

AN OVERVIEW BY THE LEGISLATIVE AUDITOR
OF THE FINANCIAL AUDIT
OF THE DEPARTMENT OF AGRICULTURE

FOREWORD

The audit report of the financial audit of the Department of Agriculture makes numerous recommendations to improve the internal control and financial operations of the department. For the most part, the department concurs with the audit findings and indicates that action has been taken or will be taken to implement the recommendations.

In addition, the report also examines particular problems associated with certain programs and operations. These include aspects of the farm loan program, the animal quarantine program and policies and procedures governing the use of privately owned vehicles.

It is our practice to request agencies affected by our examination to submit their comments on the findings and recommendations of the audit. The Department of Agriculture's response is included as Attachment 3 to Part IV of the report. The Department of Accounting and General Services has also submitted a response, included as Attachment 4, with respect to those findings and recommendations related to its operations. The auditors have reviewed the responses of the agencies, and their comments on the responses are included as Attachment 1 to Part IV of the report.

Several issues have not been completely resolved by the responses to the audit. The purpose of this overview is to identify and summarize those issues and to comment on courses of action which might be taken by the agencies, or the legislature, to resolve those issues.

FARM LOAN PROGRAM

The audit identified a number of deficiencies related to the farm loan program. The more serious problems relate to: (1) the questionable granting of loans; (2) the significant number and dollar amount of delinquent loans; and (3) the low participation of private lenders in the farm loan program.

Questionable granting of loans. The audit disclosed several cases where loans were granted by the department although the financial data of the applicants showed that the projected cash

resources of their enterprises would not have been sufficient to meet projected expenditures and obligations. The report identifies two specific cases where farmers were granted not only one loan but several successive loans despite evidence of a continually increasing deficit. As of June 30, 1971, these farmers were delinquent on their loans.

The Board of Agriculture disagrees that these are questionable loans. It takes the position that "taking risks beyond what is considered acceptable by commercial lending institutions is an appropriate feature of the farm loan program."

We do not believe that the statute intends that loans may be granted where there is little or no assurance that the loan repayments will be made. The statute specifically states that "to be eligible for loans . . . an applicant shall be a sound credit risk with the ability to repay the money borrowed," and the Department of Agriculture's own procedures state that "the ability to repay a loan from earnings is the most determining consideration in any application."

Delinquent loans. We believe that the lack of sound guidelines for making farm loans has resulted not only in questionable loans but has contributed to the significant amount and number of delinquent loans. As of June 30, 1971, 19 percent (79 loans) of the total number of farm loans (413 loans) were delinquent. These amounted to \$1.2 million in delinquent notes, including \$300,000 which have been delinquent for periods exceeding one year.

The board states that the amount of potential and actual loss ascribable to delinquent accounts is "actually very small," with the total loss since 1959 amounting to "only \$26,000" as of June 30, 1971. The board's statement of actual loss is only that amount which has been written off as losses. The amounts delinquent but not formally written off as losses is much higher. We believe that the likelihood of collecting on the delinquent loans, especially those exceeding one year, without first foreclosing on the loans is doubtful. Thus, the actual loss experience of the farm loan program is probably much greater than the \$26,000 stated by the board.

The lack of an aggressive program to reduce delinquencies reduces, in turn, the amounts available for loans. This directly affects the size and effectiveness of the loan program. We urge that the board give serious and prompt attention to the problem of delinquent loans, not only in the interests of the program but to assure that public funds are appropriately safeguarded and conserved.

Declining participation of private lenders. The audit report indicates that since 1960, private lenders have participated in the farm loan program to the extent of approximately 23 percent of the total funds loaned. However, for the last five years, the percentage of participation by private lenders has averaged only 12.6 percent. This condition has resulted in an increase in direct loans by the State and a reduction in the overall potential loan capacity of the program.

It was never intended that the State, under the farm loan program, would assume the entire credit burden of the farmer. Clearly, the circumstances and condition which have resulted in a decline of private participation in the program should be identified and eliminated to the extent possible.

This is a problem which should be thoroughly analyzed. We urge that the board and the department, in consultation with private lending institutions, determine what specific course of action can be taken to realize the full potential of joint government and private support of the loan program.

Legislative review. In addition to action by the Board of Agriculture to resolve the aforementioned issues, it would be appropriate for the legislature to conduct a review of the farm loan program. From the results of the audit, it is apparent that the board believes that the taking of higher risks in providing agricultural credit is a legitimate State function. What needs to be pursued is the basic purpose for which such risks are taken and the results which are expected through such an approach to loans. Legislative review might also focus upon changing needs and conditions, such as area or district development of agriculture, and what role the farm loan program is expected to assume in support of such development.

ANTI-RABIES QUARANTINE PROGRAM

It is now 60 years that Hawaii has been carrying on an animal quarantine program primarily to prevent the introduction of rabies. The program is costly to pet owners as well as taxpayers. The audit revealed that recent capital investment outlays (\$5.1 million) for the construction of new quarantine facilities at Halawa far exceeded original estimates (\$1.9 million). These capital costs are borne exclusively by the taxpayers. In addition, operating costs run approximately \$500,000 annually, paid for by individual pet owners as well as by the State.

The audit recommended that an analysis of the rabies control program be made before any additional funds are appropriated and expended, particularly for additional quarantine facilities to

keep up with the cat and dog population. The Board of Agriculture's position is that while the program is under "continuous evaluation" by the department, it "reaffirms its policy of rabies prevention through Hawaii's rabies quarantine program."

The fact is that *not in 60 years and not in any of the 40,000 pets which have been quarantined in those 60 years has a single case of rabies been intercepted.* This experience raises the basic question as to whether the program needs to be continued in the present form. Analysis should focus on less costly alternatives to rabies prevention.

Funds expended on a program mean that the opportunity is foregone for using the funds on some other program. The animal quarantine program should be laid alongside other health and safety priorities, and an objective determination should be made as to this particular program's ranking on the priority scale.

We reiterate the audit recommendation that the program be subjected to systematic analysis. The administration has submitted an issue paper to this session of the legislature with the recommendation that the current program be continued. The paper is not and was not intended to be a complete analysis. We believe that the department, or others in the administration, should now proceed with such analysis, including analysis of the costs, benefits and effects of *all* alternatives.

PERSONAL CAR MILEAGE REIMBURSEMENTS

The audit reported that the Department of Agriculture's regulations governing automobile mileage reimbursement claims had caused inequities among employees filing such claims for reimbursement. The department, however, amended its regulations before the completion of the audit to correct the previously observed deficiencies.

The auditors also observed that there is no statewide policy in reference to the computation of automobile mileage on reimbursement claims. The result has been that State employees in one department are reimbursed in certain situations but employees in another department are not reimbursed for the same situations. Therefore, the audit recommends that the State comptroller develop and implement a uniform State policy for personal car mileage reimbursements.

The State comptroller, in his response to the auditors' recommendation, states that there is a general policy on mileage allowances which has been a "workable policy." We disagree. A policy which results in inequities and inconsistencies is not workable.

The comptroller acknowledges that there is a need for a review of current policy and reports that a revision to the statewide regulations is being prepared.

Because of the statewide implications of the automobile mileage policy and the need for assurance that no employee is treated inequitably, we recommend that the State comptroller move with speed to revise the present ineffective policy.

Clinton T. Tanimura
Legislative Auditor

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