

# OVERVIEW

## *Financial Audit of the Department of Land and Natural Resources*

Report No. 00-11, April 2000

### Summary

The Office of the Auditor and the certified public accounting firm of PricewaterhouseCoopers LLP conducted a financial audit of the Department of Land and Natural Resources for the fiscal year July 1, 1998 to June 30, 1999. The audit examined the financial records and transactions of the division; reviewed the related systems of accounting and internal controls; and tested transactions, systems, and procedures for compliance with laws and regulations.

We found deficiencies in the financial accounting and internal control practices of the department, including its failure to ensure the timely submission of a federal grant application for the Historic Preservation Fund Program. The program incurred \$350,000 of expenditures for five months before obtaining approval from the federal agency in May 1999.

The department incorrectly credited federal grant funds received to the subsequent year's general fund expenditures. Approximately \$487,000 was received in FY1999-00, but related to expenditures incurred during FY1998-99. By crediting the FY1999-00 general fund expenditures, the department in essence has an additional \$487,000 to spend in FY1999-00. This enables the department to exceed its legislatively authorized appropriation ceiling and undermines legislative authority.

The department also failed to meet the federal requirement for submission of audited financial statements. The department issued its audited financial statements for the FY1997-98 on December 3, 1999, more than eight months after it was due. The department's failure to meet this timeframe could result in the loss of current or future federal funds.

We found that a land lease was not timely renewed and staff recommendations for increased rental rates were not accepted. In addition, performance and fidelity bonds totaling \$335,000 and an insurance policy covering up to \$4,000,000 were not timely executed. In fact, management notified the lessees of these deficiencies only after our audit identified them.

Finally, the Division of Boating and Ocean Recreation's new computer system could not generate key control reports. In addition, the division did not prepare treasury deposit receipts in a timely manner, failed to reconcile agency fund accounts of approximately \$700,000, and issued temporary mooring permits before the payments were received.



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## Recommendations and Response

We recommend that the department establish and implement procedures to ensure federal grants are approved before the commencement date of the grant. The department should also seek legislative authorization to spend any federal moneys credited to its general fund. The department should submit its audited financial statements within the federally required timeframe. We recommend that the department review all lease agreements to ensure new rents are implemented during the re-opening periods. We also recommend that the department review all leases and permits to ensure that all bonding and insurance requirements are being met.

The Division of Boating and Ocean Recreation should evaluate the usefulness of the revenue and receivables computer system. The department should monitor the division to ensure the timely preparation and submission of validated deposit slips and summaries of cash receipts, timely reconciliation of agency fund account balances, and the collection of payments for temporary mooring permits on or before the effective date of these permits.

The department disagrees with our findings. However, our findings, because they deal with issues of internal control, do cover issues that result in the State's assets and accountability over cash being placed at risk. The department has focused on explanations, such as the steps it takes that result in the untimely submission of its Historic Preservation Grant application.

In addition, the department provides an explanation for receipting federal funds in a subsequent year. However, the department does not address the appropriateness of this practice that permits the department to exceed its legislatively authorized general fund ceiling. The department states that the delay in completing the audit of its financial statements was out of its control. However, it is the department's responsibility to monitor and enforce the contract provisions of its outside auditor.

The department does not disagree with our finding on the untimely land lease renewal and compliance with the bonds and insurance requirements of lease agreements. The department instead explains its procedures and a new land management system for improving the timeliness of land lease renewals and bonding and insurance policies. The department also reported that the land lease renewal rent increase *was* retroactively applied resulting in no loss of moneys to the State. However during our audit, we were informed that the new rent would not be retroactively applied. The issue is that the new lease rent was not implemented in a timely manner.

The department did not disagree with the findings identified in the Division of Boating and Ocean Recreation. The department provided information on its improvements or planned improvements to the fiscal operations of the division.

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