

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Financial Audit of the Department of Agriculture

Summary

The Office of the Auditor and the certified public accounting firm of Coopers & Lybrand L.L.P. conducted a financial audit of the Department of Agriculture for the fiscal year July 1, 1993 to June 30, 1994. The audit examined the department's financial records and its systems of accounting and internal controls and tested these for compliance with applicable laws and regulations.

In the opinion of Coopers & Lybrand L.L.P., the department's financial statements present fairly its combined financial position and the combined results of its operations for the fiscal year ended June 30, 1994. All are in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P. noted no matters involving the internal control structure and its operation that they considered to be material weaknesses as defined in the report on the internal control structure. They also noted, with respect to items tested, that the department has complied, in all material respects, with laws and regulations applicable to the department.

We are pleased to note that the department has implemented most of our 1988 recommendations. The department, however, still needs to strengthen its loan administration and adhere to procedures in its policies and procedures manual. We found also that moneys held in a trust fund should be returned to the general fund and two funds should be repealed.

With respect to internal controls over loan processing, we found that: supervisory reviews of information entered into the computer are needed, the same individual who authorizes changes to loan account information makes the changes, loan payment statements could be improved to facilitate departmental processing, and requirements in administrative rules and the policies and procedures manual are not being followed.

We also found that \$3 million held in the Hamakua Sugar Loan Guaranty Trust Fund should not be so held and the Agricultural Park Special Fund and Irrigation System Revolving Fund are not self sustaining.

Recommendations and Response

We recommend the department transfer to the general fund the \$3 million held in the Hamakua Sugar Loan Guaranty Trust Fund and that any additional receipts of the fund also be transferred to the general fund. We also recommend that the Agricultural Park Special Fund and the Irrigation System Revolving fund be repealed and cash balances in the funds be transferred to the general fund. The programs can be supported through general fund appropriations.

Further, we recommend that the department strengthen its loan administration procedures by: conducting supervisory reviews of information entered into the computer, separating the duties of authorizing changes to accounts and making those changes, modifying the computer program to generate its loan payment statements, establishing procedures to determine whether financial institutions are complying with Hawaii Administrative Rules for participatory loans, and following loan administration procedures in its manual.

The department agrees with our recommendation that \$800,000 appropriated to the Hamakua Sugar Loan Guaranty Trust Fund be transferred to the general fund. It disagrees however that the \$2.2 million in fees earned on the loan guaranty should be returned to the general fund. It cites an inter-departmental memorandum of agreement as authority to keep the bulk of the moneys to replenish the Agricultural Loan Revolving Fund for loans to the company. We point out that emergency loans to the Hamakua Sugar Company were made possible by additional general fund appropriations to the revolving fund. The appropriation to the Hamakua Sugar Loan Guaranty Trust Fund was for a different purpose and its earnings should not be transferred to the revolving fund based upon an inter-departmental memorandum of agreement. Any cash infusions to the revolving fund should be made through legislative appropriations. Any other disbursements to other departments would be an avoidance of the appropriations process. We stand by our recommendation that the earnings of the trust fund be returned to the general fund.

The department agrees with our recommendations to improve controls over loan processing. The department disagrees with our recommendation to repeal two funds and return cash balances to the general fund. The department does not agree with the criterion of self-sustainability. This criterion, however, of self-sustainability is based on government financing theory. We continue to stand by it and our analysis of the two funds. The department also provided additional information not provided during the audit and an attachment to its letter that caused us to make changes to our report draft. The department's attachment is not included in this report but is available for inspection at our office.

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