OVERVIEW

THE AUDITOR
STATE OF HAWAII

Financial Audit of the Harbors Division

Summary

The Office of the Auditor contracted with the certified public accounting firm of Nishihama & Kishida, CPA's, Inc. to conduct a financial audit of the Harbors Division for the fiscal year July 1, 1995 to June 30, 1996. The audit examined the department's financial records and its systems for accounting and internal controls and tested these for compliance with applicable laws and regulations. In the opinion of Nishihama & Kishida, CPA's, Inc., the financial statements of the division present fairly the financial position and results of its operations for the year ended June 30, 1996.

However, we found three reportable conditions relating to its fiscal and property management operations. One of them is considered to be a material weakness in the report on the division's internal control structure. A material weakness in the internal control structure is the worst possible reportable condition. As defined by the American Institute of Certified Public Accountants (AICPA), a material weakness exists when internal controls are such that significant errors or irregularities may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. In other words, illegal acts such as thefts could go undetected. The lack of financial information for management to review is a material weakness as defined by the AICPA.

The harbors' operating costs are paid for with harbor fees and property lease rents. Because the Harbors Division is a monopoly, those who use it have no choice but to pay the fees set by the division. Harbors users and the public have a right to expect that the fees are reasonable and necessary to pay the division's operating costs. The division should be fiscally accountable and make every effort to control costs.

Specifically we found that there is no financial reporting within the division. Needed financial reports are not prepared and the division has to pay its outside auditors to prepare accounting records and schedules so that its financial audits can be completed. Also, property management practices are deficient. The division does not have an adequate inventory of property owned to ensure that all lease rents are collected. Month-to-month-lease arrangements have gone on for years.

In addition, controls over cash receipts and billings at three district offices and certain harbors are seriously deficient. Without proper internal controls there is no assurance that all cash receipts are properly deposited.

Recommendations and Response

We recommend that the Department of Transportation and the Harbors Division take steps to ensure that needed financial reports are prepared for management. We also made specific recommendations to improve property management and controls over cash collections and billings.

The department agrees with some of our specific findings. It agrees that the Harbors Division does not currently provide monthly statements of revenues and expenditures and that financial reporting has benefits. It states that it will now try to provide reports, especially to district offices. The department also agrees with our findings relating to controls over cash receipts and billings at three district offices and certain harbors. The department points out that it is taking steps to make needed improvements and we are encouraged by its efforts in this direction.

However, the department does not agree that there is a material weakness in the division's fiscal operations. It points to a financial model it uses periodically. But our reference is to regular revenue and expenditure information, which the department has agreed to provide. The department defends its practice of relying on costly outside auditors to prepare audit schedules for the division. It feels that this is a better management approach than hiring year-round staff for what it considers temporary work. We stand on our report. Spending in excess of $90,000 a year for accounting work that is the year-round responsibility of the division cannot be a better management approach. The department needs to reexamine what tasks need to be done, by whom, and when.

The department also provided an explanation of the problems surrounding a lease renewal that has gone unresolved for 12 years. It states that it is trying to do what is best for the State. This lease came up for renewal in 1984 and the rental amount has remained unchanged since 1975. With respect to the lack of a required property inventory, the department states that it is taking steps to merge existing inventory and tenant lists to develop the type of property inventory record required by its own operating manual.

Marion M. Higa
State Auditor
State of Hawaii

Office of the Auditor
465 South King Street, Room 500
Honolulu, Hawaii 96813
(808) 587-0800
FAX (808) 587-0830