

# OVERVIEW

## *Financial and Management Audit of the Moloka'i Irrigation System*

Report No. 08-03, February 2008

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### Summary

We conducted this audit in response to Senate Concurrent Resolution No. 176, of the 2007 legislative session. The Moloka'i Irrigation System provides about 1.4 billion gallons of water annually to its users. Construction was started in 1957 to bring water from the eastern end of Moloka'i to the central farming areas as part of a federal and state commitment to native Hawaiian homesteaders. The system consists of collection dams and deep wells; a transmission tunnel, pipes, and flume; a reservoir; and distribution pipes to customers. Among the customers is the Moloka'i Ranch, via a rental agreement.

We found that while the Department of Agriculture inherited a broken system, little has been done to learn about system problems or to create a plan to address them. The department received historical data on the system from the Department of Land and Natural Resources, and yet it was not clear that department personnel understood the significance of its history. Numerous studies recommended management and operational improvements. For example, problems reported in a 1987 study still exist today, unaddressed.

The department's flawed management endangers agriculture in Moloka'i. It has been unable to reconcile its responsibilities as stewards to the irrigation system and obligations to the Hawaiian homesteaders. While it recognizes the homesteaders' two-thirds water preference accorded by Section 168-4, HRS, this is not reflected in any planning. Non-homestead farmers consume approximately 80 percent of the system's available water. Effectively, the two seemingly complementary responsibilities have become competitors with the needs of the homesteaders subsumed to the interests of larger agricultural business.

A lack of procedures over maintenance and a lack of appropriate tools and equipment contributed to the further decline of an already broken system. For example, system flow would increase if at least some of the air relief valves were replaced. At the time of our field work, 16 of 17 valves were inoperable. Exacerbating the problem was the large workload shared among a small staff. We found miscommunication and lack of communication between levels of management, with district offices making requests that divisional management was not aware of. And while the audit request asks us to determine costs for upkeep, it is necessary to first bring the system to efficient operational order before that can be addressed.

Department leadership is also lacking in the long-term planning for the system. The department's strategic plan should provide overarching goals for the divisions, while the divisional action plan should outline the steps to achieve those goals.



However, this was not apparent in the plans we reviewed. Goals were vague with no specific implementation plans or performance metrics. Multiple studies have been commissioned with little return on their investment and their recommendations allowed to languish. The users' advisory board is underutilized.

Further, weaknesses in the department's fiscal management leave the MIS to struggle financially. The department did not make use of internal financial reporting as a management tool. Records of activity (cash collections, expenditures) specific to the MIS maintained by the fiscal office and the division were not reconciled. Accounts receivable collection is a large problem, with more than 90 percent of receivables outstanding more than 60 days. The division also manages four other irrigation systems, and the records for all five systems were maintained in aggregate, leaving divisional management to make decisions based on the whole, as opposed to addressing the individual needs of the different systems. We tried our hand at breaking out MIS revenues and expenditures and concluded that in FY2006-07, MIS generated \$498,000 in cash receipts and expended \$428,000. The receipts included \$136,000 from the pipeline services rental agreement.

The department was unable to provide detailed information on its financial statements without outside assistance. This lack of knowledge leaves the department susceptible to greater problems, because staff would be unable to identify key accounting issues and bring them to management's attention. Additionally, the department relies heavily on annual general fund appropriations for the Irrigation System Revolving Fund, contrary to the intent of a revolving fund.

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## Recommendations and Response

We recommend that the department prioritize critical system needs to bring the system to proper working condition and present the rationale to the Legislature. Additionally the material and equipment needs must be addressed. In short, to begin planning for greater efficiencies the department must first fix the broken system. At the same time, the department needs to begin addressing its long term plans for the MIS. The system is approaching the end of its original design life. The people of Moloka'i are highly dependent on this system and the department needs to ensure that disruption of service does not occur.

The department responded to a draft of the report. The department pointed out some technical inconsistencies which have been corrected in the final version of the report. Otherwise, we stand on our report. Other department comments include corrective actions in process or initiated after the completion of our audit fieldwork. While we applaud the department for taking proactive steps generally, it would be premature for us to comment on those actions. Most importantly, we note that the department agreed with the recommendations, which is encouraging, and offers hope for improvement of the Moloka'i Irrigation System.

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**Marion M. Higa**  
State Auditor  
State of Hawai'i

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