We conducted a special review of policies and procedures at the South County Tourism Council for the period July 1, 2002 through June 30, 2004. Our objective was to identify practices and procedures that could be improved or made more efficient. The South County Tourism Council was formed in 1986 to coordinate and promote the development and growth of tourism in the southern area of Rhode Island.

The Council is governed by a 22-member Board of Directors, and has three full-time employees, one part-time worker and seasonal volunteers. The Council derives the bulk of its revenues from the State hotel room tax. In fiscal 2004, approximately 85% of their total revenue of $590,502 was from this source. The Council operates as a not-for-profit corporation and is not an agency or department of the State of Rhode Island.

Our review disclosed that the Council invested $97,500 in a private enterprise without exercising due diligence; failed to properly monitor the investment; and used hotel tax revenue in noncompliance with state economic development guidelines.

In August 2002, the Council voted to invest in the Lighthouse Inn, a hotel in Narragansett. The investment consisted of $84,500 as a capital contribution for a 6.5% equity interest in the hotel; an additional $13,000 was loaned to the ownership of the hotel. We were informed that the developers of the hotel project needed the additional investment in order to close the purchase of the property. We found the Council had not established any policies at that time for supporting a loan or investment in a private business. Also, the Council did not obtain timely independent information concerning the property or the investors prior to approving the loan.

The Council had been informally advised by the state Director of Tourism to use funds generated from sources other than the hotel room tax for investments of this type. We found that the Council commingled its sources of revenue into a single operating account. Since the hotel room tax distribution represents 85% of the Council’s revenues, we believe it is appropriate to conclude that the major share of the private investment came from this source. We recommended that the Council utilize its hotel room tax revenue solely for tourism marketing and promotion.

Our review of Council expenses for fiscal 2004 noted that several payments were remitted late, including premiums for worker’s compensation and healthcare insurance for Council employees. We noted also that the Council did not obtain formal bids for major services rendered on behalf of the Council, including accounting, auditing, legal representation, advertising/public relations, and printing services. In addition, the Council did not consistently enter into contracts for these services. We noted signed agreements only for the current independent audit, and for legal services dated July 2004.

Copies of this report can be obtained by calling 222-2435 or by visiting our website at www.oag.ri.gov.

Audit Highlights

- The Council invested $97,500 in a private enterprise without exercising due diligence; failed to properly monitor the investment; and used hotel tax revenue in noncompliance with state economic development guidelines.

- The Council should utilize its hotel room tax revenue solely for tourism marketing and promotion.

- The Council can improve its controls over expense documentation, timely payment of expenses, and bidding practices and contracts.