traveling to the United States, among other items. CTP plans to validate its metrics plan with data from various sources, including Commerce's Office of Travel and Tourism Industries, the World Tourism Organization, and major credit card companies such as Visa and American Express. CTP expects to measure success in terms of the number of new visitors to the United States, increased spending by visitors, and the creation of new jobs in the United States that CTP can attribute to its activities.

Conclusions

While the Travel Promotion Act of 2009 does not require CTP to follow federal procurement policies and procedures, the Act imposes accountability measures on CTP. Among other things, it requires the corporation to engage an independent accounting firm to conduct an annual financial audit of its operations. However, CTP officials are seeking a legal determination as to whether the corporation should adhere to policies and procedures such as those in OMB circulars A-110 and A-133. Since CTP has not reached such a determination, the first external financial audit of CTP was limited to assessing whether financial statements were prepared in accordance with generally accepted accounting principles. Other financial decisions undertaken by CTP officials were not audited, including selection of JWT to conduct the global marketing campaign, the corporation's major programmatic activity to date.

Recommendation for Executive Action

To help CTP comply with the accountability provisions established under the Travel Promotion Act of 2009, GAO recommends that, as a good practice, the CEO of CTP consider adopting federal policies and procedures such as OMB circulars A-110 and A-133, to the extent possible, for use in carrying out the corporation's programs and activities.

Agency Comments and Our Evaluation

We provided a draft of this report for comment to the Chief Executive Officer of CTP. On March 8 and 9, 2010, we received final comments orally and via e-mail from CTP's Vice-President of Operations and Deputy Director of Strategic Outreach on behalf of the agency. CTP officials said that they consider our recommendation prejudicial given that the corporation has sought external legal counsel and is waiting to obtain a determination on whether CTP is subject to federal regulations, including OMB circulars A-110 and A-133. As we explained in our report, such federal policies and procedures as the OMB circulars are to be adopted not as a legal requirement but as a good practice that is often followed by similar federally chartered nonprofits that receive federal funding. Adopting such good practices will facilitate future assessments of CTP financial management and programmatic activities. Allowing for a fuller and more transparent audit of CTP activities will help ensure that CTP is readily accountable to Congress for the federal funds it manages. CTP also provided technical comments, which were incorporated in the report as appropriate.

We are sending copies of this report to the appropriate congressional committees, the CEO of CTP, and other interested parties. In addition, this report will be available at no charge on the GAO website at http://www.gao.gov. If you or your staffs have any questions about this report, please contact me at (202) 512-4104 or gomezj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Major contributors to this report were made by Juan Gobel, Assistant Director, Francisco Enriquez, Senior Analyst, and Ernie Jackson, Senior Attorney.

Alfredo Sómez

Alfredo Gomez Acting Director International Affairs and Trade

Enclosure

List of Congressional Committees

The Honorable Jay D. Rockefeller IV Chairman The Honorable Kay Bailey Hutchison Ranking Member Committee on Commerce, Science, and Transportation United States Senate

The Honorable John F. Kerry Chairman The Honorable Richard G. Lugar Ranking Member Committee on Foreign Relations United States Senate

The Honorable Joseph I. Lieberman Chairman The Honorable Susan M. Collins Ranking Member Committee on Homeland Security and Governmental Affairs United States Senate

The Honorable Fred Upton Chairman The Honorable Henry A. Waxman Ranking Member Committee on Energy and Commerce House of Representatives

The Honorable Ileana Ros-Lehtinen Chairman The Honorable Howard Berman Ranking Member Committee on Foreign Affairs House of Representatives

The Honorable Peter T. King Chairman The Honorable Bennie G. Thompson Ranking Member Committee on Homeland Security House of Representatives



Note: Some slides in this enclosure were modified after the briefing dates for the purpose of clarity.



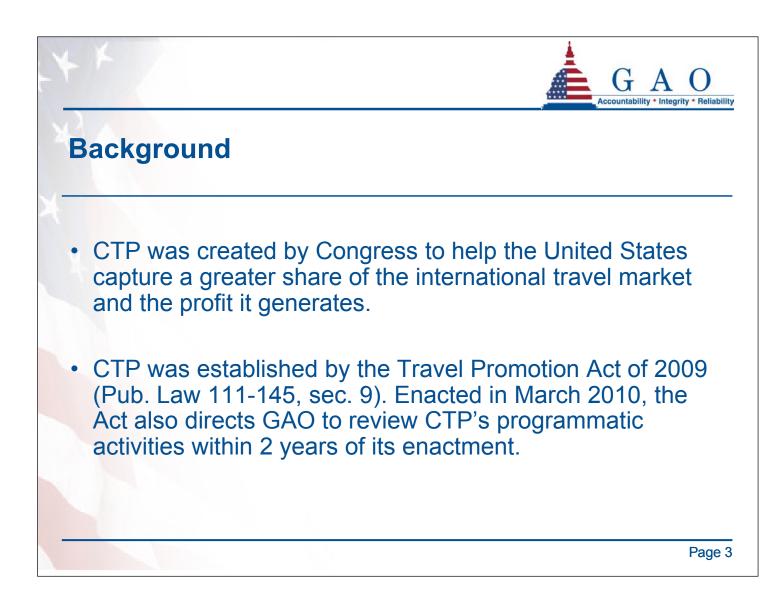
Objectives and Methodology

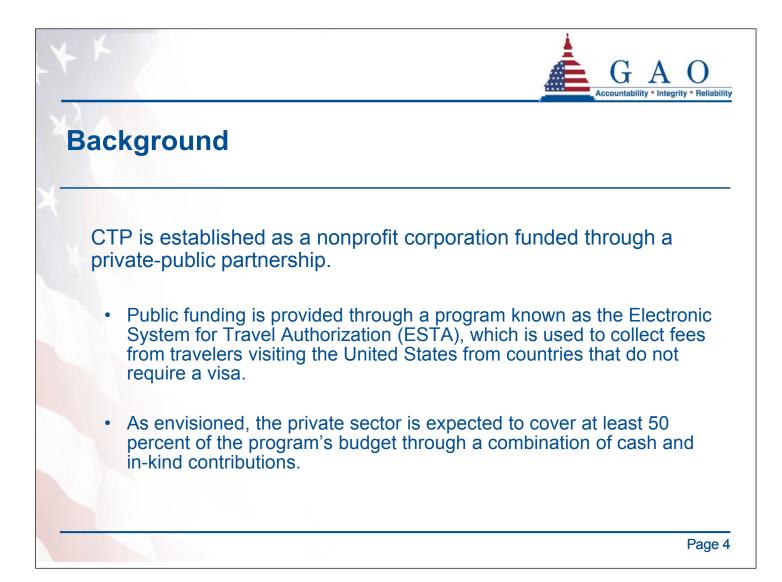
Objectives

- What is the status of CTP's establishment?
- What activities has CTP programmed to promote travel and tourism to the United States?

Methodology

To determine the progress made in CTP's establishment and activities CTP has programmed to promote travel to the United States we reviewed CTP planning, budget, and legal documents, and interviewed CTP officials.

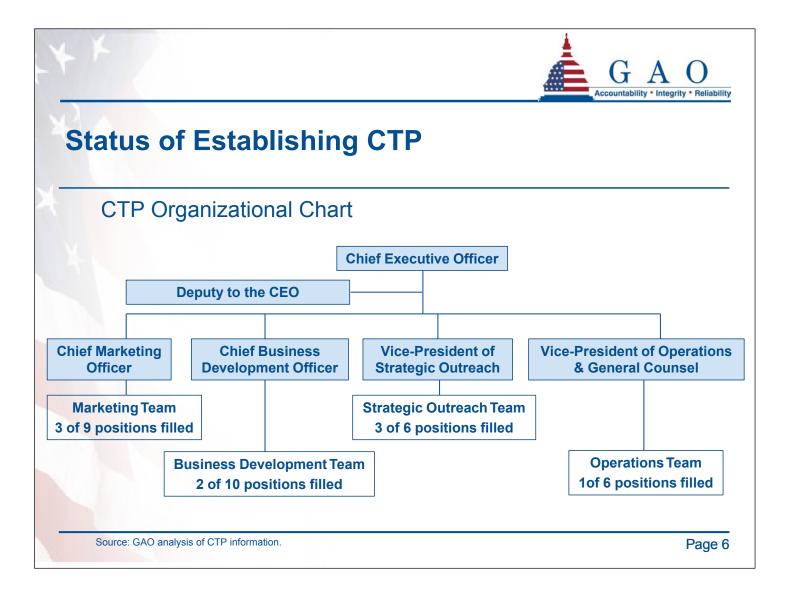




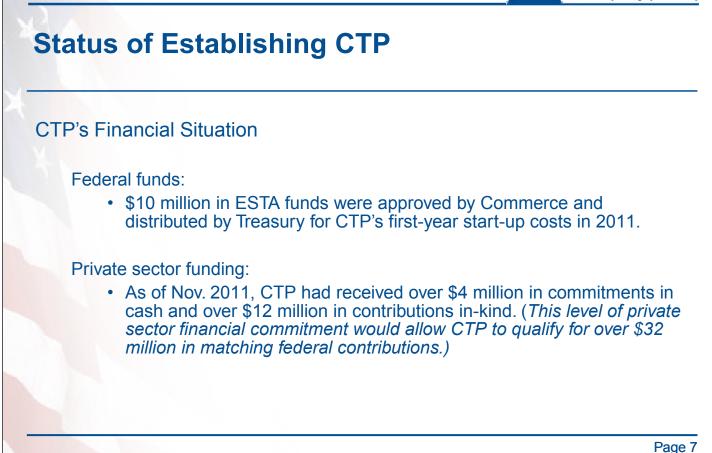


Status of Establishing CTP

- Sept. 2010: Board of Directors appointed
- Nov. 2010: Incorporated as nonprofit corporation in DC
- May 2011: CEO brought on board, followed by other senior staff
- Aug. 2011: Marketing agency selected for global campaign
- Nov. 2011:
 - CTP implemented its first major marketing activity, introducing its new brand name
 - External auditor initiated first mandated financial audit







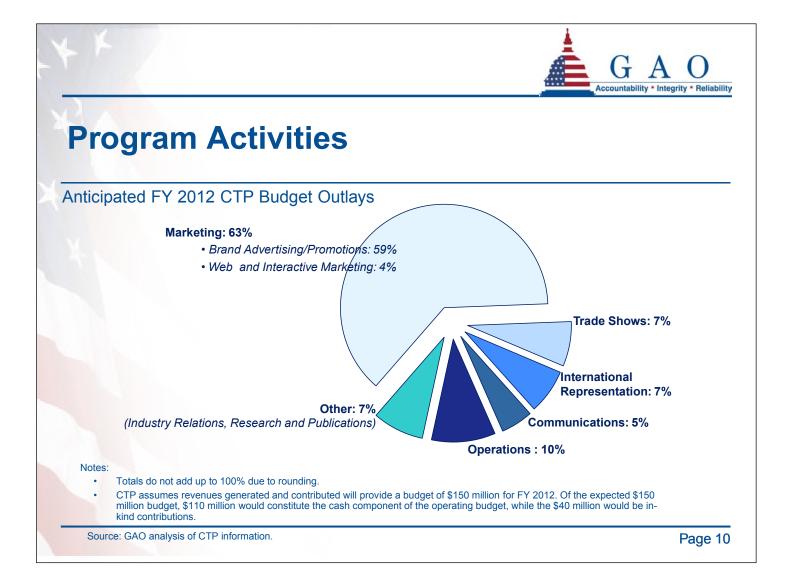




Program Activities

- Global advertising campaign Global Campaign launch at travel trade conference in Los Angeles, April 21, 2012
- Trade shows and sales missions
- Social media
- Educational campaigns regarding U.S. entry policy







Program Activities How CTP intends to measure success Efforts to develop performance metrics Number of new visitors to communities Plans to convene panel of across the country industry experts to develop metrics Increased spending at businesses, • Will use metrics to seek attractions, and destinations private sector funding Expects to increase Number of U.S. jobs created (projected as collection of Commerce tens of thousands) survey of departing travelérs

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