

OVERVIEW

THE AUDITOR
STATE OF HAWAII

Follow-Up Audit of the Financial Audit of the Department of Land and Natural Resources

Summary

The Office of the Auditor conducted a follow-up to its January 1992 audit, *Financial Audit of the Department of Land and Natural Resources*, Report No. 92-2. The follow-up examined the extent to which the department implemented recommendations made in our previous audit. In addition, the follow-up examined the adequacy of management controls related to land lease agreements that are delinquent or in default.

We found that the same weaknesses in the administration of land leases reported in our 1992 audit continue today. The department continues to lack effective management controls to ensure that the cash performance or surety bonds are released only under proper circumstances. Procedures and instructions to pursue late lease rents do not comply with requirements of Section 171-20, Hawaii Revised Statutes. And the department continues to have difficulty ensuring that lessee performance or surety bond requirements are met.

In addition, we found that fundamental problems exist with the department's lease management practices. These problems impede the ability to ensure compliance with lease provisions, overshadowing and compounding the weaknesses we identified in our previous audit. For example the master lease files, which are used as the primary management reference for lease administration, are poorly organized and lack commonly used aids such as "lease summary sheets" and "tickler systems." Moreover, the department is several months behind in filing lease-related documents. These problems make the master lease files ineffective as management tools. As a consequence, for example, it cannot be determined if expiring surety bonds are monitored to protect the State's interest.

Our previous audit recommended that formal policies and procedures be developed and implemented to guide lease administration practices. The department instead chose to continue its practice of issuing memorandum instructions which are inadequate because they sometimes do not provide adequate guidance. In other instances we found that staff simply failed to follow the memorandum instructions.

We did find that the new land division administrator was aware of many of the problems we identified and was in the process of instituting changes to the division's lease administration practices.



Finally we found that actions by both the department and Board of Land and Natural Resources can contravene effective lease administration. We found examples in which the board and the department's failure to take timely action further hampered the resolution of problems with lessees who are in default of their lease.

Recommendations and Response

We recommend that the Department of Land and Natural Resources take immediate steps to eliminate the backlog of unfiled documents. We also recommend that the department develop and adopt formal policies and procedures covering all aspects of lease administration. This should include, but not be limited to, the use of tickler systems, lease summary sheets, and better organized files and record keeping.

The department does not dispute our findings, but notes reasons for its lack of progress since the previous audit was conducted. The department responds that short-term steps have been initiated to address our immediate concerns and recommendations. The department also identifies longer term plans that it intends to pursue in order to achieve a permanent solution to the lease administration problems identified.

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