AUDIT REPORT NO. 72-2

JANUARY 1972

FINANCIAL AUDIT OF THE DEPARTMENT OF AGRICULTURE

A REPORT TO THE GOVERNOR AND THE LEGISLATURE OF THE STATE OF HAWAII

SUBMITTED BY THE LEGISLATIVE AUDITOR OF THE STATE OF HAWAII

THE OFFICE
OF THE LEGISLATIVE AUDITOR

The office of the legislative auditor is a public agency attached to the Hawaii State legislature. It is established by Article VI, Section 7, of the Constitution of the State of Hawaii. The expenses of the office are financed through appropriations made by the legislature.

The primary function of this office is to strengthen the legislature's capabilities in making rational decisions with respect to authorizing public programs, setting program levels, and establishing fiscal policies and in conducting an effective review and appraisal of the performance of public agencies.

The office of the legislative auditor endeavors to fulfill this responsibility by carrying on the following activities.

1. Conducting examinations and tests of state agencies' planning, programming, and budgeting processes to determine the quality of these processes and thus the pertinence of the actions requested of the legislature by these agencies.
2. Conducting examinations and tests of state agencies' implementation processes to determine whether the laws, policies, and programs of the State are being carried out in an effective, efficient and economical manner.
3. Conducting systematic and periodic examinations of all financial statements prepared by and for all state and county agencies to attest to their substantial accuracy and reliability.
4. Conducting tests of all internal control systems of state and local agencies to ensure that such systems are properly designed to safeguard the agencies' assets against loss from waste, fraud, error, etc.; to ensure the legality, accuracy and reliability of the agencies' financial transaction records and statements; to promote efficient operations; and to encourage adherence to prescribed management policies.
5. Conducting special studies and investigations as may be directed by the legislature.

Hawaii's laws provide the legislative auditor with broad powers to examine and inspect all books, records, statements, documents and all financial affairs of every state and local agency. However, the office exercises no control functions and is restricted to reviewing, evaluating, and reporting its findings and recommendations to the legislature and the governor. The independent, objective, and impartial manner in which the legislative auditor is required to conduct his examinations provides the basis for placing reliance on his findings and recommendations.

LEGISLATIVE AUDITOR

LEGISLATIVE AUDITOR
STATE CAPITOL
HONOLULU, HAWAII 96813

FINANCIAL AUDIT OF THE DEPARTMENT OF AGRICULTURE STATE OF HAWAII FISCAL YEAR ENDED JUNE 30, 1971

Conducted by
Lybrand, Ross Bros. & Montgomery
Certified Public Accountants

A Report to the Governor and the Legislature of the
State of Hawaii

Submitted by the
Legislative Auditor of the State of Hawaii

Audit Report No. 72–2
January 1972

FOREWORD

This financial audit report is the result of the examination of the financial statements and records of the State department of agriculture for the fiscal year ended June 30, 1971. The audit was conducted by Lybrand, Ross Bros. & Montgomery, certified public accountants.

The audit was performed in accordance with the generally accepted auditing standards adopted by the membership of the American Institute of Certified Public Accountants. In addition, the audit was governed by the *Specifications and Instructions for Submitting Proposals for the Audit of the State Department of Agriculture,* issued by our office.

This report is divided into four parts. Part I contains a description of the department's organizational history and functions. Part II, Financial Statements, displays the financial statements of the department and includes the auditors' opinion as to the reasonable accuracy of the financial statements.

Part III, Report on Internal Control, Accounting Systems and Procedures, and Specific Areas of Concern, includes the auditors' evaluation of the adequacy and effectiveness of the system of internal control and the adequacy of the financial records, financial reporting, and budgetary controls. In addition, the policies, practices and operating procedures in certain areas were examined. These include the activities of the farm loan program, the animal quarantine station, and the department's automobile transportation system.

It is our practice to request each of the agencies affected by the audit to submit in writing its comments on the findings and recommendations and to indicate what action has been or will be taken. Agency response resulting from this audit is included in Part IV of this report titled Comments by Affected Agencies.

We wish to express our sincere appreciation for the excellent cooperation and assistance extended by the officers and staff of the department of agriculture.

Clinton T. Tanimura
Legislative Auditor

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DEPARTMENT OF AGRICULTURE

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LYBRAND, ROSS BROS. & MONTGOMERY
CERTIFIED PUBLIC ACCOUNTANTS

COOPERS & LYBRAND
IN AREAS OF THE WORLD
OUTSIDE THE UNITED STATES

ALEXANDER YOUNG BUILDING
HONOLULU, HAWAII 96813

December 30, 1971

Mr. Clinton Tanimura
Legislative Auditor
State of Hawaii
Honolulu, Hawaii

Dear Mr. Tanimura:

We have completed our financial audit of the Department of Agriculture of the State of Hawaii for the period July 1, 1970 to June 30, 1971.

The objectives of our examination were:

1. To provide a basis for our opinion on the reasonable accuracy of the financial statements of the State Department of Agriculture.

2. To ascertain whether or not expenditures have been made and all revenues and other receipts to which the State is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and the federal government (where applicable).

3. To ascertain the adequacy of the financial and other management information reports in providing officials at the different levels of the Department with the proper information to plan, evaluate, control and correct program activities.

4. To evaluate the adequacy, effectiveness and efficiency of the systems and procedures for financial accounting and internal control, and to recommend improvements to such systems and procedures.

The scope of our examination included the following:

1. General -

   a. A limited audit of the fiscal transactions and accounting records of the Department of Agriculture, State of Hawaii, for the period July 1, 1970 to June 30, 1971.

   b. An examination of the existing systems and procedures of accounting, reporting, operating and internal controls. The deficiencies and weaknesses identified in the systems and procedures were identified and recommendations thereto are included as part of the over-all report.

2. Specific Areas Of Concern -

   a. An examination of the operations of the Farm Loan Program including, but not limited to, the following:

      1) The adherence by the Department to the purposes and intent of Section 155 (relating to the Farm Loan Program) and other related statutes, rules and regulations, which included, among other things, the determination of the adequacy of the security for the loans, the use of the loan proceeds for the purposes intended, the setting of interest rates as prescribed by statute, and the eligibility of the borrowers.

      2) The adequacy of the Farm Loan Program's collection practices, policies and procedures.

3) The prudence by which the finances of the Program were administered.

4) The determination of whether amounts were presently in excess of or may in the future be expected to exceed the financial requirements of the Program.

b. An examination of the operations of the animal quarantine station including, but not limited to, the following:

1) A determination of the adequacy of the fiscal controls and practices relating to the assessment and collection of fees and other charges.

2) The identification of areas or activities in which costs may be reduced or eliminated. A determination of the status of the study which the 1971 State Legislature directed the Department to conduct relating to the reduction of the quarantine period for animals.

3) A determination of the sufficiency of the fees and charges assessed to defray the costs of the quarantine activities.

4) An assessment of the capital improvement planning process which includes, among other things, a comparison of the original scope, programming and budgeting of the capital facility at Halawa with the actual scope, implementation and cost of the project.

c. An analysis of the auto transportation costs including, but not limited to, an evaluation of the cost of acquiring and maintaining State-owned automobiles as compared to the cost of mileage allowances for privately-owned and driven vehicles. An examination of the efficiency of the auto maintenance program.

Our report is presented in three parts:

Part I - includes a description of the Department of Agriculture, including its establishment, administration, organization and functions;

Part II - reports the results of our examination of the Department of Agriculture's financial records and transactions; and

Part III - presents our findings and recommendations regarding the systems of internal control, accounting systems and control, and specific areas of concern.

* * * * *

We appreciate the courtesies extended to us by your staff and the personnel of the Department of Agriculture during our examination. If we can be of additional assistance to you or the Department of Agriculture in implementing our recommendations, we will be happy to do so.

Very truly yours,

Lybrand, Ross Bros. & Montgomery

PART I
ORGANIZATIONAL HISTORY AND FUNCTIONS

STATE OF HAWAII
DEPARTMENT OF AGRICULTURE

Part I - Organizational History And Functions

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STATE OF HAWAII

DEPARTMENT OF AGRICULTURE

ORGANIZATIONAL HISTORY AND FUNCTIONS

Establishment

Act 132 of the 1st State Legislature, Regular Session of 1961, amending Act 1 of the 1st State Legislature, 2nd Special Session of 1959 (Hawaii State Reorganization Act of 1959), created the Department of Agriculture through the reorganization of functions relating to the Department of Agriculture and Conservation and the Department of Land and Natural Resources.

Functions Of The Department

As enumerated in the statutes, the functions of the Department of Agriculture are to formulate and administer programs for the State of Hawaii designed to promote the conservation, development and utilization of agricultural resources in the State; assist the farmers of the State and any others engaged in agriculture by research projects, dissemination of information, crop and livestock reporting service, market news service and any other means of improving the well-being of those engaged in agriculture and increasing the productivity of the lands; and administer the programs of the State relating to animal husbandry, entomology, soil conservation, farm credit, development of agricultural products and the establishment and enforcement of the rules and regulations on the grading and labeling of agricultural products, and weights and measures.

General Administration

The general administration of the Department of Agriculture includes the State Board of Agriculture, the Office of the Chairman of the Board and the Administrative Services Office. A brief description of the make-up of the general administration and their respective functions is as follows:

The State Board of Agriculture is comprised of eight members - one resident each from the counties of Hawaii, Maui and

ORGANIZATIONAL HISTORY AND FUNCTIONS

Kauai, four at large appointees, and the Chairman of the Board of Land and Natural Resources who serves as an ex-officio voting member. The Chairman and members are appointed by the Governor with the advice and consent of the Senate. The Board is vested with the powers, authority and duties to achieve the overall objectives of the Department.

The Chairman of the State Board of Agriculture serves as a full-time administrator, performing such duties and exercising such powers as delegated by the Board.

The Administrative Services Office provides financial information on the Department's operations, maintains financial controls, procures supplies and equipment, develops annual budgets and assists the administrators of the Department's operating divisions in the financial management of their operating units.

Operating Divisions

The operating divisions of the Department are as follows:

The Animal Industry Division controls, administers and coordinates the activities and programs of the four branches of the Division. It also provides housekeeping services for the Federal-State cooperative Meat Grading Program, registering services and record-keeping of livestock brands. Through the livestock disease control branch, the Division strives to detect, prevent, suppress and eradicate livestock diseases in order to promote the health and economic well-being of the livestock industries in the State of Hawaii and to protect the public through the detection, elimination or control of animal diseases which are transmissible to man. The meat inspection branch has the responsibility of administering programs to guard the public health by insuring a source of wholesome meat and meat products and to collect data on disease conditions found in animals offered for slaughter. The veterinary laboratory branch seeks to diagnose animal disease and thus supports the livestock disease control, meat inspection, and inspection and quarantine programs. The branch also conducts applied research to solve disease problems related to current needs and to improve existing methods of disease prevention and control. Finally, the inspection and quarantine branch, through inspection and quarantine, seeks to prevent the introduction of various diseases which are transmissible to animals and man.

The Farm Loan Division administers programs to promote the agricultural development of Hawaii by stimulating, facilitating and granting loans to qualified farmers.

The Marketing and Consumer Services Division through its three branches, controls, administers and coordinates its activities to improve the various functions in the marketing channels for the products of Hawaii's agriculture. The programs of the commodity branch include the promotion of market quality of agricultural, horticultural and processed commodities, protection against unfair competition, unfair trade practices, sales and distribution of inferior products, adulteration and mislabeling of products and the development of export-market for Hawaii fresh fruits and vegetables, flowers and foliage, and processed products. The crop and livestock reporting branch collects, analyzes and publishes agricultural statistical data relating to estimated, as well as, actual acres planted, acres for harvest, production and value of crops, movement, stocks, marketing, processing and other utilization of crops, livestock and other agricultural products of Hawaii so as to make for a more efficient production and marketing of the agricultural products produced. The market news branch collects and disseminates information on prices, supply and market conditions in a particular market place including adequate outlook information on a market-area basis for the purpose of anticipating and meeting consumer requirements, aiding

ORGANIZATIONAL HISTORY AND FUNCTIONS

in the maintenance of farm income and bringing about a balance between production and utilization of agricultural products.

The programs of the Plant Industry Division are administered by three branches. The plant quarantine branch is concerned with the protection of Hawaii's agricultural industries and natural resources against the entry and spread of insects, diseases and pests. The entomology branch is concerned with the control of insects, weeds, diseases and snail pests which are currently established or which may enter the State and cause economic losses. The weed branch has the responsibility to safeguard the crop and range lands from the encroachment of noxious weeds through the control and eradication of such plant pests, to prevent the introduction of noxious weed seeds, and to maintain a quality control on sale of seeds. It also polices the improper use of hormone-type herbicides.

The Weights and Measures Division is split into three distinct support branches. The weighing and measuring instruments branch conducts examinations, inspections and tests of all commercial weighing and measuring devices to safeguard the consumer public. The commodities and trade practices branch assures the accuracy of labeling and packaging of consumer commodities. The standards and technical services branch administers and makes factual determinations of length, volume and mass standards incident to consumer protection in the field of weights and measures.

The Milk Control Division stabilizes and improves the economic well-being of the dairy industry and insures an adequate supply of milk.

The Hawaii Development Irradiator (HDI) program is to increase the market potential for agricultural commodities through use of gamma radiation to meet quarantine restrictions. Through the facilities provided by the HDI to the industry, the program seeks to promote interest and early adoption and use of the irradiation process.

PART II

FINANCIAL STATEMENTS

STATE OF HAWAII
DEPARTMENT OF AGRICULTURE

Part II - Financial Statements

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STATE OF HAWAII

DEPARTMENT OF AGRICULTURE

FINANCIAL STATEMENTS

Introduction

The fiscal responsibility of the Department of Agriculture consists of expending State funds in accordance with the law and for the purposes authorized; collecting all revenues which it is by law required to receive; safeguarding all public funds and property with which it is charged from loss, waste, extravagance and fraud; maintaining a system of accounts which accurately reflect all fiscal transactions; and, preparing financial statements which accurately summarize the agency's fiscal transactions and fiscal status.

This part of the report contains the financial statements of the Department of Agriculture for the year ended June 30, 1971.

Description Of Financial Statements

A brief description of the financial statements included in this section is presented below:

Accountants' Opinion indicates the scope of the examination and the accountants' expression of an opinion of whether the financial statements present fairly the financial position and results of operations of the Department of Agriculture for the examination period in accordance with generally accepted accounting principles consistently applied.

Notes To The Financial Statements represent disclosures which furnish the reader a better understanding of the

FINANCIAL STATEMENTS

financial statements and those which are necessary to make the financial statements not misleading.

Balance Sheet discloses the assets, liabilities, reserves, and fund balances of the Department's various funds as of a specified date.

Combined Balance Sheet	(All Funds)
General Fund	(Exhibit A)
Special Funds	(Exhibit B)
Trust Funds	(Exhibit C)
Bond Fund	(Exhibit D)

Statement Of Changes In Fund Balance combines the appropriations, expenditures, encumbrances and transfers during the year and summarizes their results during the year on the fund balance. (Schedule I to Exhibit A)

Statement Of Appropriations, Allotments, Expenditures And Encumbrances indicates the funds authorized, made available, expended and obligated for the period presented. (Schedule II to Exhibit A)

Statement Of Expenditures By Object Code Description summarizes the current year expenditures by the type of expenditure. (Schedule III to Exhibit A)

Statement Of Revenue, Expenditures, Transfers And Fund Balance summarizes the results of financial transactions during the year. (Schedule to Exhibit B)

Statement Of Cash Receipts And Disbursements discloses the transactions affecting the cash account during the year. (Schedule to Exhibit C)

STATE OF HAWAII
DEPARTMENT OF AGRICULTURE

FINANCIAL STATEMENTS

Statement Of Revenue shows the revenue actually collected during the year by the Department to the credit of the State General Fund and the comparison of the actual collections to the anticipated revenue. (Exhibit E)

To facilitate the reader's understanding of some of the technical language used in the report, a "Glossary Of Terminology" is also included in this section.

STATE OF HAWAII

DEPARTMENT OF AGRICULTURE

GLOSSARY OF TERMINOLOGY

Accrual Accounting - Method of accounting in which revenue is recorded when earned and expenditures are recorded as soon as they result in liabilities for benefits received, notwithstanding that the receipt of the revenue or the payment of the expenditure may take place in whole or in part, in another accounting period.

Allotment - Authorization by the Director of Budget and Finance to a State agency to incur obligations and to make expenditures pursuant to the appropriation made by the State Legislature.

Appropriation - An authorization granted by the State Legislature permitting a State agency within established fiscal and budgetary controls to incur obligations and to make expenditures. Appropriations are of two types: (1) funds which are available for use until completely expended and (2) funds which lapse if not expended or encumbered at the end of the fiscal year.

Appropriated Receipts - Funds received by the State for designated purposes and specifically authorized by the State Legislature to be expended by the State agency. The funds may lapse at the end of the fiscal year or be carried over until completely expended based upon the designated purposes of the receipts.

Budget - A financial plan for the accomplishment of objectives within a definite time period embodying an estimate of proposed expenditures and the proposed means of financing them.

Capital Expenditure - Expenditure which results in the acquisition of or addition to the general fixed assets.

STATE OF HAWAII

DEPARTMENT OF AGRICULTURE

GLOSSARY OF TERMINOLOGY

Cash Accounting - Method of accounting in which revenue is recorded when received in cash and expenditures are recorded when paid.

Encumbrance - Ear-marking or setting aside of certain sums of money from an appropriation for payment at a future date.

Equipment - Tangible property of a more or less permanent nature, other than land, buildings and improvements which is useful in carrying on operations and is usually acquired through the agency's operating appropriation.

Expenditure - Actual disbursement of funds for the payment of goods delivered or services rendered which were incurred against authorized funds.

Fund Balance - Excess of assets of a fund over its liabilities and reserves which is available for future appropriation unless restricted for a specific purpose.

Internal Control - The plan of organization and all of the coordinate methods and measures adopted within an organization to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.

Lapsed Balance - The balance of funds authorized, which were unexpended and uncommitted at the end of a prescribed time period. These funds are available for appropriation by the State Legislature in the ensuing fiscal year.

STATE OF HAWAII

DEPARTMENT OF AGRICULTURE

GLOSSARY OF TERMINOLOGY

Modified Cash Accounting - Method of accounting in which revenue is recorded when actually received and expenditures are recorded when actually incurred.

Other Current Expenses - Expenditures other than for personal services, equipment and capital expenditures.

Personal Services - Salaries and wages paid to employees.

Reserve - An account which records a portion of the fund balance which must be segregated for some future use and which is, therefore, not available for further appropriation.

Transfers - Inter-fund, inter-department and other transfers and transactions outside of an agency authorized by the Director of Budget and Finance and/or Governor.

LYBRAND, ROSS BROS. & MONTGOMERY
CERTIFIED PUBLIC ACCOUNTANTS

COOPERS & LYBRAND
IN AREAS OF THE WORLD
OUTSIDE THE UNITED STATES

To the Legislative Auditor
State of Hawaii
Honolulu, Hawaii

We have examined the accompanying combined balance sheet and related financial statements (Exhibit A to Exhibit D and related schedules) of the Funds of the Department of Agriculture, State of Hawaii as of June 30, 1971 and for the year then ended. We have also examined the accompanying statement of revenue collected by the Department of Agriculture for the State of Hawaii General Fund (Exhibit E) for the year ended June 30, 1971. As explained in note 2 to general notes to the financial statements on page 20, the General Fund (Exhibit A) of the Department of Agriculture is a part of the State of Hawaii General Fund and our opinion expressed herein, insofar as it relates to the amounts included for the General Fund (Exhibit A and related schedules) is limited to the transactions of the Department of Agriculture only. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as stated in the following paragraph.

As indicated in the note to the financial statements of the Special Funds, page 41, delinquent notes and interest receivable aggregated $1,320,559 of which $80,542 affects the Farm Loan Reserve Fund, $1,215,017 affects the Farm Loan Revolving Fund and $25,000 affects the Hawaii Agricultural Products Revolving Fund. Although either first or second mortgages on real estate, equipment or crops are pledged as collateral on these loans, we were unable to ascertain the fairness of the values assigned to these collaterals. Accordingly, we do not express an opinion on the balance sheets of the Farm Loan Reserve Fund, Farm Loan Revolving Fund and the Hawaii Agricultural Products Revolving Fund of the Department of Agriculture, State of Hawaii at June 30, 1971 and the related statements of revenue, expenditures, transfers and fund balance of these Funds for the year then ended, including the applicable notes to the financial statements of the respective Funds.

In our opinion, the aforementioned financial statements and related schedules (excluding those financial statements mentioned in the preceding paragraph) present fairly the financial position of the various Funds (excluding the Farm Loan Reserve Fund, Farm Loan Revolving Fund and Hawaii Agricultural Products Revolving Fund) of the Department of Agriculture, State of Hawaii at June 30, 1971 and the results of their respective operations and the revenue collected by the Department of Agriculture for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Lybrand, Ross Bros. & Montgomery

Honolulu, Hawaii
October 29, 1971

STATE OF HAWAII

DEPARTMENT OF AGRICULTURE

General notes to the financial statements

June 30, 1971

1. Accounting Principles

The accounts of the Department of Agriculture are maintained and the accompanying financial statements have been prepared on a modified cash basis of accounting, except the Revolving Funds which have been prepared on the accrual basis. Under the modified cash method, generally revenue is recognized when actually received and expenditures are recognized when actually incurred.

The accounting procedures provide for the recording of commitments at the time contracts are awarded and orders placed for equipment, construction, services and supplies. These commitments are represented as encumbrances in the accompanying financial statements and are necessary to reflect obligations against appropriations.

Construction projects and equipment purchased by the Department of Agriculture are recorded as expenditures of the various funds. These assets are not reflected as assets in the accompanying balance sheets of the funds, but are reflected in the General Fixed Assets of the State of Hawaii. Depreciation of these assets is not recorded by the State of Hawaii.

2. Fund Categories And Description

The accounting system is characterized by the use of separate funds. These funds are structured to conform to appropriations and allotments authorized by law. Major categories of funds administered by the Department of Agriculture are briefly described below:

STATE OF HAWAII
DEPARTMENT OF AGRICULTURE

General notes to the financial statements
June 30, 1971

The General Fund is used to account for all resources not specifically set aside for special purposes. Any activity not financed through another fund is financed through this fund. The annual operating budget as adopted by the Legislature provides the basic framework within which the resources and obligations of the General Fund are accounted. The operating budget and the related General Fund accounting process complement each other as basic control functions in the general administration of the Department. The General Fund of the Department of Agriculture is a part of the State of Hawaii General Fund and the accompanying General Fund financial statements are limited to and reflect only the appropriations and obligations of the Department of Agriculture.

Special Funds are operated to account for revenue designated for particular purposes. These funds are often of the same nature as the General Fund, the distinguishing characteristics being that the Special Funds have legislative or other limitations imposed upon their use. A description of the Department of Agriculture's Special Funds is presented below:

Farm Loan Program -

Section 155, Hawaii Revised Statutes, as amended, established the Farm Loan Program to promote the agricultural development of the State of Hawaii by stimulating, facilitating and granting loans to qualified farmers. To account for the activities of the Farm Loan Program, the following funds were created:

(a) Farm Loan Reserve Fund - accounts for all interest and fees collected on loans granted under the Farm Loan Program and the necessary expenditures to carry on the operations of the program. Any excess monies are to be transferred to the Farm Loan Revolving Fund at the discretion of the Department of Agriculture.

(b) Farm Loan Revolving Fund - accounts for the appropriations, loan disbursements, principal repayments of the loans and any surplus monies transferred from the Farm Loan Reserve Fund.

Hawaii Agricultural Products Program -

Act 75, SLH 1963 established the Hawaii Agricultural Products Program to encourage the growth and development of the economy of the State of Hawaii by stimulating qualified agriculturists to undertake new agricultural product enterprises. This program provides grants of allowances for such new enterprises as are planned to produce new agricultural products intended primarily for export markets. All activities under this program are accounted for in the Hawaii Agricultural Products Revolving Fund.

Agricultural Marketing Order Program -

Act 175, SLH 1970 established the Agricultural Marketing Order Revolving Fund to assist various segments of the Hawaii agricultural industry to establish federal or state marketing orders to control the quality and volume of commodities marketed.

Trust Funds are used to account for resources held by the Department of Agriculture as a trustee or an agent. The accounts are operated in accordance with a specific agreement or other governing regulations. The Department also uses the Funds for clearing funds to deposit collections for subsequent distribution to other accounts. A description of the Department's Trust Funds is presented below:

STATE OF HAWAII

DEPARTMENT OF AGRICULTURE

General notes to the financial statements

June 30, 1971

Temporary Deposit - Animal Industry Fund - created as a result of the Cooperative Meat Grading Service Agreement for the purpose of providing a trust account for all funds received for meat grading services and to account for the expenditures necessary to conform to Federal standards.

Plant Quarantine Inspection Service Overtime Contribution Fund - created on February 5, 1960 with the Governor's approval to account for the funds necessary to provide inspectional services at locations other than docks or landings by qualified State inspectors during off hours. Activities relating to contributions by private transportion companies and payments for overtime compensation and fringe benefits are included in this fund.

Temporary Deposit - Plant Industry Fund - accounts for the temporary deposits of cashier's checks by private individuals in lieu of bonds to insure compliance with the conditions imposed by the Department of Agriculture for the importation of monkeys. Subsequent refunds are made from this Fund upon the deaths or departures of the monkeys from the State. This fund also includes certain receipts from the Federal Government.

Contribution To Study Papaya Fumigation Fund - created to account for contributions and payments of expenses for study on papaya fumigation processing.

Producers' Settlement Fund - created by Act 260, SLH 1967 for the purpose of equalizing milk prices paid by distributors and received by producers. This Fund accounts for the temporary deposit of prices paid by the distributors based on the milk use classification and eventual redistribution of the collections to producers according to the pro-rata share of the market demand for the various classes of milk.

Temporary Deposit - Marketing And Consumer Services Fund - accounts for the temporary deposits of fees collected for inspections of processed food and fresh fruits and vegetables and the payments to the U. S. Government and State of Hawaii.

The Bond Fund is used to account for the proceeds of bonds issued by the State of Hawaii to finance projects of the Department of Agriculture.

3. Commitments

In accordance with the general practice followed by other State agencies, the Department of Agriculture does not reflect the accrued and potential liability for earned vacation and sick leave credits, but discloses these commitments as a footnote for informative and adequate disclosure of material matters in the financial statements.

On June 30, 1971, the employees' accrued vacation leave amounted to approximately $650,000 at prevailing pay schedules. Within certain limitations the employees are entitled to receive cash payments for such accruals upon termination of their employment. The policy of the Department of Agriculture is to record the expenditures for vacation leave when paid from current appropriations, except for the Hawaii Development Irradiator Program which records vacation pay on an accrual basis.

On June 30, 1971, accrued sick leave for the employees of the Department of Agriculture aggregated approximately $1,600,000 at prevailing pay schedules. Sick leave can accumulate at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment.

All full-time employees of the Department of Agriculture are required by Section 88 of the Hawaii Revised Statutes to become members of the Employees' Retirement System of the State of Hawaii, a contributory retirement system. Optional membership is available to elected officials and certain other non-required employees with the authorization of the System's Board of Trustees. The Department's and other State agencies' share of the retirement expense for the fiscal year ended June 30, 1971 is included in the general appropriation bill as an item to be expended by the Department of Budget and Finance and is not reflected in the Department's accompanying financial statements. The accrued liability contribution, which includes prior service cost, is being funded over a fifty-year period from July 1, 1964.

4. Legislative Appropriations

Act 68, SLH 1971, effective July 1, 1971, appropriated to the Department of Agriculture, $5,355,493 and $5,529,469 for the operating budgets for the 1971-1972 and 1972-1973 fiscal years to be financed from the following sources:

STATE OF HAWAII

DEPARTMENT OF AGRICULTURE

General notes to the financial statements
June 30, 1971

	1971-1972	1972-1973
General Revenue	$3,396,235	$3,465,870
Federal Funds	383,042	395,187
Trust Funds	14,000	15,000
General Obligation Bonds	-	3,000
Other Funds	1,562,216	1,650,412
	$5,355,493	$5,529,469

Act 68 and Act 197, SLH 1971, effective July 1, 1971, also appropriated the following capital improvement projects for the Department of Agriculture for the 1971-1972 and 1972-1973 fiscal years. The appropriations for these projects are to be expended by Department of Accounting and General Services.

	1971-1972	1972-1973
Act 68		
Animal Quarantine Station - construction of laboratory-office building at Halawa	$726,000	$ -
Department of Agriculture - King Street facility renovation when Animal Industry Division relocates to Halawa	25,000	250,000
Plant Quarantine Station - construction of quarantine greenhouse	23,000	-
	$774,000(1)	$250,000(1)

STATE OF HAWAII

DEPARTMENT OF AGRICULTURE

General notes to the financial statements
June 30, 1971

	1971-1972	1972-1973
Act 197		
Maui Vacuum Cooling Plant - improvements	$ 80,000	$ -
Multi-purpose Shed - West Hawaii - construction of shed	70,000	-
Waimea Vacuum Cooling Plant - construction of facility and acquisition of equipment	40,000	-
	190,000(2)	-
Total capital improvement appropriations	$964,000	$250,000

(1) to be financed from State of Hawaii General Obligation Bonds

(2) to be financed from general revenue, special funds, and General Obligation Bond funds

All unencumbered capital improvement appropriations indicated above shall lapse on June 30, 1976.

STATE OF HAWAII

DEPARTMENT OF AGRICULTURE

ALL FUNDS

Combined balance sheet - June 30, 1971

	All Funds	General Fund (Exhibit A)	Special Funds (Exhibit B)	Trust Funds (Exhibit C)	Bond Fund (Exhibit D)
ASSETS					
CASH					
With Treasury	$ 822,165.25	$200,312.41	$ 607,353.40	$14,130.33	$369.11
Petty Cash	350.00	350.00	-	-	-
NOTES RECEIVABLE	5,902,162.57	-	5,902,162.57	-	-
INTEREST RECEIVABLE	142,570.44	-	142,570.44	-	-
INVESTMENT IN REAL ESTATE, at cost	1,152.29	-	1,152.29	-	-
TOTAL ASSETS	$6,868,400.55	$200,662.41	$6,653,238.70	$14,130.33	$369.11
LIABILITIES, RESERVES AND FUND BALANCES					
DUE U. S. GOVERNMENT	$ 2,344.80	$ -	$ -	$ 2,344.80	$ -
DEPOSITS BY OWNERS OF MONKEYS	7,300.00	-	-	7,300.00	-
RESERVES					
For overtime incurred by plant inspectors	2,715.65	-	-	2,715.65	-
For temporary deposits for meat grading fees	-	-	-	1,381.90	-
To study papaya fumigation	-	-	-	384.68	-
For milk producers' settlement deposits	-	-	-	3.30	-
For encumbrances	146,790.10	146,218.45	571.65	-	-
For petty cash	350.00	350.00	-	-	-
FUND BALANCES	6,708,900.00	54,093.96	6,652,667.05	-	369.11
TOTAL LIABILITIES, RESERVES AND FUND BALANCES	$6,868,400.55	$200,662.41	$6,653,238.70	$14,130.33	$369.11

The general notes to the financial statements and the schedules and notes accompanying Exhibit A to Exhibit D are an integral part of the combined balance sheet.

EXHIBIT A

STATE OF HAWAII
DEPARTMENT OF AGRICULTURE

GENERAL FUND

Balance sheet - June 30, 1971

ASSET

Cash -		
With Treasury		$200,312.41
Petty cash		350.00
		$200,662.41

RESERVES AND FUND BALANCE

Reserves -		
Encumbrances:		
Due U. S. Government	$ 10,370.53	
Accumulated vacation credit	9,357.33	
Other	126,490.59	
	146,218.45	
Petty cash	350.00	$146,568.45
Fund balance (Schedule I)		54,093.96
		$200,662.41

The accompanying schedules and note are an integral part of Exhibit A.

SCHEDULE I
TO EXHIBIT A

STATE OF HAWAII
DEPARTMENT OF AGRICULTURE

GENERAL FUND

Statement of changes in fund balance
for the year ended June 30, 1971

FUND BALANCE, JULY 1, 1971		$ -
ADDITIONS: (Schedule II)		
Reserve for encumbrances, July 1, 1970		163,638.61
Appropriations and allotments (Note 1)		3,700,129.00
Appropriated receipts		469,142.45
Total balance and additions		4,332,910.06
DEDUCTIONS: (Schedule II)		
Expenditures for operating purposes	$3,553,031.40	
Transfers-net	579,566.25	
Reserve for encumbrances, June 30, 1971	146,218.45	4,278,816.10
FUND BALANCE, JUNE 30, 1971		$ 54,093.96

SCHEDULE II
TO EXHIBIT A

STATE OF HAWAII
DEPARTMENT OF AGRICULTURE

GENERAL FUND

Statement of appropriations, allotments, expenditures and encumbrances for the year ended June 30, 1971

Division And Branch	AUTHORIZATIONS: 1970 Encumbrances Forwarded	AUTHORIZATIONS: Appropriations/ Allotments	AUTHORIZATIONS: Appropriated Receipts	AUTHORIZATIONS: Transfers And Other Items	AUTHORIZATIONS: Total	Expenditures	Encumbrances	Lapsed Balances
GENERAL ADMINISTRATION								
Departmental Administration	$ -	$286,923.00	$ -	$ 5,906.16	$292,829.16	$ -	$ -	$ 3,251.15
Personal services	526.23	-	-	-	526.23	260,078.33	349.28	-
Other current expenses	2,541.53	-	-	-	2,541.53	29,046.29	1,946.61	-
Equipment	-	-	-	-	-	1,225.26	-	-
TOTAL - GENERAL ADMINISTRATION	3,067.76	286,923.00	-	5,906.16	295,896.92	290,349.88	2,295.89	3,251.15
MARKETING AND CONSUMER SERVICES								
Administration	-	81,175.00	6,000.00	(29,338.42)	57,836.58	-	-	3,380.46
Personal services	7.00	-	-	-	7.00	51,225.12	175.50	-
Other current expenses	112.72	-	-	-	112.72	2,875.54	299.68	-
	119.72	81,175.00	6,000.00	(29,338.42)	57,956.30	54,100.66	475.18	3,380.46
Commodities	-	398,440.00	4,784.45	19,665.22	422,889.67	-	-	9,952.13
Personal services	1,320.00	-	-	-	1,320.00	355,969.01	650.41	-
Other current expenses	925.62	-	-	-	925.62	47,508.11	3,834.00	-
Equipment	-	-	-	-	-	7,221.63	-	-
	2,245.62	398,440.00	4,784.45	19,665.22	425,135.29	410,698.75	4,484.41	9,952.13
Crop and Livestock Reporting Service	-	127,791.00	-	4,466.00	132,257.00	-	-	4,073.10
Personal services	-	-	-	-	-	112,669.00	-	-
Other current expenses	510.80	-	-	-	510.80	10,205.44	437.22	-
Equipment	-	-	-	-	-	5,383.04	-	-
	510.80	127,791.00	-	4,466.00	132,767.80	128,257.48	437.22	4,073.10
Market News Service	-	48,216.00	-	(1,695.00)	46,521.00	-	-	3,081.74
Personal services	-	-	-	-	-	34,912.63	-	-
Other current expenses	125.91	-	-	-	125.91	8,265.82	343.50	-
Equipment	25.02	-	-	-	25.02	68.24	-	-
	150.93	48,216.00	-	(1,695.00)	46,671.93	43,246.69	343.50	3,081.74
TOTAL - MARKETING AND CONSUMER SERVICES	3,027.07	655,622.00	10,784.45	(6,902.20)	662,531.32	636,303.58	5,740.31	20,487.43

SCHEDULE II
TO EXHIBIT A
(Cont'd.)

STATE OF HAWAII
DEPARTMENT OF AGRICULTURE

GENERAL FUND

Statement of appropriations, allotments,
expenditures and encumbrances
for the year ended June 30, 1971

Division And Branch	AUTHORIZATIONS 1970 Encumbrances Forwarded	Appropriations/ Allotments	Appropriated Receipts	Transfers And Other Items	Total	Expenditures	Encumbrances	Lapsed Balances
WEIGHTS AND MEASURES	$ -	$194,452.00	$ -	$ 4,919.00	$199,371.00	$ -	$ -	$ 391.63
Personal services	2,159.30	-	-	-	2,159.30	155,265.28	178.37	-
Other current expenses	694.13	-	-	-	694.13	27,220.08	3,726.59	-
Equipment	38,302.80	-	-	-	38,302.80	642.48	53,102.80	-
TOTAL - WEIGHTS AND MEASURES	41,156.23	194,452.00	-	4,919.00	240,527.23	183,127.84	57,007.76	391.63
ANIMAL INDUSTRY								
Administration	-	57,552.00	-	4,783.55	62,335.55	-	-	1,799.34
Personal services	-	-	-	-	-	55,556.49	-	-
Other current expenses	202.00	-	-	-	202.00	4,910.57	187.15	-
Equipment	-	-	-	-	-	84.00	-	-
	202.00	57,552.00	-	4,783.55	62,537.55	60,551.06	187.15	1,799.34
Livestock Disease Control	-	206,680.00	-	1,010.00	207,690.00	-	-	6,556.11
Personal services	645.00	-	-	-	645.00	178,123.98	1,150.00	-
Other current expenses	1,593.25	-	-	-	1,593.25	20,696.30	3,039.18	-
Equipment	-	-	-	-	-	345.05	17.63	-
	2,238.25	206,680.00	-	1,010.00	209,928.25	199,165.33	4,206.81	6,556.11
Veterinary Laboratory	-	128,775.00	-	(17,994.00)	110,781.00	-	-	1,576.63
Personal services	521.75	-	-	-	521.75	94,438.73	20.00	-
Other current expenses	196.55	-	-	-	196.55	11,332.98	551.46	-
Equipment	-	-	-	-	-	3,579.50	-	-
	718.30	128,775.00	-	(17,994.00)	111,499.30	109,351.21	571.46	1,576.63
Inspection and Quarantine	-	509,301.00	-	-	509,301.00	-	-	4,566.44
Personal services	4,275.00	-	-	-	4,275.00	360,013.37	4,401.94	-
Other current expenses	1,910.07	-	-	-	1,910.07	134,714.67	6,202.20	-
Equipment	-	-	-	-	-	5,587.45	-	-
	6,185.07	509,301.00	-	-	515,486.07	500,315.49	10,604.14	4,566.44

SCHEDULE II
TO EXHIBIT A
(Cont'd.)

STATE OF HAWAII
DEPARTMENT OF AGRICULTURE

GENERAL FUND

Statement of appropriations, allotments,
expenditures and encumbrances
for the year ended June 30, 1971

	A U T H O R I Z A T I O N S							
Division And Branch	1970 Encumbrances Forwarded	Appropriations/ Allotments	Appropriated Receipts	Transfers And Other Items	Total	Expenditures	Encumbrances	Lapsed Balances
Meat and Poultry Inspection	$ -	$ 289,048.00	$ -	$292,514.35	$ 581,562.35	$ -	$ -	$ 1,434.02
Personal services	1,620.00	-	-	-	1,620.00	510,748.49	1,821.44	-
Other current expenses	3,169.61	-	-	-	3,169.61	54,112.93	2,424.18	-
Equipment	2,627.91	-	-	-	2,627.91	18,412.31	26.50	-
	7,417.52	289,048.00	-	292,514.35	588,979.87	583,273.73	4,272.12	1,434.02
Meat Grading	-	7,000.00	-	-	7,000.00	-	-	-
Other current expenses	-	-	-	-	-	7,000.00	-	-
	-	7,000.00	-	-	7,000.00	7,000.00	-	-
TOTAL - ANIMAL INDUSTRY	16,761.14	1,198,356.00	-	280,313.90	1,495,431.04	1,459,656.82	19,841.68	15,932.54
PLANT INDUSTRY								
Administration	-	55,455.00	-	2,014.00	57,469.00	-	-	759.80
Personal services	-	-	-	-	-	50,696.64	-	-
Other current expenses	438.85	-	-	-	438.85	6,211.41	184.00	-
Equipment	-	-	-	-	-	56.00	-	-
	438.85	55,455.00	-	2,014.00	57,907.85	56,964.05	184.00	759.80
Plant Quarantine Inspection	-	387,232.00	-	5,585.00	392,817.00	-	-	733.37
Personal services	1,190.00	-	-	-	1,190.00	365,207.19	1,287.75	-
Other current expenses	1,372.58	-	-	-	1,372.58	17,403.08	1,112.55	-
Equipment	-	-	-	-	-	9,635.64	-	-
	2,562.58	387,232.00	-	5,585.00	395,379.58	392,245.91	2,400.30	733.37
Entomology	-	222,998.00	6,000.00	1,695.00	230,693.00	-	-	1,622.18
Personal services	245.00	-	-	-	245.00	191,318.16	284.84	-
Other current expenses	1,154.86	-	-	-	1,154.86	27,548.15	1,686.79	-
Equipment	-	-	-	-	-	9,632.74	-	-
	1,399.86	222,998.00	6,000.00	1,695.00	232,092.86	228,499.05	1,971.63	1,622.18

SCHEDULE II
TO EXHIBIT A
(Cont'd.)

STATE OF HAWAII
DEPARTMENT OF AGRICULTURE

GENERAL FUND

Statement of appropriations, allotments,
expenditures and encumbrances
for the year ended June 30, 1971

Division And Branch	AUTHORIZATIONS							
	1970 Encumbrances Forwarded	Appropriations/ Allotments	Appropriated Receipts	Transfers And Other Items	Total	Expenditures	Encumbrances	Lapsed Balances
Weed, Seed and Herbicide	$ -	$114,650.00	$ -	$ -	$ 114,650.00	$ -	$ -	$ 456.88
Personal services	859.84	-	-	-	859.84	94,293.11	439.75	-
Other current expenses	675.32	-	-	-	675.32	20,226.78	685.11	-
Equipment	-	-	-	-	-	83.53	-	-
	1,535.16	114,650.00	-	-	116,185.16	114,603.42	1,124.86	456.88
TOTAL - PLANT INDUSTRY	5,936.45	780,335.00	6,000.00	9,294.00	801,565.45	792,312.43	5,680.79	3,572.23
MILK CONTROL	-	84,441.00	-	(2,000.00)	82,441.00	-	-	10,458.98
Personal services	-	-	-	-	-	64,618.11	-	-
Other current expenses	9,777.94	-	-	-	9,777.94	16,935.50	115.00	-
Equipment	-	-	-	-	-	91.35	-	-
TOTAL - MILK CONTROL	9,777.94	84,441.00	-	(2,000.00)	92,218.94	81,644.96	115.00	10,458.98
FARM LOAN								
Contribution to Farm Loan Fund	-	500,000.00	-	(500,000.00)	-	-	-	-
TOTAL - FARM LOAN	-	500,000.00	-	(500,000.00)	-	-	-	-
NAALEHU DISEASE RESEARCH	1,365.24	-	-	-	1,365.24	1,365.24	-	-
TOTAL - NAALEHU DISEASE RESEARCH	1,365.24	-	-	-	1,365.24	1,365.24	-	-
FEDERAL FUNDS								
Marketing Development Project	1,529.80	-	18,797.00	(20,326.80)	-	-	-	-
	1,529.80	-	18,797.00	(20,326.80)	-	-	-	-
Hawaii Development Irradiator	-	-	82,461.00	(5,906.16)	76,554.84	-	8,949.07	-
Personal services	6,798.79	-	-	-	6,798.79	60,205.20	10,173.15	-
Other current expenses	6,381.63	-	-	-	6,381.63	10,407.84	-	-
	13,180.42	-	82,461.00	(5,906.16)	89,735.26	70,613.04	19,122.22	-

STATE OF HAWAII
DEPARTMENT OF AGRICULTURE

GENERAL FUND

Statement of appropriations, allotments, expenditures and encumbrances for the year ended June 30, 1971

Division And Branch	AUTHORIZATIONS: 1970 Encumbrances Forwarded	AUTHORIZATIONS: Appropriations/ Allotments	AUTHORIZATIONS: Appropriated Receipts	AUTHORIZATIONS: Transfers And Other Items	AUTHORIZATIONS: Total	Expenditures	Encumbrances	Lapsed Balances
Wholesome Meat Act	$ 39,729.09	$ -	$351,100.00	$(344,864.15)	$ 45,964.94	$ 35,594.41	$ 10,370.53	$ -
	39,729.09	-	351,100.00	(344,864.15)	45,964.94	35,594.41	10,370.53	-
TOTAL - FEDERAL FUNDS	54,439.31	-	452,358.00	(371,097.11)	135,700.20	106,207.45	29,492.75	-
OTHER APPROPRIATED FUNDS								
Donation for Naalehu Research Work	709.47	-	-	-	709.47	-	709.47	-
Inspection of Odometers and Speedometers	2,398.00	-	-	-	2,398.00	2,063.20	334.80	-
Hog Cholera Eradication Program	25,000.00	-	-	-	25,000.00	-	25,000.00	-
TOTAL - OTHER APPROPRIATED FUNDS	28,107.47	-	-	-	28,107.47	2,063.20	26,044.27	-
GRAND TOTAL - DEPARTMENT OF AGRICULTURE	$163,638.61	$3,700,129.00	$469,142.45	$(579,566.25)	$3,753,343.81	$3,553,031.40	$146,218.45	$54,093.96

SCHEDULE III
TO EXHIBIT A

STATE OF HAWAII
DEPARTMENT OF AGRICULTURE

GENERAL FUND

Statement of expenditures by object code description for the year ended June 30, 1971

Object Code Description	
PERSONAL SERVICES:	
Regular employees	$2,970,401.66
Other	11,955.53
TOTAL - PERSONAL SERVICES	2,982,357.19
OTHER CURRENT EXPENSES:	
Stationery and office supplies	25,943.58
Janitorial supplies	1,229.06
Laundry supplies	7,587.49
Scientific supplies	14,457.31
Maintenance materials, supplies and parts	8,945.16
Motor vehicle fuel, supplies and parts	30,886.49
Agricultural, botanical, horticultural and pesticide supplies	16,397.85
Fuel oil and lubricants (other than motor vehicles)	407.81
Medical and hospital supplies	9,430.26
Clothing and sewing supplies	3,527.65
Forage and cure of animals	81,496.03
Other materials and supplies	4,613.95
Postage and postal charges	10,815.88
Telephone, tolls and charges	21,941.82
Private car mileage	23,071.84
Transportation, intra-state	15,063.14
Subsistence allowance, intra-state	28,590.58
Transportation, out-of-state	8,946.11
Subsistence allowance, out-of-state	9,752.32
Other travel and subsistence	1,261.23
Freight and delivery charges	3,928.37
Printing and binding	659.64
Advertising and publication of notices	1,132.35
Publications	1,755.00
Electricity and gas	35,463.11
Water	6,459.97
Rental of land, building or space in building	1,305.00
Rental of equipment	1,206.46
Other rentals	286.16
Repairs and maintenance - machinery and equipment	10,242.60
Repairs and maintenance - buildings and structures	2,171.39
Other repairs and maintenance	507.16
Dues and subscriptions	2,717.00
Training costs and registration fees	2,836.70
Fees for services other than personal services	36,044.03
Other miscellaneous current expenses	3,878.33
TOTAL - OTHER CURRENT EXPENSES	434,958.83

STATE OF HAWAII

DEPARTMENT OF AGRICULTURE

GENERAL FUND

Statement of expenditures by object code description
for the year ended June 30, 1971

Object Code Description	
EQUIPMENT:	
General office equipment	$ 5,237.80
General office furnishings	940.85
Scientific instruments and equipment	9,664.08
Motor vehicles	45,143.76
Other miscellaneous equipment	1,744.86
TOTAL - EQUIPMENT	62,731.35
TOTAL - CURRENT YEAR	3,480,047.37
Prior year encumbrances liquidated in current year	72,984.03
TOTAL - CURRENT AND PRIOR YEAR	$3,553,031.40

STATE OF HAWAII

DEPARTMENT OF AGRICULTURE

GENERAL FUND

Note to the financial statements
June 30, 1971

RESTRICTED APPROPRIATIONS

The 1971 session of the State Legislature appropriated the following additional funds to be administered by the Department of Agriculture:

Act 181 - establishes a loan program to financially assist in the development of aquaculture in the State and appropriates $500,000.

Act 205 - amends Chapter 153, Hawaii Revised Statutes, relating to the Hawaii Agricultural Products Program; allows the Board of Agriculture to enter into joint ventures with farmers and to share in the proceeds derived from any development crop or product; and appropriates $100,000 to the Hawaii Agricultural Products Program Revolving Fund.

As of June 30, 1971, the appropriations mentioned above have been restricted and no allotments had been made as of that date.

EXHIBIT B

STATE OF HAWAII
DEPARTMENT OF AGRICULTURE

SPECIAL FUNDS

Balance sheet - June 30, 1971

	Total	Farm Loan Reserve Fund	Farm Loan Revolving Fund	Hawaii Agricultural Products Revolving Fund	Agricultural Marketing Order Revolving Fund
ASSETS					
Cash with Treasury -					
Available cash	$ 176,321.10	$ 41,819.31	$ 83,849.37	$20,652.42	$30,000.00
Funds committed - undrawn balances	78,500.00	-	78,500.00	-	-
Funds earmarked for pending loans	346,207.35	-	346,207.35	-	-
Insurance reserve	6,324.95	-	6,324.95	-	-
Notes receivable (Note)	5,902,162.57	-	5,830,112.81	72,049.76	-
Interest receivable (Note)	142,570.44	142,570.44	-	-	-
Investment in real estate, at cost	1,152.29	-	1,152.29	-	-
	$6,653,238.70	$184,389.75	$6,346,146.77	$92,702.18	$30,000.00
RESERVE AND FUND BALANCE					
Reserve for encumbrances	$ 571.65	$ 571.65	$ -	$ -	$ -
Fund balance (Schedule)	6,652,667.05	183,818.10	6,346,146.77	92,702.18	30,000.00
	$6,653,238.70	$184,389.75	$6,346,146.77	$92,702.18	$30,000.00

The accompanying schedule and note are an integral part of Exhibit B.

STATE OF HAWAII
DEPARTMENT OF AGRICULTURE

SPECIAL FUNDS

Statement of revenue, expenditures, transfers and fund balance
for the year ended June 30, 1971

	Total	Farm Loan Reserve Fund	Farm Loan Revolving Fund	Hawaii Agricultural Products Revolving Fund	Agricultural Marketing Order Revolving Fund
REVENUE:					
Interest	$ 300,001.68	$297,355.34	$ -	$ 2,646.34	$ -
Insurance guaranty fees	385.53	385.53	-	-	-
Total revenue	300,387.21	297,740.87	-	2,646.34	-
EXPENDITURES:					
Personal services	102,005.62	102,005.62	-	-	-
Other current expenses	43,056.58	43,056.58	-	-	-
Equipment	390.00	390.00	-	-	-
Total expenditures	145,452.20	145,452.20	-	-	-
Excess of revenue over expenditures	154,935.01	152,288.67	-	2,646.34	-
TRANSFERS FROM (TO):					
General Fund	530,000.00	-	500,000.00	-	30,000.00
Intrafund	-	(130,000.00)	130,000.00	-	-
Total transfers	530,000.00	(130,000.00)	630,000.00	-	30,000.00
Excess of revenue and transfers over expenditures	684,935.01	22,288.67	630,000.00	2,646.34	30,000.00
FUND BALANCE - JULY 1, 1970	5,967,732.04	161,529.43	5,716,146.77	90,055.84	-
FUND BALANCE - JUNE 30, 1971	$6,652,667.05	$183,818.10	$6,346,146.77	$92,702.18	$30,000.00

STATE OF HAWAII
DEPARTMENT OF AGRICULTURE

SPECIAL FUNDS

Note to the financial statements
June 30, 1971

NOTES AND INTEREST RECEIVABLE

As of June 30, 1971, of the total notes and interest receivable of $5,902,163 and $142,570, respectively, the delinquent portions are as follows:

	Notes Receivable	Interest Receivable	Total
Farm Loan Reserve Fund	$ -	$80,542	$ 80,542
Farm Loan Revolving Fund (delinquent principal balances - $459,676)	1,215,017	-	1,215,017
Hawaii Agricultural Products Revolving Fund	25,000	-	25,000
	$1,240,017	$80,542	$1,320,559

No allowance for uncollectible notes and interest has been provided in the financial statements as of June 30, 1971.

Real estate, on either first or second mortgages, equipment or crops are pledged as collateral on the above loans.

STATE OF HAWAII
DEPARTMENT OF AGRICULTURE

TRUST FUNDS

Balance sheet - June 30, 1971

	Total	Temporary Deposit - Animal Industry Fund	Plant Quarantine Inspection Service Overtime Contribution Fund	Temporary Deposit - Plant Industry Fund	Contributions To Study Papaya Fumigation Fund	Producers' Settlement Fund
ASSET						
Cash with Treasury (Schedule)	$14,130.33	$1,381.90	$2,715.65	$9,644.80	$384.68	$3.30
LIABILITIES AND RESERVES						
Due to U. S. Government	$ 2,344.80	$ -	$ -	$2,344.80	$ -	$ -
Deposits by owners of monkeys	7,300.00	-	-	7,300.00	-	-
Reserves-						
For overtime incurred by plant inspectors	2,715.65	-	2,715.65	-	-	-
For temporary deposits for meat grading fees	1,381.90	1,381.90	-	-	-	-
To study papaya fumigation	384.68	-	-	-	384.68	-
For milk producers' settlement deposits	3.30	-	-	-	-	3.30
Total liabilities and reserves	$14,130.33	$1,381.90	$2,715.65	$9,644.80	$384.68	$3.30

The accompanying schedule is an integral part of Exhibit C.

STATE OF HAWAII
DEPARTMENT OF AGRICULTURE

TRUST FUNDS

Statement of cash receipts and disbursements
for the year ended June 30, 1971

	Total	Temporary Deposit - Animal Industry Fund	Plant Quarantine Inspection Service Overtime Contribution Fund	Temporary Deposit - Plant Industry Fund	Contributions To Study Papaya Fumigation Fund	Producers' Settlement Fund	Temporary Deposit - Marketing And Consumer Services Fund
CASH BALANCE - JULY 1, 1970	$15,838.99	$ 2,526.05	$ 2,671.19	$ 8,294.80	$ 2,343.65	$ 3.30	$ -
ADDITIONS							
Temporary deposits	86,232.73	13,800.40	-	3,150.00	-	21,080.28	48,202.05
Donations, gifts or grants	9,000.00	-	-	-	9,000.00	-	-
Contributions for Plant Quarantine Inspection Service overtime	39,301.43	-	39,301.43	-	-	-	-
	134,534.16	13,800.40	39,301.43	3,150.00	9,000.00	21,080.28	48,202.05
	150,373.15	16,326.45	41,972.62	11,444.80	11,343.65	21,083.58	48,202.05
DEDUCTIONS							
Refunds or reimbursements of monies held in trust or as agent	71,082.33	-	-	1,800.00	-	21,080.28	48,202.05
Personal services	39,256.97	-	39,256.97	-	-	-	-
Other current expenses	25,903.52	14,944.55	-	-	10,958.97	-	-
	136,242.82	14,944.55	39,256.97	1,800.00	10,958.97	21,080.28	48,202.05
CASH BALANCE - JUNE 30, 1971	$14,130.33	$ 1,381.90	$ 2,715.65	$ 9,644.80	$ 384.68	$ 3.30	$ -

EXHIBIT D

STATE OF HAWAII

DEPARTMENT OF AGRICULTURE

BOND FUND

Balance sheet - June 30, 1971

ASSET

Cash with Treasury	$369.11

FUND BALANCE

Fund balance	$369.11

NOTE

The Bond Fund of the Department of Agriculture accounts for the appropriation (funded by State of Hawaii General Obligation Bonds) and expenditures of the Ginger Export Storage Project (Act 201, SLH 1963). For the year ended June 30, 1971, there was no activity for the ginger project.

EXHIBIT E

STATE OF HAWAII
DEPARTMENT OF AGRICULTURE

STATE OF HAWAII GENERAL FUND

Statement of revenue
for the year ended June 30, 1971

	Estimated Revenue	Actual Revenue	Actual Revenue Over (Under) Estimate
BUSINESS LICENSES AND PERMITS			
Slaughterhouse	$ 1,950	$ 1,975	$ 25
Milk producers and distributors	95,000	82,694	(12,306)
Commercial exporters of flowers and foliage	440	460	20
Imported seeds for sowing	350	330	(20)
Produce dealers	3,760	3,545	(215)
Selling weed control substances	620	680	60
TOTAL - BUSINESS LICENSES AND PERMITS	102,120	89,684	(12,436)
FORFEITS			
Owner's bond for caged animals	-	150	150
TOTAL - FORFEITS	-	150	150
FEDERAL GRANTS IN AID			
Federal - State Cooperative Meat Inspection	329,171	351,100	21,929
Development of Standards for Grades of Processed Fruits and Vegetables	17,624	18,797	1,173
Entomological Survey Program	6,000	6,000	-
Market News Service	6,546	6,000	(546)
Research Project - Hawaii Development Irradiator	-	82,461	82,461
TOTAL - FEDERAL GRANTS IN AID	359,341	464,358	105,017
PUBLIC SAFETY			
Registration of economic poisons	24,000	26,950	2,950
Inspection of weed control substances	6,000	6,039	39
Registration of livestock brands	2,100	1,512	(588)
Weights and measures certification	220,000	12,266	(207,734)
TOTAL - PUBLIC SAFETY	252,100	46,767	(205,333)

EXHIBIT E
(Cont'd.)

STATE OF HAWAII
DEPARTMENT OF AGRICULTURE

STATE OF HAWAII GENERAL FUND

Statement of revenue
for the year ended June 30, 1971

	Estimated Revenue	Actual Revenue	Actual Revenue Over (Under) Estimate
DEVELOPMENT AND CONSERVATION OF NATURAL RESOURCES - AGRICULTURE			
Inspection and classification of Agricultural commodities, Federal and State cooperative	$ 14,000	$ 11,746	$(2,254)
Inspection and certification of shell eggs	1,300	1,216	(84)
Inspection of miscellaneous commodities	4,000	3,516	(484)
Testing seeds for purity and germination	20	-	(20)
Registration of commercial feeds	41,700	39,057	(2,643)
Inspection of processed foods	45,000	28,825	(16,175)
Burrowing nematode nursery inspections	1,500	1,643	143
Coffee inspection	6,000	4,785	(1,215)
TOTAL - DEVELOPMENT AND CONSERVATION OF NATURAL RESOURCES - AGRICULTURE	113,520	90,788	(22,732)
DEVELOPMENT AND CONSERVATION OF NATURAL RESOURCES - HEALTH, ALL OTHER			
Expenses for quarantine of cats and dogs	507,885	481,439	(26,446)
TOTAL - DEVELOPMENT AND CONSERVATION OF NATURAL RESOURCES - HEALTH, ALL OTHER	507,885	481,439	(26,446)
GRAND TOTALS - REVENUE	$1,334,966	$1,173,186	$(161,780)
BY DIVISIONS			
Marketing and Consumer Services	160,370	223,842	63,472
Weights and Measures	220,000	12,266	(207,734)
Animal Industry	841,106	836,026	(5,080)
Plant Industry	18,490	18,358	(132)
Milk Control	95,000	82,694	(12,306)
TOTAL - BY DIVISIONS	$1,334,966	$1,173,186	$(161,780)

The accompanying note is an integral part of Exhibit E.

STATE OF HAWAII

DEPARTMENT OF AGRICULTURE

STATE OF HAWAII GENERAL FUND

Note to the statement of revenue
June 30, 1971

The accompanying statement reflects the revenue collected by the Department of Agriculture to the credit of the State of Hawaii General Fund. The authority to collect fees is covered by various sections of the law specifically authorizing the Department of Agriculture to establish and enforce such rules and regulations.

The variances between estimated and actual revenue are generally due to over- or under-estimation of program revenue at the time the operating budgets are prepared. Specifically, the significant variance noted in the weights and measures certification is attributable to a proposed increase in inspection fees which was not approved and a new program for a package inspection fee which did not materialize during the year.

PART III

REPORT ON INTERNAL CONTROL, ACCOUNTING SYSTEMS AND PROCEDURES, AND SPECIFIC AREAS OF CONCERN

STATE OF HAWAII

DEPARTMENT OF AGRICULTURE

Part III - Report on Internal Control, Accounting Systems and Procedures, and Specific Areas of Concern

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STATE OF HAWAII
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Part III - Report on Internal Control, Accounting Systems and Procedures, and Specific Areas of Concern

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STATE OF HAWAII

DEPARTMENT OF AGRICULTURE

Part III - Report on Internal Control, Accounting Systems and Procedures, and Specific Areas of Concern

Table Of Contents

INTRODUCTION

This part of the report contains findings and recommendations of our examination of specific areas of the Department's activities and practices. As part of the audit, we also examined the Department's system of internal control.[1]

This part is divided into the following five sections, which includes the specific areas of examination.

1. Farm Loan Program
2. Animal Quarantine Station
3. Automobile Transportation
4. Fiscal Management and Control
5. General Findings

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[1] Internal control, as an essential management function, is a total plan adopted by an organization, not only to provide for the proper recording of financial data, but to safeguard assets, promote efficiency of operations and to encourage adherence to prescribed managerial policies (American Institute of Certified Public Accountants Committee on Auditing Procedures). This definition is further classified into three definite areas as follows:

1) Internal administrative control - deals with the promotion of efficiency of operations and the adherence to prescribed policies.

2) Internal check - procedures and controls which safeguard assets against defalcations, misappropriation and other irregularities.

3) Internal accounting control - controls which provide for the accurate recording and summarization of financial transactions which add to the reliability of financial reports.

FARM LOAN PROGRAM

This section contains our findings and recommendations on the State of Hawaii Farm Loan Program. The scope of our examination in this area was to ascertain the Program's adherence to prescribed statutes, to evaluate the Program's lending and collection practices, and to review the administration and management of the Program's funds.

This section is divided into four parts: background; financing of the Program, summary of findings, and the discussions relating to our specific findings and recommendations.

Background

The Farm Loan Program was originally established by the Hawaii Legislature on April 30, 1919 under Act 225 with the following stated purpose:

> "to encourage the establishment of a rural population by providing loans to assist agricultural development."

However, by 1959 the objectives of the program had changed and the Farm Loan Program was overhauled by Act 278, Session Laws of Hawaii 1959. The Program's purpose was re-stated:

> "to promote the agricultural development of the State by stimulating, facilitating, and granting loans to qualified farmers."

The Department of Agriculture was empowered with the following primary powers under the Farm Loan Act:

1. initiate and carry on a continuing research and education program, utilizing and coordinating the services and facilities of other governmental agencies and private lenders to the maximum to inform qualified farmers concerning procedures in obtaining

loans and to inform private lenders concerning the advantages in making loans to such qualified farmers;

2. cooperate with private and Federal Government farm loan sources to increase the amount of loan funds available to qualified farmers in the State;

3. assist individual qualified farmers in obtaining loans from other sources. Insofar as available funds and staff permit, counsel and assist individual farmers in establishing and maintaining proper records to improve their farming ability for loan purposes; and

4. make the following types of loans to qualified farmers:

   a. participation loan - a loan in which the Farm Loan Program and a private lender provide funds for the loan principal amount on a participation basis;

   b. insured loan - a loan in which the Farm Loan Program guarantees up to 90% of the loan principal balance, plus accrued interest due thereon, made by a private lender; and

   c. direct loan - a loan in which the Farm Loan Program provides 100% financing to a qualified farmer who is unable to obtain sufficient funds at reasonable rates from private lenders under either a participation or insured loan.

A "qualified farmer" is defined as a person (includes partnerships, cooperatives and corporations) of proven farming ability who operates his own farm and is presently devoting, has recently devoted, or intends to devote at least one-third of his time or derive at least one-third of his net cash income from direct participation in farming.

Loans made under the Farm Loan Program are classified in five categories:

1. <u>Class A</u> loans provide for the purchase or improvement of farm land and construction of improvements to essential

farm structures and are for an amount not to exceed $100,000 and for a term not to exceed forty years.

2. Class B loans provide for soil conservation practices, drainage, water development and conservation and are for an amount not to exceed $35,000 to an individual ($200,000 for an association) and for a term not to exceed twenty years (forty years for an association).

3. Class C loans provide for the purchase of farm equipment and livestock, payment of production and marketing expenses, and payment of living expenses and are for an amount not to exceed $75,000 and for a term not to exceed ten years.

4. Class D loans provide for relief and rehabilitation to qualified farmers due to natural catastrophes, diseases and economic conditions with similar amount and term limitations as specified for Class A, B and C loans above.

5. Class E loans provide credit to farmers' cooperative associations and corporations engaged in marketing, purchasing, processing and providing farm business services. Facility loans to purchase or improve land, structures and equipment are limited to $250,000 and for a term not to exceed twenty years. Operating loans are limited to $150,000 and are for a term not to exceed three years.

Financing Of The Program

Since its reactivation in 1959, the Program has approved over 1,200 loan applications aggregating approximately $14,400,000. State appropriations to the Program have totaled approximately $4,800,000. The recycling of money received from payments on loans previously made to new borrowers and the loans granted and participated by private lenders account for the balance of the loan financing.

A significant point of interest is that since 1960 private lenders have participated to the extent of approximately 23% of the total funds loaned; however, the percentage of participation in the last five years has averaged only 12.6%. As a result, direct loans by the Farm Loan Program have increased, which has affected the lending capacity of the Program. Farm Loan Division personnel attribute the decrease in available private funds to tight money market conditions and the disproportionate interest rates between the private lenders and Farm Loan Program.

A condensed balance sheet of the Farm Loan Reserve Fund and Farm Loan Revolving Fund showing the assets, reserves and fund balances of the respective Funds as of June 30, 1971 is presented below:

Assets	Farm Loan Reserve Fund	Farm Loan Revolving Fund	Total
Cash	$ 41,819	$ 514,882	$ 556,701
Notes receivable (413 loans)	-	5,830,113	5,830,113
Interest receivable	142,570	-	142,570
Investment in real estate	-	1,152	1,152
	$184,389	$6,346,147	$6,530,536
Reserve and Fund Balance			
Reserve for encumbrances	$ 571	$ -	$ 571
Fund balance	183,818	6,346,147	6,529,965
	$184,389	$6,346,147	$6,530,536

The above financial statements are displayed and described in more detail under Part II of this report.

Summary Of Findings

The major areas of deficiencies noted during our examination are summarized below:

- questionable granting of loans;
- non-adherence to policies and procedures;
- high number and amount of delinquent loans;
- loan repayment terms varied from original loan application; and
- disregard for proper disposition of real property.

Specific Findings And Recommendations

Questionable Granting Of Loans

Our audit disclosed that several of the loans made were, in our opinion, contrary to the intent of the statutes governing the granting of farm loans. These violations were of the following nature:

- At the time of loan application, the borrowers' financial statements and projection of cash requirements displayed their inability to repay the loans.
- The prior decline of loan applications from other lenders and financial institutions was not in evidence;
- A loan was granted for a purpose other than as prescribed in the statutes; and
- Loans appear to have been granted to ineligible borrowers.

Specific illustrations of the violations are described in detail below:

1. <u>Farmers' Inability To Repay Loans</u> - Loan documents of fifty-four farmers were selected for our examination. The documents showing the financial results from operations and future cash flow requirements of the farmers revealed that, at the time of loan application, four of the farmers would not have been able to repay the loans. Despite this condition, loans were granted to these farmers. The loans to these farmers have since become delinquent.

The granting of these loans is contrary to Section 155-10 (3) of the Hawaii Revised Statutes which provides, among other things, that "To be eligible for loans under this chapter, an applicant shall be a sound credit risk with the ability to repay the money borrowed." In addition, the manual of the Farm Loan Program, which governs the operations of the Program, states that "the ability to repay a loan from earnings is the most determining consideration in any application."

In the case of two of the four farmers above, a further violation was made when subsequent loans were granted to them despite the farmers' inability to make payments on the previous loan or loans. These cases are cited below:

Farmer 1 - In April, 1969, a $30,000 operating loan (Class C) was granted although the farmer's financial statements at that time indicated a working capital deficit (debts becoming due within a one-year period exceeding available resources to repay these debts) of $30,000. The first installment of $8,600 was due April, 1970. Full payment of the installment was not made as of that date and an extension (waiver) to repay the balance in April, 1971 was approved by the Farm Loan Division. In March, 1970, prior to the repayment due date (4/1/70) of the first loan, another operating loan was approved for $46,000. The applicant's financial statements indicated a large increase in debt load over the previous year's financial obligations and a deficit working capital position of $68,000. Approximately a year later (in 1971) another $6,000 operating loan was approved using the same financial statements utilized for the second loan ($46,000).

As of June 30, 1971, the outstanding balance of the three loans totaled $67,156 of which the farmer was in arrears in his payments in the amount of $7,457.

Farmer 2 - A $55,000 participation loan (State's share $29,975) was approved in 1965 based on financial statements of the prior year which showed a loss of $37,274. The farmer's projected income for 1965 was $12,650. The actual results, however, showed a loss of $13,579. In 1968, the Farm Loan Division approved a $30,000 loan to refinance a delinquent real estate mortgage owed to a bank and a $9,000 Class B loan based on financial statements indicating a working capital deficit of $40,000 and an operating loss of $22,825. In 1969, a loan of $30,000 was approved for operating purposes and to refinance a delinquent loan based on financial statements indicating a working capital deficit of $54,000 and prior year farm operation income of $54. At June 30, 1971, the status of these loans was:

Original loan amount	Outstanding principal balance June 30, 1971	Status
$29,975	$20,779	Delinquent, loan was due 6/69
$ 9,000	$ 4,582	Delinquent, loan was due 6/71
$30,000	$30,000	Principal amounts due of $12,500 delinquent as of 6/30/71
$30,000	$28,341	Current

Interest of approximately $4,000 was unpaid as of June 30, 1971.

Ironically, the above examples could best be depicted by the quote of T. N. Carver on the first page of the Farm Loan Program's Manual which states:

"...there are probably almost as many farmers in this country who are suffering from too much as from too little credit. Many a farmer would be better off today if he had never had a chance to borrow money at all or go into debt for the things which he bought."

Recommendation

We recommend that the Board develop guidelines (for example, minimum working capital ratio, etc.) which can be used as tools in measuring a farmer's ability to repay a loan.

2. Failure To Secure Letters Of Decline - Our audit disclosed that twenty-six of the fifty-four farm loan folders examined lacked one or more letters of decline from the Farmers' Home Administration (FHA) and other private lending institutions as prescribed by the Farm Loan Manual and Chapter 155 of the Hawaii Revised Statutes. The rule is that if financial assistance is available from private lending institutions at reasonable rates and terms, an application for a loan will not be considered. To assure that denials from both the FHA and other private lending institutions have taken place, letters of decline from these institutions are required to be submitted with the application.

   In one of the cases in which no letter of decline was secured, a review of the applicant's financial status revealed that the applicant could probably have obtained private financing through refinancing of an existing loan or obtaining a second mortgage loan. A direct loan was granted in this case.

   The Division's laxity in enforcing its requirement of obtaining letters of decline may be a contributing factor in the increasing proportion of direct loans as compared to participating loans.

Recommendation

We strongly recommend that letters of decline from FHA and the private lending institutions be secured and filed in the loan folders.

3. Questionable Use Of Loan Proceeds - A $30,000 operating loan (Class C) was approved in August, 1970 for a purpose which we believe was in violation of the type of loan allowed by the statute. Section 155-9 (3) of the Hawaii Revised Statutes, states that a Class C farm operating loan is to be used to carry on and improve a farm operation, including:

   a. purchase of farm equipment and livestock;

   b. payment of production and marketing expenses;

   c. payment of living expenses; and

   d. liquidation of indebtedness incurred for any of the foregoing purposes.

The loan application and loan officer's recommendation form indicated that the purpose of the loan was to pay for additional income taxes of the farmer for a prior year arising from the disallowance of certain tax deductions relating to farm operations. The loan proceeds were distributed to the borrower and no supervised account was established to control the disbursements. We were informed by Division personnel that the loan proceeds were used to settle payments for the current year's income taxes, as well as, for payment of the prior year's income taxes.

We believe that a loan for the payment of income taxes does not fall within the purview of a Class C loan. Since we were unable to satisfy ourselves as to the application of the loan proceeds for the purpose intended, we also seriously question the proper use and application of the proceeds of this particular loan.

Recommendations

We recommend that the Board evaluate the propriety of this loan and take necessary action to prevent the recurrence of this type of situation. We further recommend that the Farm Loan Division exercise stricter enforcement over the disbursement of loan proceeds so that the funds will be expended for the intended purposes.

4. Eligibility of Borrower Questionable - Our audit revealed three instances in which the Farm Loan Division had approved loans of two class types (Class A and Class C) simultaneously to the same farmers. We question the propriety of such practice.

Section 155-9 (1), Hawaii Revised Statutes provides, among other things, that an applicant must have or be able to obtain the operating capital, including livestock and equipment, needed to successfully operate his farm in order to be eligible for a Class A loan. Although there is no further explanation of the above provision in the Program's manual, it would appear that the intent of the statute was not to have the Farm Loan Division provide both the Class A loan and Class C loan to an individual farmer at the same time.

Recommendations

We recommend that the Board seek clarification on this matter from the State Attorney General. As an interim measure, we recommend that the granting of the two types of loans simultaneously be discontinued.

Non-Adherence To Policies And Procedures

Our audit disclosed numerous departures from the Division's policies and procedures. The deficiencies noted below are followed by a more detailed explanation of these deficiencies:

- Many loan application documents are incomplete.
- The adequacy of the loan collateral is questionable.
- In one case, there was no evidence of the performance of a title search.
- Audited financial statements of borrowers with loan balances exceeding $100,000 were not obtained.

- Many annual financial statements of borrowers have not been submitted to the Division.

1. Incompleteness Of Loan Application Documents - Our review of the loan application forms and financial statements indicated that in numerous instances pertinent information were missing or incomplete. This includes financial statements such as balance sheets, income statements and cash flow projections, and appraisals of assets (cost, market value or replacement value). We believe that this data is critical for a proper evaluation of the farmer's financial position and ability to repay the loan.

Recommendation

We recommend that due care be exercised in assuring that loan applications and related financial statements and other pertinent documents are properly completed and secured for all loans. In addition, financial data included in the application should be as current as possible.

2. Adequacy Of Collateral - Our examination disclosed that values of assets pledged by the farmers were not always made by independent appraisers and when they were made by the loan officers, these values were not substantiated by documentary evidence (e.g., real property tax values, current sales of similar properties in nearby location, etc.). There was no indication as to how the loan officer arrived at his valuation.

   In one particular loan, we noted the value of a land parcel pledged represented an anticipated change in agricultural zoning to urban which has a signficantly greater economic value. In those cases where the crops or equipment were pledged as collateral for loans, there was no current evaluation documented in the loan folders as to the appraised values of the crops or any evidence of the continued existence of the equipment pledged.

Recommendations

Although current policy does not require that independent appraisals be made, we recommend the following:

1. Independent appraisals be required for all loans where properties, other than crops or equipment, are pledged as collateral. Appraisals of crop or equipment by persons other than independent appraisers should be documented in the loan folder with substantiating evidence.

2. All assets pledged as collateral be inspected periodically. Inspection of crops should be made more frequently.

3. The adequacy of pledged assets be reviewed periodically.

4. All appraisals, inspections and reviews be documented in the individual loan folders.

3. Performance Of Title Search - Section 155-11 (g), Hawaii Revised Statutes, states that "if a loan is granted, the Department shall cause the title to real property to be examined and a mortgage drawn and recorded." In one instance, we were unable to confirm whether a title search was performed in which real property was pledged as collateral since the loan file did not contain a title search policy.

Recommendation

When real property is pledged as collateral on a loan, before any money is disbursed, we recommend that a title search be performed and the title policy be obtained in accordance with the statute.

4. Audited Financial Statements - Our examination disclosed that audited financial statements were not obtained from five farmers with total loan balances outstanding in excess of $100,000, nor was there documentation in the loan files to indicate that the submission of these statements had been waived by the Division Head.

The Farm Loan Manual requires audited financial statements for loans with an aggregate balance in excess of $100,000 unless waived by the Division Head.

Recommendation

We recommend that the policy requiring audited financial statements from borrowers with an aggregate loan balance in excess of $100,000 be strictly enforced. There should be no exceptions to the rule including waivers by the Division Head. Furthermore, these audits should be performed and financial statements submitted within a reasonable time following the close of the farmer's business year.

5. Non-filing Of Annual Financial Statements - The policy of requiring annual financial statements (balance sheet and profit and loss statement) from the farmers with outstanding loans is not strictly enforced. We understand that the responsibility for obtaining these financial statements is with the appropriate loan officer. Our examination of the loan folders disclosed that numerous folders lacked current annual financial statements.

These financial statements serve as a basic tool in evaluating the farmer's financial position and results of operations for the recently completed year. Unfavorable trends can be identified and corrective measures can be promptly taken to possibly alleviate or reverse these trends.

Recommendation

We recommend that the policy of requiring farmers with outstanding loans to submit annual financial statements be strictly enforced. A tickler file indicating the borrower's fiscal year end should be maintained and used in following up on the submission of annual financial statements on a timely basis.

High Number And Amount Of Delinquent Loans

Our examination disclosed that approximately 19% (79 loans) of the total number of farm loans (413 loans) with an aggregate outstanding principal loan balance of $1,215,017, or 21% of the total outstanding farm loan balance ($5,830,113) was on the delinquent list as of June 30, 1971.

We believe that the Division did not take an aggressive approach in resolving and/or liquidating the delinquent accounts which has contributed significantly to the number and amount of delinquent loans. Chapters 9 and 10 of the Farm Loan Manual spell out the necessary steps to be taken in handling delinquent "problem" loans. The manual states:

> "When a loan becomes delinquent to the extent that it is classified as a "problem" loan (generally 180 days delinquent or when suits are filed), it is anticipated that the situation will have been given sufficient attention that concrete plans as to action necessary to protect the interests of the Program have been made. It is the responsibility of the loan officers to see that borrowers are not permitted to continue in a delinquent status without justification. Loan officers shall report and make recommendations for appropriate action to the Division Head.
>
> If it is obvious that the borrower will not be able to repay the loan in an orderly manner from farm operations, consideration should be given to appropriate legal action to liquidate the collateral or collect from guarantors." (underlining added)

The Division's "actions" in accordance with the above provisions were not evident or documented in the applicable loan folders. The aging of the amount of principal payments in arrears at June 30, 1971 is presented below:

	Delinquent principal amount
Less than 90 days delinquent	$ 51,431
90 to 179 days delinquent	62,375
180 to 359 days delinquent	45,507
One year but less than two years delinquent	125,979
Over two years delinquent	174,384
	$459,676

To indicate the extent of some of the delinquencies, the following examples are cited:

	Due date	Last payment	Delinquent principal amount
1.	12/66	8/69	$29,417
2.	5/61	11/59	1,500
3.	2/68	2/64	5,130
4.	var/70	var/67-68	25,753 (4 loans)
5.	12/70	None	12,500

In example "1", this was a $30,000 loan, approved in July, 1963, which was repayable in annual installments with the final payment being due in December, 1966. The last payment received from the borrower was credited against unpaid interest in August, 1969. Since August, 1969, no payments have been received and the unpaid principal balance as of June 30, 1971 was $29,417 plus unpaid interest of $3,859.

A physical inspection of several farms with delinquent loans disclosed that two farms were abandoned and another was presently for sale. The farmers in each case had not maintained their farms due to either its location, possible sale or poor marketing results.

In addition to the above, two other factors have contributed to the unnecessarily large amount of delinquent loans. First, we understand that a delinquent loan list is prepared only quarterly by personnel in the Farm Loan Division. The list is distributed to the loan officers and Chairman of the Board of Agriculture. The other members of the Board are not provided with a copy of the delinquent loan list. Secondly, we understand that the decision of waiving and deferring installment payments is presently being made by the Division Head. We believe that this responsibility should be vested with the Board.

The preparation of the delinquent loan list on a quarterly basis has certain inherent disadvantages:

1. Loans may be 90 days delinquent before they are listed on the delinquent list which delays prompt action. For example, an unpaid loan due on 6/30/71 will not appear on the delinquent list until 9/30/71.

2. Follow-up work on delinquent accounts is not made until the list is prepared and distributed.

<u>Recommendations</u>

We strongly recommend that an aggressive approach be taken that will result in the reduction of delinquent loans. Until this matter is satisfactorily resolved, the Board of Agriculture should exercise close supervision and review to ascertain that appropriate measures are being taken.

We also recommend that the delinquent list be prepared monthly and submitted to the entire Board for review. Each delinquent loan should indicate the reason for the delinquency and the action being taken by the Division. The granting of waivers and deferments of installments should be approved by the Board rather than the Division Head.

Delegation Of Authority By Board Questionable

Our examination disclosed that the final responsibility for approving farm loans is vested in the Chairman of the Board of Agriculture.

Prior to October 1968, all loans over a certain amount were approved by the Board of Agriculture. In October 1968, the State Ethics Commission ruled (Opinion 10) that Board members with a direct or indirect interest in farm loans must abstain from all official actions regarding farm loans. The opinion placed the Board in somewhat of a dilemma. On the one hand, the Board has the responsibility of reviewing and approving loans. On the other, the Board often lacked the necessary majority at its monthly meetings because 1) three of the Board members who have loans or have an indirect interest in farm loans previously granted were required to abstain from voting, and 2) frequently one or more members were not present at the meetings.

In its attempt to resolve the problem, in March 1969, the Board delegated to its Chairman the authority to unilaterally approve all applications for direct loans, except where the Chairman, in his discretion, determines that a loan application requires consideration by the Board. Under this procedure, the loan documents and loan officer's recommendations are submitted to the Chairman for review and approval. Division personnel informed us that loan rejections by the Chairman are very rare. Considering the amount of delinquent loans and deficiencies enumerated above and elsewhere in this section, we believe that adequate review of loan applications prior to their approval was not being performed.

We question whether the Board's action to delegate the authority for approving loans to the Chairman represents a proper delegation of authority under existing statutes.

Recommendations

We recommend that the Board secure the opinion of the State attorney general regarding the delegation of authority of loan approvals by the Board to the Chairman.

With respect to the Board's dilemma of having the necessary majority to validate its actions, we recommend that the Department make special effort in assuring that members would be present at the meetings requiring Board action on loan applications. In addition, the Board should consider and propose, if necessary, other means of resolving this matter.

Variance In Method Of Loan Repayments

We noted that the loan repayment schedule included in the loan officer's recommendation differed from the schedule actually noted on the promissory note. For example, the loan approval recommendation made by the loan officer indicated that the applicable loan will be repaid on a monthly installment method; however, examination of the promissory notes disclosed repayments on an annual basis. Division personnel informed us that this was generally done due to the seasonal pattern of the crops and that farmers do make periodic payments during the year.

The annual repayment basis used by the Division has the inherent disadvantage of not keeping current with the farmer's financial position. That is, knowledge of a farmer's financial status may not be known for as much as a year.

Recommendation

We recommend that the repayment terms be limited to monthly installments only, except in special cases where the circumstances are demonstrated that this is not possible. In these latter cases, strict control and review should be exercised to keep abreast of the farmer's financial condition.

Disregard For Proper Disposition Of Real Property

Since 1929, the Farm Loan Division (previous to 1959, the Farm Loan Board) has reflected on its books two land parcels aggregating approximately 121 acres on the Big Island and with a cost basis of $1,152. Documents indicate that the Division obtained the land as a result of mortgage foreclosures in 1929. The lack of positive action to dispose of the parcels may partly be attributable to the Division's stated reluctance to sell the land since the proceeds of the sale would probably go into the State General Fund rather than the Farm Loan Fund. The Department of Land and Natural Resources is responsible for the management and disposition of all public lands as vested in Chapter 171, Hawaii Revised Statutes.

There were no documents on file and Division personnel were not certain whether the Department of Land and Natural Resources was notified of these parcels. The statutes in this particular instance were apparently not followed.

Recommendation

We recommend that the Department of Land and Natural Resources be notified immediately in writing of the existence of the land parcels for appropriate action.

Mechanization Of The Farm Loan Bookkeeping System

As of June 30, 1971, there were 413 loans outstanding totaling $5,830,113. The number of loans since the Program's reactivation in 1960 has grown steadily over the last ten years. Although the volume of transactions has increased tremendously, the Farm Loan bookkeeping system is still being performed manually.

Recommendation

We believe the present volume of loans being manually accounted for justifies a study to install mechanized recordkeeping for farm loans which would compute and apply interest and principal amounts for payments received. In addition, mechanization of loan recordkeeping will facilitate the issuance of the monthly reports:

- to provide current information on the status of each loan; and
- to provide delinquent reports to be used by Farm Loan officers for follow-up action with borrowers.

Prompt reporting each month from which proper action can be taken should assist the Chairman and Division Head to safeguard the prudent investment of public funds.

Improper Use Of Supervised Accounts

Our examination disclosed that a substantial number of the supervised accounts, beside controlling the use of the loan proceeds, was also being used to account for the assignment of proceeds from distributors and wholesalers and other disbursements of the farmers. In essence, the Division was handling the farmer's checking account and bookkeeping.

As a means of controlling the use of loan proceeds for the purposes intended, the Division sets up supervised checking accounts with local banks for the disbursement of the loan proceeds. All disbursements from these supervised accounts are approved by the loan officer and all checks are required to have the signature of the farmer and a Farm Loan representative (usually, the loan officer). At June 30, 1971, the Division was supervising over 60 checking accounts - 50 accounts were located in Kona.

The procedure of handling the farmer's finances through supervised accounts has inherent merits especially in controlling funds of a "problem" farmer. On the other hand, it represents a time-consuming effort for Division personnel and indicates the farmer's inability to handle his own finances. Since these accounts are susceptible to manipulation, it places the State in a vulnerable position.

Recommendation

We recommend that the use of supervised accounts to account for the farmer's finances be discontinued. These accounts should only be used to account for the disbursement of loan proceeds. Consideration should be given to establishing only one checking account to disburse all loan proceeds rather than a separate checking account for each loan. This would eliminate the maintenance of numerous checking accounts.

Present Method Of Interest Computation Can Result In Inequity

Our examination disclosed that the monthly interest computation and accruals for farm loans performed by the Farm Loan Division are time consuming and inequitable.

The Division's procedure of recording interest on direct and participation loans on its financial records is based on monthly computations of interest earned, calculated on the 360/360 day basis. However, since the private lenders on the participation loans charge interest on a 365/360 day basis, and make the collections, the following undesirable situations occur:

1. Since the interest on participation loans is computed and booked by the Division to the financial records on a 360/360 day basis, the amount actually received from the private lenders will differ. As a result, the interest receivable account in the general ledger will always be understated.

2. Direct loan borrowers receive a lower effective annual interest rate than participation loan borrowers.

We understand that the computations of interest earned and posting to the subsidiary loan ledgers and the general ledger are performed by manual operations. The method used by the Division is time consuming and costly.

Recommendation

We recommend that both the direct and participating loan interest accruals be computed and posted in the following manner:

1. Use the 365/360 day basis.

2. Compute and post individual loan interest accruals to the subsidiary ledgers only when payments are received.

3. Compute and post loan interest accruals to the general ledger on the basis of interest rate groupings (e.g. 4½%, 5%, 5½%, etc.).

The above procedures would alleviate the present time spent in making approximately 250 individual computations and postings to individual and subsidiary ledgers per month. However, mechanization of the entire Farm Loan Bookkeeping system would further reduce the time spent (see section on Farm Loan Bookkeeping included in this report).

Cash Collections At Kona Office

Presently, all collections at the Kona office are sent through the mail to the Department's fiscal section in Honolulu for deposit to the State's account at a local depository. If cash is received, a cashier's check is obtained at a Kona branch bank and sent to Honolulu for deposit.

Recommendation

We recommend that collections made at the Kona office be deposited promptly at the State depository's branch in Kona to the credit of the State account. A validated deposit slip and appropriate supporting documents should then be sent to Honolulu. This procedure will expedite the deposits to the State's credit and prevent possible loss or delay of funds in the mail.

Investment Of Idle Funds

Interest income from investments may be generated by the use of proper cash management techniques. In this era of tight money and high interest rates, maximum utilization of available cash funds is imperative. While historically the Farm Loan Program has maintained high cash balances, there is no policy relating to the investment of the available or earmarked funds. The Program's cash balance as of June 30, 1971 was as follows:

	Farm Loan Reserve Fund	Farm Loan Revolving Fund	Total
Available cash	$41,819	$ 83,849	$125,668
Earmarked cash for pending loans	-	431,032	431,032
	$41,819	$514,881	$556,700

Departments with Special Fund monies may invest idle funds in interest-bearing investments upon written request to the Director of Budget and Finance.

Recommendations

We recommend that the Board adopt and implement a policy relating to the investment of idle funds. In this connection, in order to achieve the goal of maximum utilization of cash, we recommend that the Department establish a program of forecasting monthly cash requirements of the Farm Loan Program on a long-range and short-range basis. We believe this planning technique would result in effective cash management.

* * * * *

The State's interest in the Farm Loan Program represents a $6 million investment. To insure Program compliance and to safeguard the State's investment, we recommend that the Board request the State Internal Audit Division to perform an annual audit of the Farm Loan Division.

ANIMAL QUARANTINE STATION

This section contains our findings and recommendations relating to the Animal Quarantine Station. Our audit included a review of the adequacy of the Station's fiscal controls and practices, an evaluation of the fees and charges assessed to defray the cost of the quarantine activities, and an assessment of the capital improvement planning process and the actual results.

This section is divided into three parts: background; summary of findings; and the discussion relating to our specific findings and recommendations.

Background

Section 142-3, Hawaii Revised Statutes, states that the Department of Agriculture "shall have charge, direction, and control of all matters relating to the inspection of animals and the prevention and eradication of contagious, infectious, and communicable diseases among animals." Under Section 142-6, the Department may quarantine any domestic animal to prevent the spread of any diseases among animals. As a result, the quarantine period was set at 120 days for carnivorous animals arriving in Hawaii to primarily prevent the introduction of rabies. The animal quarantine facility was established in the Fort Armstrong area in 1924 to handle the quarantine of these imported animals. In 1969, the facility was relocated to its present site in Halawa, Oahu, Hawaii.

Summary Of Findings

The major findings disclosed by our examination are summarized below:

- No case of rabies has been detected since the inception of the program in 1912.

- Facility costs were far in excess of the original estimate.

- Adequate analysis of alternatives was not considered in the construction of kennel facilities.

- The Department failed to take an aggressive approach in handling the establishment of an animal holding facility at the airport which caused severe overtime problems.

- Abnormal amounts of overtime premiums were paid to the employees of the Livestock Disease Control and Inspection and Quarantine branches.

- The present animal quarantine fee structure has several inequitable features.

- The collection of animal quarantine fees was not being made in accordance with the Division's regulations.

Specific Findings And Recommendations

Benefit Of Rabies Control Program Questionable

Since the inception of the quarantine program in 1912, we were informed by Animal Industry Division personnel that rabies has never been detected for animals going through the quarantine station. Approximately 40,000 dogs and cats have been quarantined since 1912. Australia, New Zealand and England are the only other areas with quarantine programs.

The National Communicable Disease Center of the U. S. Public Health Service of the Department of Health, Education, and Welfare publication "Annual Summary of Rabies - 1969" presents several interesting points:

1. There was one human death in the United States in 1969 directly related to rabies inflicted by a bobcat.

2. There have been fifteen reported incidences in the United States of rabies in man for the period 1960-1969.

3. Reported incidence of rabies in selected animals since 1960 to 1969 indicates a downward trend for the following animals:

	Dogs		Cats		Farm Animals	
Year	Number	Percent	Number	Percent	Number	Percent
1960	697	20.1%	277	8.0%	645	18.7%
1969	256	7.3%	165	4.7%	428	12.1%

Hawaii's current rabies quarantine period (120 days) applies only to carnivorous animals, mainly dogs and cats entering into Hawaii and does not apply to farm animals (horses, cattle, pigs, etc.).

We noted that the Department of Health and Department of Agriculture had undertaken a joint study and had issued in February 1970 a report entitled, "Report of the Rabies Quarantine Study Committee." In essence the report states that until ways to improve the detection and prevention of incubating rabies are found, the present quarantine period should "be continued and its enforcement strengthened by regulation."

In 1971, the State Legislature, in its Standing Committee Report 213, requested the Department of Agriculture to "undertake a serious study for reduction of the animal quarantine period without endangering the safety of Hawaii's people." The Committee's concern was expressed because of the consistently and constantly increasing costs of continuing the rabies program.

Recommendation

Because of the increasing cost of the rabies control program and the fact that no rabies has been detected by the quarantine station since its inception almost sixty years ago, we strongly recommend that an analysis of Hawaii's rabies control program including, among other things, the costs and benefits of various alternatives be made.

We further recommend that the Department seek assistance of Hawaii's Congressional delegation in pursuing a Federally-sponsored rabies prevention and control study.

Facility Costs Far In Excess Of Original Estimate

Our examination of the capital improvement program of the Animal Quarantine Station at Halawa disclosed the following:

1. The actual costs of the facility based on the original plans were double the original estimate;

2. The original plan in 1962 for projected animal kennel requirements through 1980 was exceeded in 1965 when the station was still located at its old site;

3. Through June, 1971, the kennels constructed or under construction were 77% more than the 1980 projected number of kennels;

4. The size of the construction of the kennels indicated a trend to construct smaller kennels; and

5. The conditional purchase of the Halawa site at a 70% health discount required the State to use the area as a public health facility and as a result, a laboratory building was required to meet this condition of purchase. The cost of this building will approximate $1,000,000.

A further detail discusssion of the above points is presented below:

Original Master Plan, 1962 -

In 1962 a study was undertaken by a firm of architects and consulting engineers to determine the adequacy of the Fort Armstrong Animal Quarantine Station. The final report indicated that the area was inadequate for an animal quarantine station due to the lack of adequate land space for expansion and was needed for a proposed wholesale market center. A new site in Halawa Valley was proposed since it met the consultants' basic considerations, mainly:

1. Area was adequate to meet projected requirements to 1980;

2. Incremental construction was advised to minimize the initial cost of relocation; and

3. Layout of the facility was based on:

   a. health and security of animals,

   b. minimal cost of operation and maintenance, and

   c. convenience and comfort to the general public.

The consultants and Animal Industry Division reviewed the past activities of the Animal Quarantine Station and on the basis of experience and judgment, estimated the kennel requirements for 1980 at 970 (note: projection was exceeded only three years later in 1965). The master plan recommended an incremental construction schedule with 648 kennels and other necessary complements being constructed in the first nineteen months and the remaining projected requirements being deferred until such time as the need arose. Actual construction of the facilities was not started until December, 1965 since the State was unable to acquire immediately a suitable site for the station.

D.A.G.S. - D.O.A. Revised Plan, 1965 -

Subsequent to the acquisition of the Halawa site, the

Department of Agriculture and the Department of Accounting and General Services prepared a revised plan for the quarantine station to primarily incorporate the required laboratory building, additional kennels due to the increased animal population and a sewage treatment plant. The basic animal quarantine station layout concepts promulgated in the original master plan were followed with minor deviations. The revised plan's esimated costs were $3,576,000 which was approximately $1.7 million more than the original master plan.

Actual Results, 1971 -

To illustrate the dramatic change in estimated and actual construction costs the following is presented:

	Original Master Plan - 1962	D.A.G.S. - D.O.A. Revised Plan - 1965	Actual and Projected Results (1)
Note: Number of kennels in brackets			
Costs for establishing quarantine station at Halawa and additional work through 1980	$1,877,300 (970)	$3,576,000 (1,290)	$4,441,424 (1,274)
Construction of additional kennels not included in original master and revised plans	-	-	704,939 (441)
Total costs	$1,877,300	$3,576,000	$5,146,363
Total kennels	970	1,290	1,715

(1) Laboratory building construction has not been started.

The actual and projected cost results for the construction of the Animal Quarantine Station as compared to the original master plan and revised plan indicate the following observations:

1. The actual costs of the original phase were increased drastically over the original estimate. The increase is primarily attributed to: (a) increased construction costs because of price increases; (b) construction of 304 additional kennels over original kennel requirements through 1980; and (c) non-budgeted items, (e.g., laboratory building, water storage tank and land).

2. The significant increase between the actual and projected results and the revised plan is due to the cost of the laboratory building which has not as yet been constructed:

	Estimated cost of laboratory building
D.A.G.S. - D.O.A. revised plan (1965)	$366,000
Per D.A.G.S. Project Development Report (1971)	951,100
Projected increase in costs	$585,100

Since the construction contracts are let on a lump sum basis, an analysis to isolate the costs related to particular items for comparative purposes could not be made.

Land Acquisition -

The 32.5 acres of land in Halawa Valley were acquired from the U. S. Department of Health, Education and Welfare in October, 1964 for $136,500 which represented a 70% health discount from the appraised value of $455,000.

The 70% health discount was obtained after a prolonged attempt to justify the utilization of the Animal Quarantine Station for public health purposes. The original application by the State to acquire the land was denied on the basis that the quarantine of animals did not meet the public health requirement. The application was amended to justify the public health requirement by including a major laboratory building which would house the entire laboratory and administrative functions of the Animal Industry Division. This amended application qualified the State to receive the health discount. Conditions of the acquisition state that the land must be used twenty continuous years for public health purposes and an annual report must be filed with the Department of Health, Education and Welfare on the operation and maintenance of the property which shall indicate the continuous use for the purposes specified.

Appropriations And Future Requirements -

Funds appropriated by the State Legislature through June 30, 1971 are summarized below:

Relocation of quarantine station to Halawa and construction of facilities	$3,546,600
Virus immunization building (in planning phase)	150,000
Laboratory-office building (in planning phase)	801,000
Additional kennels	1,485,000
Renovation of existing laboratory-office when Division relocates to Halawa (1972-73)	250,000
	$6,232,600

We were informed by Department personnel that approximately $800,000 of the $1,254,000 appropriated in 1970 for additional kennels will not be requested in the near future since the present kennel supply is adequate. Consequently, the future need for appropriations for additional kennels is not likely since the Department has not utilized approximately $800,000 of a prior appropriation. Furthermore, the construction of the laboratory-office building is being temporarily delayed since the Department recently requested the Department of Budget and Finance to make a feasibility study to determine whether to have a centralized virology laboratory. At present there are three other State virology laboratories. A fourth is planned at the new laboratory-office building in Halawa.

Kennel Size -

Our examination disclosed that a proper review of the size of animals quarantined was not made to ascertain the best mix of kennels. A comparative summary of kennels constructed by sizes is presented below:

Kennels	Original Master Plan (1) (1962) Number	%	D.A.G.S.-D.O.A. Revised Plan (1965) Number	%	Actual and In-Process (1971) Number	%
Dog -						
Extra small	-	-	200	16	190	11
Small	120	12	350	27	614	36
Medium	480	70	400	31	461	27
Large	210	22	150	12	80	5
Extra large	-	-	30	2	28	2
Cat	160	16	160	12	342	20
	970	100	1,290	100	1,715(2)	100

(1) through 1980
(2) 242 dog kennels in process of being constructed

The following observations are drawn from the table:

1. The kennel mix has changed drastically to include smaller size kennels, including cat kennels, (represent 67% of total kennels

constructed compared to the original estimate of 28% and later estimate of 55%). We understand there is a greater demand for the smaller animals as household pets, which has resulted in the drastic change in the type of kennels constructed.

2. Original kennel projections were signficantly off (the 1980 requirement being exceeded in 1965).

Furthermore, a physical inspection of the kennels at the Animal Quarantine Station revealed that the extra large animal kennels were not being utilized and several extra large kennels were over-grown with vines and weeds.

Recommendations

We recommend that an evaluation of the rabies control program be made before any additional funds are appropriated and expended for the construction of additional kennels. This recommendation is made in conjunction with our findings discussed in the Rabies Control section of this report. Until the rabies control program question is answered, temporary kennels should be considered to handle any overload which may occur.

Lack Of Analysis Of Facility Alternatives

The Department has the responsibility of providing suitable facilities for animals to be held for the established quarantine period to prevent the introduction of rabies into Hawaii. The construction of the facilities at Halawa represents a joint effort by the Department and the Division of Public Works of DAGS. From our review, it seems that the number of kennels constructed was dictated by the peak period population at the Animal Quarantine Station and the decision to build permanent facilities to handle the peak population represented a matter of expediency, rather than as a result of deliberate consideration of the alternatives and all relevant factors. This conclusion can also be applied to the determination and construction of the various kennel sizes, especially the extra large kennels.

A graph indicating the average daily dog and cat population by months and the available kennels for the period from July, 1968 to June, 1971 is presented in Exhibit I. The dates and number of the available kennels were obtained from the construction contract notices of completion and therefore, represent approximations. The graph illustrates several points:

1. Generally, available kennels were in excess of the average daily animal population computed monthly. We are cognizant of the fact that on a particular peak period day, the population could exceed the available kennels.

2. The Animal Quarantine Station is affected by a seasonal population.

3. The average daily dog and cat population for the three year period is 785 and 210, respectively, and the average daily available dog and cat kennels for the same period is 1,137 and 315, respectively.

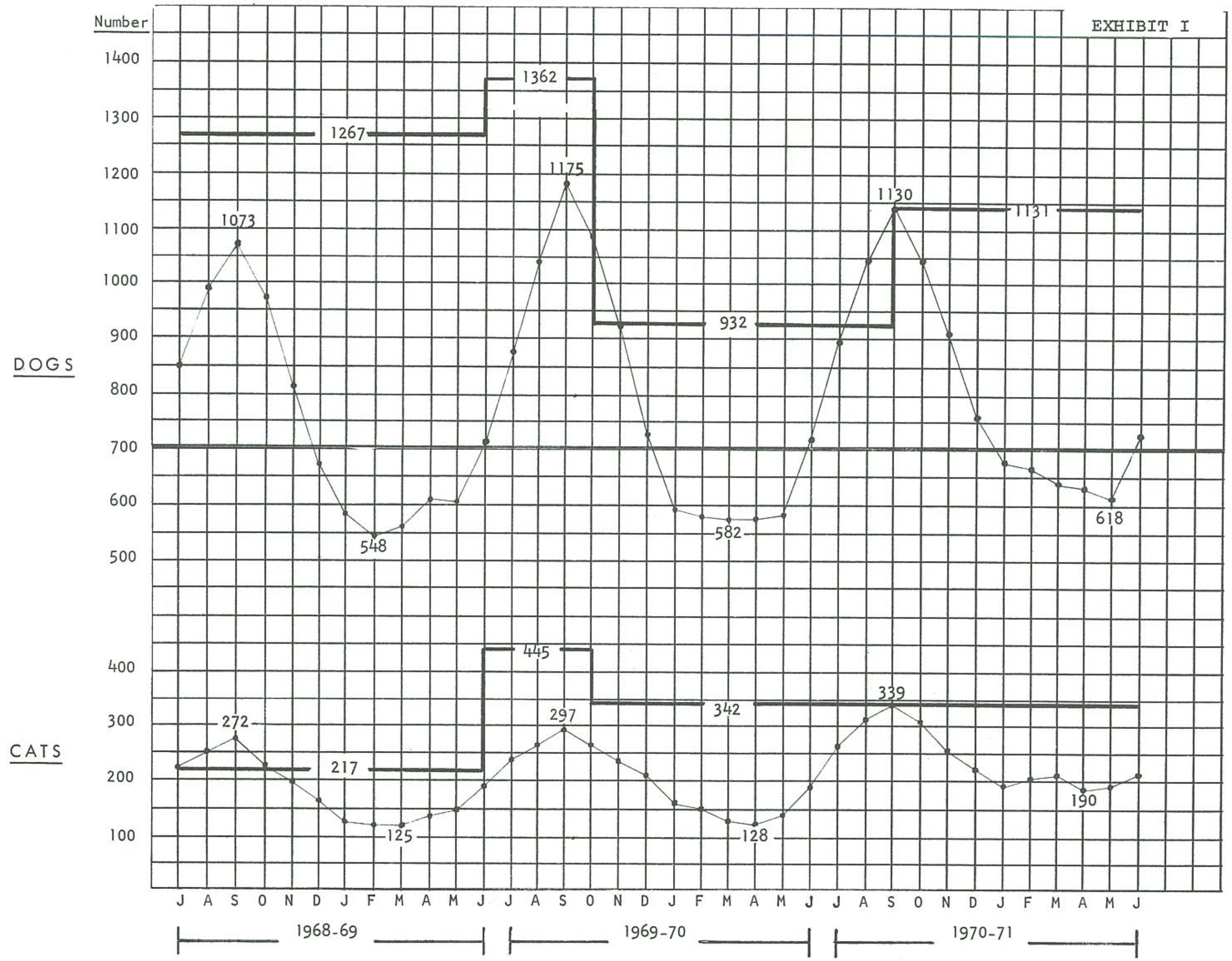
We understand that the peak period is caused by military movement and the summer months when people tend to move. Furthermore, available animal quarantine station statistics for July-September 1971 indicate that transient animals comprise approximately 25% of the population.

Attempts by the Animal Industry Division to control the peak population have been unsuccessful. These efforts have included a permit system and correspondence to curb the population at the Animal Quarantine Station with the military and other civilian animal owners. In each case, resistance from animal owners and interested parties, and the impracticality of the proposals prevented their implementation. Furthermore, the State Attorney General ruled that the Department has no legal authority to prohibit the number of dogs and cats imported within the State to meet the available kennel accommodations.

Recommendation

We recommend that a study to evaluate the future kennel construction commitments before requesting additional funds on permanent

EXHIBIT I



Average daily population

Available kennels

Note: 430 dog and 103 cat kennels at Fort Armstrong utilized until complete relocation to Halawa in October 1969.

ANIMAL QUARANTINE STATION
POPULATION AND KENNEL DATA
July 1968 - June 1971

facilities be undertaken. If additional kennels are required, we suggest that temporary kennels be constructed to handle the peak population.

Airport Animal Holding Facility

The following conclusions were drawn from our review of the establishment of an airport animal holding facility:

1. The Department of Agriculture failed to take an aggressive approach in handling the establishment of an animal holding facility at the Honolulu International Airport and the after normal working hour pick-up service problem;

2. Departmental decisions were not implemented and, at times, were avoided by the airline carriers by delaying methods;

3. Opinions, although subject to appeal, from the State Attorney General provided the Department with the available means of carrying out its responsibilities; and

4. Airline carriers were reluctant in operating and maintaining the animal holding facility.

The delay in providing holding facilities for animals arriving after normal working hours resulted in excessive overtime premiums for the livestock inspectors. A discussion of the excessive overtime is made in the section Overtime at the Animal Quarantine Station included elsewhere in this report.

The problem of after normal working hours pick-up and its costs was recognized in 1963 when the Chairman of the Board of Agriculture requested an investigation into the feasibility of establishing an overnight holding facility for incoming dogs and cats at the Honolulu International Airport arriving after normal working hours. In 1965 an opinion from the State Attorney General gave the Department the legal basis to require the carriers (airlines) to hold dogs and cats arriving for quarantine after normal working hours. Furthermore, the Attorney General advised the Department's Animal Industry Division to clarify the above requirement in the Division's rules and regulations by specifically providing what the carrier is required to do after normal working hours of each day. (These rules and regulations were not established by the Division). In December 1965 the Chairman of the Board of Agriculture requested the Honolulu Facilitation Airport Committee (primarily represented by the various carriers) to consider ways and means of building and operating a compound which would eliminate the after normal working hour pick-up of animals.

To eliminate this pick-up service, the Department advised the airlines of its plans to discontinue this service after normal working hours effective July 1, 1966. This plan was not implemented due to the airlines' opposition and the Animal Industry Division's later recommendation to defer the withdrawal of the after hour service until an adequate facility could be constructed. In the meantime, the airlines' committee kept deferring the holding facility question since they were unable to come up with a satisfactory solution.

An opinion from the Attorney General in 1968 stated that "Since the carriers have no facilities to confine their animals at the airport, the services being provided to the carrier by the Department for after hour pick-up are subject to a reasonable assessment, to which: the overtime pay incurred by the Department." With this tool, the Animal Industry Division gave the airlines an option of either holding animals after normal working hours or requesting after hour pick-up with the Department of Agriculture charging for this service on a cost reimbursement basis. This plan was also not implemented.

The practice of after hour pick-up service continued until September, 1970 when the airlines advised the Department that the responsibility for holding animals rests with the State and that they would like to review the Attorney General's opinion.

Since 1970, the construction of the animal holding facility was started and is almost now complete. However, we understand that the holding facility would not be available until November, 1971 due to construction in the immediate vicinity.

As of the date of our examination, the Department was still exerting its efforts to have the carriers shoulder the responsibility of the holding facility operations and maintenance. Furthermore, a split shift in livestock inspectors responsible for picking-up animals after normal working hours has been instituted to reduce the overtime costs.

Recommendations

Although action has been initiated to alleviate this problem, we recommend that the Board:

1. take an aggressive approach in placing the responsibility of operating and maintaining the airport holding facility with the airline carriers;

2. formulate rules and regulations as previously recommended by the Attorney General's memo of March, 1965;

3. establish circumstances and procedures for after normal working hour pick-up service; and

4. establish security measures for the animal holding facility.

Excessive Overtime

An examination of the overtime incurred by the Livestock Disease Control and Inspection and Quarantine branches of the Animal Industry Division disclosed an abnormal amount of overtime premium paid. The causes of the overtime are attributed to the pick-up of animals for quarantine after normal working hours and insufficient animal caretakers.

The overtime problem at the Animal Quarantine Station goes back as far as the early 1960's when the Division was requested to find a holding facility at the Airport to reduce the number of after hour pick up of animals and overtime paid. The matter of the holding facility was discussed in the previous section.

For the year ended June 30, 1971, employees in Livestock Disease Control and Inspection and Quarantine branches were paid approximately $63,000 for overtime incurred. This amount represented 12% of the branches' total salaries and wages for the fiscal year and exceeded the budgeted overtime (of $20,000) by $43,000. To illustrate the extent of the overtime premiums paid to three of the four livestock inspectors, the following tabulation is presented:

	Livestock Inspector					
	A		B (1)		C	
	By Amount	By %	By Amount	By %	By Amount	By %
For the six months ended June 30, 1971:						
Total compensation	$11,483(2)	257%	$ 8,538	191%	$12,134	285%
Regular salary for period per salary schedule	4,464	100	4,464	100	4,254	100
Overtime premium wages	$ 7,019	157%	$ 4,074	91%	$ 7,880	185%

(1) periodically performed duties as assistant to Station Superintendent at a higher salary schedule which is not reflected in total compensation

(2) does not include $914 overtime premium paid in July 1971 for month of June 1971

To illustrate more specifically, for the pay period ended May 31, 1971, Livestock Inspector A's compensation comprised:

	Number of hours	Amount
Regular (semi-monthly salary)	87.00	$ 372.00
Ordinary overtime hours*	277.25	1,784.04
Holiday overtime hours*	32.50	209.14
Stand-by days*	38.00	326.04
Total		$2,691.22

* represents three semi-monthly pay periods

Briefly stated, the employee was averaging over 40 overtime hours a week and was on stand-by almost everyday during the pay period.

Our examination disclosed that the Animal Quarantine Station semi-monthly timesheets (Form AGS-29) and Animal Quarantine Station Daily Attendance Report (Form P-8/68) were not turned in promptly by these inspectors. Timesheets were submitted one and two months after the end of the pay period. Because these reports were not being filed timely, the overtime hours and justification of the overtime was not determinable on a current basis. Overtime work within the Department of Agriculture is regulated by Policy No. A-30, "Overtime Work, Compensatory Time-off, Stand-by Duty, Emergency Work, Severance Pay, Work Schedules, Time Sheets, Reporting, Recording, Etc." Specific excerpts from Policy No. A-30 state:

1. All overtime work shall be authorized in advance by the supervisor.

2. Supervisors shall justify overtime work in writing to the appropriate Branch Chief for endorsement and to the Division Head for approval.

3. The Division Heads shall assign responsibility for accurate timesheets. Responsibility shall include: (a) posting of absences and overtime; (b) checking for appropriate authorization; and (c) prompt submittal of reports.

Although the policy states that prior written authorization to incur overtime is required, we understand that the Department has no overtime authorization form and utilizes the AGS-29 timesheet as the authorizing and approving document which is submitted after the incurrence of overtime. Furthermore, justification of the overtime was not always indicated. The delay in submitting timesheets for approval makes it apparent that inadequate control and supervision of overtime hours were exercised for the employees at the Animal Quarantine Station.

The Department is aware of the abnormal overtime hours at the Animal Quarantine Station and has recently instituted a split shift (effective August 29, 1971) for the livestock inspectors to alleviate the overtime problem temporarily. The Department is also working with the airlines to resolve the after hours animal pick-up services.

If a suitable arrangement can be negotiated with the airlines for an animal holding facility at the Honolulu International Airport (see section on Animal Holding Facility included elsewhere in this report) the overtime incurred by Livestock Inspectors could be resolved.

Recommendations

We recommend the following:

1. The Department's Policy No. A-30 be strictly adhered to.

2. An overtime request and authorization form be developed and used for the authorization and approval of overtime hours to be incurred. This form should be used for the entire Department.

3. The Department should continue to expend its efforts in obtaining an animal holding facility at the Honolulu International Airport to resolve permanently the occurrence of overtime by the Livestock Inspectors.

The overtime problem is faced by all State agencies as evidenced by the Legislative Auditor's report, "Overtime in the State Government", dated February, 1967. The recommendations included in Chapter 3, "Departmental Administration of Overtime", of this report are sound and we suggest that the Department re-evaluate its present policy in terms of the Report's recommendations.

Inequitable Animal Quarantine Fees And Non-Adherence To Prescribed Fee Collection Policy

Act 54, Session Laws of Hawaii 1967, provides that the "Department of Agriculture shall increase the fees for the quarantine of dogs and cats, so that revenue collected from this source will equal 85% of all costs, excluding amortization of capital improvements, of the quarantine of dogs and cats program." The "reduced" fees to the animal owners take into consideration the public safety benefit (15%) that is absorbed by the taxpayers. The Department annually prepares a report summarizing the actual costs to operate the rabies control program for the past year and determines whether the fees collected during the year were at least equal to 85% of the program costs. A similar report is prepared for the ensuing year based upon cost estimates to ascertain whether the present quarantine daily fee rates are adequate to provide revenue sufficient to meet the 85% requirement.

The Department's methodology includes the accumulation of the direct costs attributable to the rabies control program, allocation of pooled personnel costs in the inspection and quarantine program, allocation of the Division's administrative costs and allocation of fringe benefits. 85% of the total costs, excluding amortization of capital improvements compiled above, represents the goal the Department is required to achieve in quarantine fees. The program's report for the last three years is summarized below:

Fiscal year	85% of total costs chargeable to the rabies control program	Fees collected for quarantine of dogs and cats (1)	Prevailing daily rates: Dog	Prevailing daily rates: Cat
1970-71	$484,098	$481,439	$1.20 $1.30 (2)	$ .90 $1.00 (2)
1969-70	$393,646	$408,928	$1.10 $1.20 (3)	$ .80 $ .90 (3)
1968-69	$344,233	$346,782	$1.10	$ .80

(1) includes $5.00 registration fee per animal

(2) effective 9/1/70

(3) effective 9/1/69

As shown above, the Department has been able to approximately achieve the 85% goal.

We reviewed the program's reports and computations and evaluated the computational methodology. The method utilized is adequate and presents a reasonable assessment of the costs related to the program. However, our examination disclosed inequities and certain problem areas which are discussed hereunder.

1. Improper Allocation Of Cost Between Programs - Approximately fifteen percent of livestock inspectors' salaries is allocated to the rabies control program. This percentage does not appear to be proportionate to the time inspectors spend transporting and processing quarantine animals. Moreover, the percentage of salary costs allocated to the rabies program includes overtime costs associated with pick-up service rendered by inspectors after regular working hours.

   Recommendation

   We recommend the allocation of salaries be revised to represent the effort inspectors spend between normal livestock inspection duties and those performed for the rabies control program. If overtime costs are incurred in the performance of duties for the rabies control program, the premium salary costs incurred should be borne by that program. Furthermore, a study should be undertaken to ascertain whether the "necessary" costs related to after hour services could be passed on to the individual animal owners.

2. Fee Structure Inequitable - We understand that the present fee structure does not consider the size of the animals, mainly dogs. For example, a

Saint Bernard dog will eat much more than a Chihuahua, but each animal owner pays the same fee. The fee structure is inequitable to the small dog owners.

Our review also indicated that there is a significant number of transient animals retained at the Animal Quarantine Station on a short-term basis. These transient animals primarily belong to military personnel passing through Hawaii. There is no fee differential for these animals.

Recommendations

We recommend that the fee structure be reviewed to produce a more equitable basis and since the facilities are provided as an accommodation for transient animals, we recommend that a study be made to consider the possibility of assessing these animals at a higher rate.

The Animal Quarantine Station is almost at capacity in September and approximately 50% full during the early months of the year. This seasonal trend greatly affects the efficiency of the Animal Quarantine Station and we understand that the Department has been unsuccessful in attempting to level the daily population. We noted, however, that increases in quarantine fees have been effective as of September 1, which is in the midst of the peak period. A lesser increase in the daily rates could be achieved if the rate increases were made effective at the start of the peak period (June 1). The effect of such an early effective date would produce higher revenue than would be realized since the increase would affect the entire peak population. To effectuate an earlier effective date we recommend that the annual reports used to determine whether the fees equal 85% of the rabies control program costs be calculated as of March 31 of each year. Ironically, the Department was unable to increase the daily rates this year because of the President's wage and price freeze and consequently the collections in fiscal 1971-72 is expected to fall below the 85% requirement. The Department may have to increase the daily rates after the wage-price freeze period to meet the 85% requirement, however, this will depend on the President's price controls after the initial freeze period.

3. <u>Promissory Notes Ineffective</u> - In 1957, the Division adopted the use of promissory notes as a deferred payment plan for the collection of quarantine fees. Our examination disclosed that 13 notes aggregating $1,368 have either been written off or proposed for write-off during the past two years. In most cases, the debtors have left the islands.

<u>Recommendations</u>

We recommend that the use of promissory notes be limited to the following situations:

1. upon entry of animal into quarantine with installments spread over the quarantine period with full collection prior to the animal's release; and

2. upon release of animals from quarantine in cases where it is demonstrated that the full payment would result in an extreme hardship.

Furthermore, we noted that the 6% interest rate provided in delinquent notes was not enforced. This provision in the note was recommended by the Attorney General's office as a matter of policy and should be complied with.

4. <u>Non-Adherence To Advance Collection Of Animal Quarantine Station Fees</u> - Our examination disclosed that the collection of Animal Quarantine Station fees was not being made in accordance with the Animal Industry Division's regulations.

As of June 30, 1971, the Animal Quarantine Station accounts receivable totaled approximately $75,500 which primarily represented amounts due from animal owners for animals which were still in quarantine. Except for promissory notes of $1,566, the entire $75,500 balance is considered delinquent since Section 2, Regulation No. 105 of the Animal Industry Division states that:

> "All charges for feed and care shall be <u>paid in advance</u>, provided, however, animals may be received in quarantine and held therein if satisfactory arrangements for the payment of all charges and fees shall have been made as provided in Regulation 10." (underlining added)

To ascertain the timely collection of quarantine fees as provided in the regulation, a test was conducted and the results are presented below:

1. 16% of the fees were collected before the animal entered quarantine;

2. 77% of the fees were either collected during quarantine, upon release from quarantine or after release from quarantine; and

3. 7% of the fees were never collected and/or written off.

We were informed that efforts by the Animal Industry Division to collect the fees include communication by letters and telephone calls.

<u>Recommendations</u>

Considering the Division's regulation regarding advance fee payments, the outstanding receivable balance is extremely high. We recommend that the Board strictly enforce the regulation providing for the advance payment of quarantine fees. Furthermore, we recommend that the Board and fiscal section of the Department be provided with an aging of the receivable balances each month with comments related to the Division's action on delinquent accounts for proper review and accounting control.

AUTOMOBILE TRANSPORTATION

This section relates to our evaluation of the cost of acquiring and maintaining State-owned automobiles as compared to the cost of providing mileage reimbursements for the use of privately-owned vehicles. An assessment of the efficiency of the automobile maintenance program was also made.

This section is divided into three parts: background information; summary of our major findings; and our discussions relating to specific findings and recommendations.

Background

Automobile transportation costs are incurred by (1) State-owned vehicles; (2) private car mileage reimbursement; and (3) flat monthly car allowance. A brief description of these transportation costs is as follows:

1. State-owned vehicles -

   Vehicles are provided to the State agencies for utilization by agencies' employees. All expenses of operating and maintaining the vehicles are the responsibility of the agency assigned with the vehicle.

   We were informed that the Department of Budget and Finance's informal criteria used for replacing a State vehicle is either (a) 10 years old or more; or (b) 100,000 or more accumulated miles; or (c) determined to be unsafe, inoperable, inefficient, etc. by a number of the department's personnel. As of June 30, 1971 the Department of Agriculture was responsible for 96 State-owned vehicles.

2. Private car mileage reimbursement -

   Employees using their private cars for official business are reimbursed as follows:

12¢ per mile for the first 400 miles per month and 10¢ per mile for any mileage in excess thereof per month.

The employees are responsible for paying all operating and maintenance costs. Thirty-seven Department of Agriculture employees were receiving private car allowances on a regular basis during our examination.

3. Flat monthly car allowances -

These allowances are provided to employees at the discretion of the Director of Budget and Finance. The amount allowed is based upon the number of miles driven monthly by the employee and the reason for requesting the flat allowance. Presently, the Chairman and Deputy Chairman of the Board of Agriculture and a veterinarian are on the flat monthly car allowance method.

A three-year summary of the costs of personal car mileage allowance and operating State-owned vehicles is presented below:

	1968-69	1969-70	1970-71
Personal car mileage allowance	$16,432	$21,251	$26,129
State-owned vehicles - *			
Fuel and oil	31,545	16,795	16,795
Maintenance and repairs	-	11,832	15,498
	31,545	28,627	32,293
Total automobile transportation costs	$47,977	$49,878	$58,422

* Excludes the cost of new automobiles and the related depreciation

Summary Of Findings

A summary of our major findings is as follows:

- State-owned vehicles were not used effectively and economically.
- Inconsistencies existed in the application of the method of computing personal car mileage reimbursements.
- The Department's system of accounting for the costs of operating State-owned vehicles represents only a limited information system and cannot be used as a reliable tool for gauging operational performances and efficiencies.
- The Department's automotive preventive maintenance is very limited.
- Travel logs are not maintained for State-owned vehicles.

Specific Findings And Recommendations

Poor Utilization Of State-owned Vehicles

Our examination disclosed that:

1. State-owned vehicles were not used effectively and economically;
2. State-owned vehicles were used for personal commuting purposes;
3. Responsible Department personnel failed to make a periodic and proper review justifying the personal

usage of the State-owned vehicles.

Our findings and comments relative to the above deficiencies are discussed below.

A test was made to determine whether State-owned vehicles assigned to employees were driven in excess of 760 miles per month, mileage determined by the contract auditors to be the break even point (standard used by Federal Government is 700 miles per month). This means that it would be economical for the State to provide a State-owned vehicle rather than reimbursing an employee on a mileage basis for the use of his private vehicle in situations where travel exceeds 760 miles per month. The test disclosed that ten out of twenty-one individuals (48%) assigned State-owned vehicles averaged less than the break-even point of 760 miles per month during a three-month test period. The monthly average of these cars driven less than 760 miles per month ranged from 370-653 miles per month. Thus, it would have been more economical to reimburse these ten employees on a private car mileage basis rather than providing them with a State-owned vehicle.

Furthermore, an analysis of selected employees driving State-owned vehicles was made to ascertain the distance traveled by the employees from home to worksite and office to worksite. Our analysis, which is based upon travel questionnaires previously solicited by the Department indicate that employees were utilizing State-owned vehicles for commuting purposes:

	Mileage to Worksite		
Employee	From Office	From Home	Comments
A	6	29	Employee commuting daily from home to worksite which distance was significantly greater than from office to worksite. Employee averaged approximately 1,480 miles per month. If vehicle was picked up at office, monthly mileage would have averaged approximately 260 miles. As a result, the employee averaged approximately 1,220 miles per month on personal commuting mileage.

Employee	Mileage to Worksite From Office	From Home	Comments
B	14	30	Employee commuting daily from home to worksite which distance was greater than from office to worksite. Personal commuting distance (difference between home to worksite and office to worksite) ranged from 32-54 miles daily.
	2	29	
	3	27	

The examples cited above indicate possible economies that can be realized if the use of State-owned vehicles is restricted for traveling to and from office and worksite only.

We were informed that several veterinarians use State-owned vehicles in their dual capacity as a government employee and private veterinarian (see section on Employment of Veterinarians Engaged in Private Practice included elsewhere in this report).

It is apparent from the above situations that State-owned vehicles are not utilized effectively and economically.

Applicable Regulations - The personal use of State-owned vehicles is regulated by rules and regulations of the Division of Automotive Management of the Department of Accounting and General Services and adopted by the Department of Agriculture as Policy No. A-48. "Personal use" means the privilege granted to employees to take a State-owned vehicle home at the end of a workday. The personal use of State-owned vehicles is permitted under the following conditions:

1. when an employee is required to respond to emergencies at any hour of the day and night, and when the use of a government vehicle is essential to meet these contingencies;

2. when government parking facilities are inadequate or so located in an area exposed to vandalism and abuses;

3. when the nature of an employee's work requires a government vehicle after normal working hours on a regular and sustained basis;

4. when it is impractical to require an employee who resides in the district in which he works, to travel daily to a central garage yard to pick up a vehicle and return to the district; and

5. personal use of government vehicles should be restricted to direct travel between an employee's home and his place of work, and to such travel as would be incidental to driving to and from work.

The scope of the above regulations is general and is not intended to apply to specific individual circumstances which we believe are the more important factors. For example, an employee working from 4 a.m. to 12:45 p.m. could consider his working hours other than government's normal working hours (7:45 a.m. to 4:30 p.m.) and obtain a permit for personal use of a State-owned vehicle. In a situation such as this, we do not believe that an employee should be allowed personal use of a State-owned vehicle if this is the only reason for granting a permit. The fact that an employee starts at 4 a.m. instead of 7:45 a.m. appears to be immaterial.

Our examination also revealed that the Department did not make periodic reviews justifying the personal use of State-owned vehicles. However, the Department is presently taking steps to ensure proper utilization of State-owned vehicles. We were informed that the issuance of the permits authorizing employees to use the State-owned vehicles for personal use have tentatively been withheld until a proper study and evaluation is made.

Recommendations

We recognize the Department's present efforts to ensure proper utilization of State-owned vehicles and recommend that the study and evaluation on this matter be completed as soon as possible. In developing revised guidelines for the effective utilization of State-owned vehicles, the following criteria is suggested:

1. Each Division should assign a vehicle to at least one employee in each county to handle "normal" working hour emergencies.

2. All other unassigned vehicles should be maintained in one or more centrally-located motor pools for daily assignments therefrom.

3. Department personnel should periodically review travel logs for State-owned vehicles to ascertain their effective utilization (see section on Lack of Travel and Mileage Logs included elsewhere in this report).

We also recommend that the Department undertake a comprehensive study to ascertain whether the present complement of State-assigned vehicles is sufficient or excessive for its requirements. The study should be based upon actual requirements and utilization of vehicles and not a matter of expediency.

Inconsistency In Computing Personal Car Mileage Reimbursement

Our examination disclosed inconsistencies in the application of the method of computing personal car mileage reimbursement.

We understand that the State does not have a uniform policy for computing personal car mileage allowance and reimbursement for all the State agencies. The Department's policies pertaining to personal car mileage reimbursement are enumerated hereunder.

Department Policy Prior to July 1, 1971

Prior to July 1, 1971, the Department's personal car mileage reimbursements were governed by (1) Policy No. A-25 of the Department of Agriculture, "Mileage Allowance For Use Of Private Cars For Official Business", adopted in 1946 and amended in 1960 and 1963 and, (2) the Department's Accounting Manual dated March, 1968. Policy No. A-25 was established during a period when the State Government had a shortage of vehicles as evidenced by the following policy statement:

> "It shall be the policy of the Board that all full-time employees, whose duties require daily regular use of vehicles, be provided with government vehicles as soon as funds become available for the purchase of the necessary vehicles."

The policy further states:

> "The Chairman may revoke any of the mileage allowances granted previously, if in his judgment such allowances are no longer justified."

In addition, a section in the Accounting Manual describes the amount reimbursable to an employee for personal car mileage and insurance coverage required.

The policies cited above are stated in general terms and do not provide definite guidelines as to how personal car mileage allowances are to be computed. That is, differentiation of official business from personal commuting mileage was not defined. As a result, our examination indicated the following instances where employees claimed reimbursement for personal commuting mileage:

Case 1 - Worksite is situated between home and office. Employee does not go into office, but goes directly from home to worksite (point A to B).

```
A                          B                      C
                             (Mileage actually
X ———————————————————————→ X ←——— claimed) ———→ X
Home                       Worksite               Office
```

Employee claimed mileage from office to worksite (point C to B). For the month ended June, 1971, employee was reimbursed $19.37. We believe that the employee was not entitled to any reimbursement since the employee was commuting to work and not actually on official business.

Case 2 - Home is situated between worksite and office. Distance from home to worksite (point B to A) exceeded distance from home to office (point B to C). Employee does not go into office.

```
    (Mileage actually
A <---- claimed) ----> B          C
X <------------------- X          X
Worksite              Home      Office
```

Employee claimed mileage from home to worksite (point B to A). For the month ended June, 1971, employee was reimbursed $41.94.

Under the new Department policy described below, the employee would be entitled to mileage allowance for the mileage differential from home to worksite less home to office (point B to A less point B to C).

<u>Department Policy Effective July 1, 1971</u>

In order to eliminate the inequities in its old policy, on July 1, 1971, a new policy governing personal car allowance and travel time allowance became effective for all the Department's employees. The new policy basically describes the computation of credit for use of personal cars for official business and eligibility requirements as well as the determination of travel credit. The policy illustrates examples of computing mileage allowances as follows:

A. Case 1 - When home is situated farther away from worksite than office to worksite, car mileage shall be allowed on the basis of travel from office to worksite or its equivalent as illustrated below:

```
   Mileage not credited          Mileage credited
Home        |          Office        |        Worksite
 0 - - - - -v- - - - - - -0 ___________v_______  0
```

B. Case 2 - When home is situated the same distance or less than from office to worksite, car mileage shall not be allowed for distance traveled, as illustrated below:

```
    Mileage not credited     Mileage not credited
Office       ↓            Home        ↓          Worksite
  0 - - - - - - - - - - - - 0 - - - - - - - - - - - -0
```

C. Case 3 - When home is situated between office and worksite but mileage is greater than from office to home, credit shall be given for the difference only, as illustrated below:

```
   Mileage not credited     Mileage not credited
Office       ↓            Home        ↓            Worksite
  0 - - - - - - - - - - - - 0 - - - - - - - - ______ 0
```

Mileage equal to difference between office to home and home to worksite

D. Car mileage shall be allowed:

1. For distance traveled from worksite to any other destination required in the conduct of official business during a work day.

2. From home to worksite and return when an employee is required to report to work because of an emergency outside of his regular scheduled work hours.

E. Car mileage shall not be allowed in proceeding to and returning from home to worksite or from home to office.

The new regulations eliminate personal commuting mileage and appears to be fair and reasonable.

Recommendations

Since inequities of personal car mileage reimbursements were noted in our examination of the Department of Agriculture and since it is conceivable that similar inequities may be occurring in other State agencies, we strongly recommend that the Department of Accounting and General Services, as the agency assigned to control and regulate State expenditures, develop and implement a uniform State policy for personal car mileage reimbursements. The Department of Agriculture's present policy should be continued and strictly enforced until a State-wide uniform policy is developed.

Inadequate Vehicle Information System

The Department's system of accounting for the costs of operating State-owned vehicles represents only a limited information system and cannot be used as a reliable tool for gauging operational performances and efficiencies under the present conditions.

The Department presently maintains an "Individual Motor Vehicle Record" (Form Adm-37 (68)) for all vehicles assigned to the Department. This record indicates the description of the vehicle, date acquired and cost, vehicle location and assigned driver, total monthly operating costs (gas, oil, tires, etc.), beginning and ending of the month speedometer readings, and average miles per gallon. Monthly mileage and cost data posted to these records is obtained from the "Monthly Report of Motor Vehicles" submitted by the assigned drivers by the 15th day of the following month. The monthly reports are usually supported by "Garage and Stock Room" invoices which are prepared by the automotive maintenance personnel indicating the charges (gas, oil, repairs, etc.) incurred on the vehicles. The charges of automotive costs to the various branches in the Appropriations and Expenditures Ledger are performed by the Administrative Services Division based upon the "Garage and Stock Room" invoice and/or vendor invoices. We were informed that no reconciliation of the charges posted to the "Individual Motor Vehicle Record" and the Appropriation Expenditures Ledger is made to insure that all costs had been posted. Furthermore, Departmental personnel indicated that the "Individual Motor Vehicle Records" are used primarily for vehicle replacement purposes (mileage accumulation and age of vehicle) and that these records are not expected to be accurate.

Recommendation

The controls and economies necessary to facilitate cost savings in auto fleet operations are dependent upon an adequate information system. Consequently, we recommend that the Department's present vehicle information system be improved by including the following procedures:

1. Revise the present "Individual Motor Vehicle Record" form to indicate the vehicle's entire performance record. The elements of vehicle costs should be further segregated to include such categories as repair labor and parts, garage overhead and accident costs. It is also essential to report cumulative costs per mile in order to have performance data that are meaningful.

2. Develop procedures that will insure the accurate posting of costs to the performance records.

3. Define and, where necessary, assign specific responsibilities for the proper evaluation of fleet and individual vehicle performance.

4. Maintain a separate maintenance history record and file on each vehicle which indicates the type of repair and major components involved. This record is a valuable tool to ascertain the history of all maintenance work done on vehicles, provides the basis for spotting repetitive failures that call for immediate investigation, reveals specific areas where additional preventive maintenance procedures could be employed and indicates the durability of specific vehicle components.

Limited Automotive Preventive Maintenance Program

The investment in an automotive fleet represents a large capital investment and a major operating expense of the agency and State. The costs of operating a fleet can be minimized to a great extent through a soundly administered preventive maintenance program which includes:

1. A checklist of items to be inspected and adjusted. Two or more checklists are usually required for varying

levels of maintenance performed at different mileages or time intervals.

2. A schedule for performing preventive maintenance checks on each vehicle at specific mileages or time intervals.

3. Evidence, in the maintenance history file, and possibly in other reports, that the preventive maintenance work has been performed as scheduled.

There is no evidence that these points exist in the Department's program and the conclusion is that the Department is not following effective preventive maintenance practices. Steps should be taken to adopt a maintenance organization and the procedures and controls effectively utilized by other organizations operating fleets of automotive equipment. This action will protect the Department from excessive equipment down time and increased vehicle maintenance costs due to poor maintenance planning.

The Department's informal automotive preventive maintenance program consists of the following:

1. servicing of vehicles at 1,500 mile intervals; and

2. performing such other maintenance as is determined at the time of servicing.

A schedule for performing preventive maintenance checks in each vehicle at specific mileages or time intervals is not followed and there is no maintenance history records available. Furthermore, the Department has no maintenance manual.

<u>Recommendations</u>

We recommend that the Board take necessary steps to establish a preventive maintenance system that will be administered by an efficiently managed maintenance shop and will include, among other things:

1. A supervisor or lead mechanic responsible for planning jobs ahead, assigning job priorities, and assigning workers to specific jobs;

2. A sound work order system that includes a record of what was done to the vehicle, who did the work, the time charged to the job, and the materials used;

3. A shop schedule - nothing elaborate - just some way of planning which jobs should be done in what sequence and when they can be completed; and

4. A maintenance manual incorporating the administrative and operative aspects of the section relating to the operations and maintenance of State vehicles.

Any maintenance planning and scheduling system must, of course, allow time for unexpected breakdowns and road calls. But preventive maintenance is scheduled maintenance, and the more of it done the less shop time required for emergency repairs and other unscheduled jobs.

Lack Of Travel And Mileage Logs

Our examination disclosed that travel and mileage logs are not maintained for the Department's vehicles, except for pool cars. These logs will provide the Department with pertinent data to ensure proper utilization and control of State-owned vehicles.

Recommendation

We recommend that a travel and mileage log be maintained for all State-owned vehicles assigned to the Department.

No Allocation Of Automotive Maintenance Labor Costs

The Department's Young Street motor pool consists of two full-time mechanics who are responsible for the servicing and repairing of all Oahu-based Department-owned vehicles. The salaries and related fringe benefits of the mechanics are charged to the General Administration of the Department. No provision is made to allocate this labor cost to the vehicles serviced or repaired on an hourly basis. Thus, the "true" cost of maintaining a particular vehicle is not being reflected. We believe that "true" cost is particularly important for decision-making and control purposes.

Recommendation

We recommend that labor costs based on an hourly rate be charged on the "Garage and Stock Room" invoice as costs of servicing or repairing the vehicles. A reasonable hourly rate could be computed by dividing the aggregate annual salary and fringe benefit costs of the mechanics by the aggregate annual effective working hours (approximately 1,664 hours per employee) which is exclusive of vacation, sick leaves and holidays.

FISCAL MANAGEMENT AND CONTROL

This section pertains to our review of the Department's fiscal management and control practices and is divided into two parts: summary of our major findings; and our discussions relating to our specific findings and recommendations.

Summary Of Findings

A summary of our major findings is as follows:

- the Department's inventory of property is inaccurate.
- the amounts reflected in the State Comptroller's Annual Report for the State's general fixed assets are probably inaccurate.
- the annual financial statements of the Department are inaccurate.
- the Department's method of recording and summarizing financial data is inappropriate.
- the Department's accounting manual is, to some extent, outdated.
- the Department was deficient in its financial planning for the installation of a scale.

Specific Findings And Recommendations

Failure To Account For All Assets

All departments are required, under section 106-1 of the Hawaii Revised Statutes, to file an inventory report with the State Comptroller with respect to property in their possession, control, and custody.

In our review of the Department's inventory accounting of property as of July 1, 1971, we noted several instances where expenditures for capital assets were not included in the Department's inventory report to the Comptroller and the State's general fixed assets records. Excluded were $3.8 million for improvements to the animal quarantine station in Halawa and $67,000 of property transferred from the City and County of Honolulu to the Weights and Measures Division.

Accurate inventory reports are important in two respects. First, they serve as the primary, if not only basis for the Comptroller's annual report of the State's general fixed assets. Failure of any department to account for all its assets would misstate the Comptroller's report. Second, the head of each department would be assured that all property under his custody have been properly and accurately accounted for.

If the Department maintained adequate controls, such as conducting an actual count of all assets and reconciling financial records with the items listed on the inventory count, the errors would be noted and immediate corrective action could then have been taken. In addition, if the Comptroller's capital expenditure records were reconciled by DAGS, errors not noted by the Department would be uncovered.

Recommendation

We recommend that:

1. An actual inventory count of all property under the Department's custody be taken annually.

2. Financial records of the Department be reconciled with the inventory count and differences investigated.

3. DAGS review its procedures for accounting for the State's assets and revise its current controls to insure that all assets are properly accounted.

Financial Accounting Inadequate

We noted that the Department's financial statements for the year ended June 30, 1971 were deficient in the following aspects:

- General fund expenditures were understated by about $100,000. Expenditures from appropriated receipts and expenditures paid from prior years' encumbrances accounted for the understatement.

- General fund appropriations were understated by approximately $200,000 because the Department failed to account for appropriation transfers, encumbrances carried over from the prior year, and federal and other appropriations.

The understatement of financial transactions has the effect of reflecting inaccurate cost. The proper accounting of expenditures and appropriations is important from the standpoint of fiscal control over the categories of expenditures and the proper interpretation of operations.

The Department is presently on a single-entry accounting system. The single-entry system records only one side of a transaction. Because of this, unrecorded transactions may go undetected. A double-entry system records both sides of a transaction which provides a mathematical check on the recording of such transaction.

Adoption of a double-entry system would require a major revision to the Department's present accounting manual (already outdated because some of the procedures contained in the current manual have been superseded by the State of Hawaii accounting manual). A revised manual would assure consistent application of double-entry procedures, familiarize personnel with the new accounting process, and define the responsibilities and duties of personnel.

Recommendation

We strongly recommend that the Board consider the following:

1. Implementation of a double-entry accounting system.

2. Revision of the Department's accounting manual to reflect the new accounting system and changes in the State's accounting procedures not now contained in the Department's manual.

Inadequate Financial Planning

On October 22, 1970, a manufacturer donated a $25,000 scale to the State of Hawaii with the provision that it could rescind the gift if the scale was not installed by August 1, 1971. As of the date of our examination, the Department had not yet entered into a contract for the installation of the scale. The efforts of the Weights and Measures Division have been as follows:

1. the Division was authorized to expend the funds to install the scale from the Department's "savings" since it was a non-budgeted item;

2. the Department was unable to ascertain its "savings" until April, 1971 which gave the Division approximately two months to obtain a contractor to install the scale;

3. the contract was awarded to the only bidder, since we understand other bidders were reluctant to submit bids on such a short notice;

4. the contract was encumbered on June 30, 1971; and

5. the successful bidder, however, was unable to secure a performance bond and the contract was not executed.

We believe the Department could have reacted earlier than April, 1971 to obtain the necessary funds to install the donated scale. Funds could have been made available earlier from the following sources:

1. by advance planning, Department "savings" could have been determined at an earlier date as evidenced by the transfer of unexpended funds of $51,000 to another State department and lapse of funds of approximately $49,000 at June 30, 1971; and

2. supplementary appropriation could have been requested through the 1971 State Legislature.

Recommendation

In order to comply with the terms of the donation which required installation by August 31, 1971, we recommend that the Board ask for an extension of time to install the scale and immediately expend its efforts to have the scale installed.

Uncollected Reimbursements On Kona Coffee Inspection Program

Our audit disclosed that the coffee industry has not paid a portion of its one-half share of the cost of the coffee inspection program. Act 175, SLH 1970, appropriated "the sum of $6,000 provided for Kona Coffee fee inspection shall be contingent on industry meeting not less than one-half of the total inspection cost through the assessment of appropriate coffee inspection fees."

For fiscal 1970-71, the actual costs of the program and allocation of the program's costs are presented below:

Coffee inspection program expenditures	$15,106
Coffee industry's share (50%)	$ 7,553
Coffee inspection fees collected from the coffee industry	4,784
Balance due from coffee industry	$ 2,769

Although the State Legislature appropriated only $6,000 to this program, the Department paid a total of $10,322 ($7,553 State's share and $2,769 coffee industry's balance).

Recommendation

We recommend that the Department immediately notify and collect the deficit from the coffee industry. Furthermore, Department personnel should periodically review the program's costs and allocation to ascertain that the coffee industry is providing its pro-rata share of the program costs.

Petty Cash Fund

The Department's present petty cash fund of $350 is excessive. The average reimbursement for the period June 30, 1969 to June 10, 1971 was $122.52 and the average frequency of the reimbursement was approximately every three months.

The Department's petty cash and imprest fund was established from the State General Fund and is used for petty disbursements. We were informed that the Department presently follows the Department of Accounting and General Services policy of permitting petty cash fund disbursements of not larger than $100

Recommendation

We recommend that the Board consider retaining a petty cash and imprest fund balance which would be adequate to meet the Department's needs on a monthly basis. A petty cash fund of $150 appears reasonable in the circumstances.

Purchasing Procedures

The purchasing procedures outlined in the Department's Accounting Manual (Policy No. 44) relating to checking the availability of funds, propriety of the purchase and lowest possible price are not being followed.

We understand that this policy may be outdated, but we believe that certain procedures outlined therein represent good internal control steps which should be complied with.

Purchase requisitions are received by the fiscal section of the Administrative Service Office from the Department's various divisions for approval and execution into a purchase order. We noted that the Administrative Services Officer's name was typed on the combination requisition/purchase order. The initials of the preparer were affixed next to the typed name.

Recommendation

We recommend that the Administrative Services Officer or a designated person manually sign all orders.

Animal Quarantine Station Refunds

Our examination disclosed numerous instances where refunds to animal owners were made three or four months after the animal's release.

Recommendation

Prompt refunds should be made after the release of the animal from quarantine. The Board should study the possibility of having a separate imprest checking account, with the approval of the State Comptroller, to expedite refunds.

Temporary Monkey Deposits

Deposits are obtained from private individuals in lieu of bonds to insure compliance with conditions imposed by the Board of Agriculture for the importation of monkeys. The deposits are refunded upon the death or departure of the monkeys from the State. As of June 30, 1971, the Department was accountable for 146 monkey deposits aggregating $7,300.

Recommendation

The Board should evaluate the necessity of these deposits in light of the time spent in maintaining these records and take the necessary corrective action.

GENERAL

This section includes our findings in other areas of the Department and our comments thereon. It is divided into two parts: a summary of major findings; and our discussions relating to our specific findings and recommendations.

Summary Of Findings

A summary of our major findings in other areas of our examination is as follows:

- no positive action has been taken by the Department to comply with the State Ethics Commission's opinion rendered over two years ago regarding the dual practice of State-employed veterinarians.
- the Department's request for a reclassification of animal caretakers has been pending for an unreasonably long period and when the final approval of the reclassification takes place, financial and clerical problems may be created.
- unnecessary delay in procurement of a utility truck.

Specific Findings And Recommendations

Employment Of Veterinarians Engaged In Private Practice

Our examination disclosed the following deficiencies:

1. For approximately two years, no positive action has been taken to comply with the State Ethics Commission's 1969 opinion regarding the dual practice of State-employed veterinarians.

2. One full-time State-employed veterinarian was not working the required 40 hours per week, since private practice calls were noted in his daily work activity timesheets.

Under the Division's Policy AI-2, only the State Veterinarian (Animal Industry Division Head) is restricted from carrying on any private practice during normal working hours except under extenuating circumstances where it is suggested that special permission be obtained from the Chairman of the Board of Agriculture. The Department has no policy restricting the other veterinarians from engaging in private practice while employed as full-time State employees. Eight of the 21 full-time State Veterinarians were currently engaged in private practice.

This unique system of dual practice originated at the turn of the century as a result of economic and disease control necessity. There were no private practitioners in the large and sparsely settled outside island areas, and the rigors of transportation in those days made coverage by state practitioners impracticable.

Although the veterinarians are on call at all hours, seven days a week and are not restricted to the regular hourly day or week, veterinarians with private practices are able to "switch hats" in the field if the diagnosis requires treatment of the animal which cannot be administered by the veterinarian as a State employee.

1. <u>No Action On State Ethics Commission Ruling</u> - The question of the veterinarian engaged in dual practice was taken to the State Ethics Commission in 1969 to determine whether a conflict of interest existed. In June, 1969, the State Ethics Commission in Opinion No. 32 stated:

> "The State practitioner who renders treatment for a private client in his state capacity has the

> private interest of keeping his client satisfied to assure that his client will continue to retain him. However, in this disease control work, the public interest is best served by impartial and stringent enforcement of disease control measures. The state practitioner cannot disqualify himself from performing state work for his private clients. Thus, he will have to take official action which will directly affect his personal interest. It is this inevitable conflicting interrelation of public duties and private interests which we find violates Section 14, the conflict of interests section of the Ethics Act."

> "In this era of greatly increased populations and of rapid transportation and communication, these areas are no longer inacessible and sparsely settled or incapable of supporting a private practitioner."

> "It is suggested that another system to correct the conflict situation - whether it be a piecework contract system or a full-time, traveling state practitioner - be implemented with all due diligence in the circumstances." (Underlining added)

Despite the above ruling, which was rendered over two years ago, no positive action has yet been taken to resolve the conflict of interest issue.

Recommendation

We recommend that the Board expend its efforts to comply with the Commission's ruling as soon as possible. If the dual practice is eliminated the problem of the full-time veterinarians not working the minimum forty hours per week discussed below would be alleviated.

2. Insufficient Hours Of Work - During our examination of the time sheets of the full-time veterinarians, we noted that

one of the veterinarians had reported 88½ hours of work for a semi-monthly period. A closer review, however, showed that after deleting private practice hours for animal treatment and private calls, the veterinarian had provided only 69½ hours of service for the State rather than the required 80 hours (full-time).

Unreasonably Long Delay In Reclassification Of Personnel Position

The Department's request for a reclassification of animal caretakers has been pending for an unreasonably long period. When the final approval of the reclassification takes place it may create a financial strain on the Department and the longer the delay, more clerical effort will be required to process the personnel forms.

Our examination disclosed that the Department of Agriculture submitted a request, dated January 29, 1970, to the Department of Personnel Services (DPS) to "restructure the existing animal caretaker responsibilities and to combine with those of the livestock inspectors" to formulate a new category called the Animal Disease Control Aids and Technicians. At the date of our examination, personnel action was pending in the Department of Personnel Services.

As promulgated in Section 7.105 of the "Personnel Rules and Regulations" of the State of Hawaii, "the effective date of classification changes on existing positions, as a result of application therefore, shall be from the first pay period following the receipt of the request for reallocation." As a result, the salary increases are retroactive to the date of the request (1/29/70) and currently represents an unbudgeted Department of Agriculture commitment of approximately $20,000. We were informed by personnel of the Department of Agriculture that the eventual payment of the salary increases will have to be taken from the Department's unused and unrequired appropriations, if any, or a deficit appropriation request would have to be submitted. Furthermore, the salary increases are not restricted to current employees affected, but also apply to eligible employees who have since terminated. The reclassification will affect approximately 70 currently employed and terminated employees and will require preparation of three personnel forms for each employee before the retroactive increases are paid to the employees.

Recommendations

We recommend that the Board consult with the Department of Personnel Services to take immediate steps to process the request for reclassification.

Unnecessary Delay In Procurement Of A Utility Truck

In December, 1969, a contract for $38,303 was awarded to a local contractor for the construction of a utility truck to be used by the Weights and Measures Division in its testing of large scales. Our examination of the above contract disclosed the following:

1. The Purchasing and Supply Branch of the Department of Accounting and General Services (DAGS) and Weights and Measures Division of the Department of Agriculture (DOA) involved with the procurement of the utility truck failed to keep abreast of the contractor's progress and compliance with the terms and specifications of the contract. This resulted in modifications, after the construction of the truck was completed, and caused the truck to be delivered almost eleven months after the contract completion date.

2. There was lack of communication and coordination between those State agencies and the contractor.

The acquisition of the utility truck was authorized in the DOA's 1969-70 operating budget. Specifications for the truck were prepared and submitted by the Weights and Measures Division to the Purchasing and Supply Branch of DAGS who was responsible for obtaining bid proposals and awarding the contract.

The nature of the truck's utilization in testing scales required numerous technical specifications. The contract indicated completion of the truck within 250 calendar days, or by September 14, 1970, and provided for liquidating damages of $10 per day in case of non-delivery by the specified completion date. Prior to actual construction by the contractor, a design of the truck was to be submitted to the Weights and Measures Division by the contractor.

Actual facts pertaining to the performance of the contract indicate:

1. a design of the truck was not submitted to the Weights and Measures Division for review prior to construction;

2. extensions for two months from the original completion date were granted by DAGS; however, the truck was not accepted until eleven months after the original completion date;

3. the Weights and Measures Division was not notified of the extensions granted;

4. the contractor failed to comply with numerous technical specifications which, therefore, required modifications and delays in the completion of the truck; and

5. liquidating damages for non-performance of the contract on a timely basis were not assessed.

Although the delay and non-compliance with the contract terms were primarily the fault of the contractor, it is apparent that with closer supervision of the project by DAGS and DOA, much of the modifications and delay could have been avoided.

The Purchasing and Supply Branch's responsibility was to obtain bid proposals, award the contract, and ascertain that the contractor had complied with the terms of the contract. Since the construction of the truck involved specifications which only the user agency had the technical competence to evaluate, coordination between the Branch and the Weights and Measures Division was imperative.

Recommendation

In future contracts of this nature, we recommend that the Purchasing and Supply Branch coordinate the procurement of contract items closely with the user agency. Furthermore, the user agency should periodically review the status of contracts handled through this Branch to ascertain that the terms and specifications of the contract are complied with.

Procedures In Measuring Device Licensing Could Be Improved

The present interim procedure of attaching a label to each device for which the fee has been paid can be misleading to consumers. It would be easy for them to interpret the label on a scale or measuring device as certification of actual measurement. To limit this possibility, only those devices that are actually inspected and tested should be labelled. Furthermore, substantial savings in postage can be realized by not requiring the mailing back of labels to licensees after payments of the fees.

Under present Weights and Measures Division procedures, the State computer now provides two IBM cards for each licensee of a measuring device: an application card that is mailed to the licensee and is returned with his license fee payment, and a "license" card that is mailed to the licensee after the fee payment is received. A sticker is also mailed with each "license" card. The sticker is provided for attachment to the respective measuring device. When an inspector inspects the device in the future, the sticker that was originally mailed (see above) is removed and a new sticker with the month tested appropriately punched is attached to the device. The stickers are not pre-numbered or controlled.

We understand that the Division's objective is to license all weighing and measuring devices and to use "quantitative put-through volume analyses" as the guide to assigning priority for actual inspection and testing.

Recommendation

Since it is apparently not the intent of the State to physically inspect and test each licensed measuring device on an annual basis, the following procedures are recommended:

1. Design and print-out from the computer a combination application and license card.

2. Print-out from the computer, inspection and test labels numbered to correspond to the applications and license cards.

3. Require licensees to return application portion of card with fee payment.

4. At the expiration date for payment of licenses, send the application cards returned to computer processing for matching and print-out of unpaid licenses.

5. For those measuring and weighing devices that are to be physically inspected and tested, give the appropriate numbered labels to the inspector for attachment to each device inspected.

PART IV

COMMENTS BY AFFECTED AGENCIES

A MEMORANDUM ON THE COMMENTS BY AFFECTED AGENCIES

This financial audit report of the State department of agriculture was completed in December 1971 by Lybrand, Ross Bros. & Montgomery, certified public accountants. A preliminary copy of the report was distributed to the department of agriculture and the department of accounting and general services. A copy of the transmittal letter is attached as Attachment No. 2. The departments were requested to submit their comments on the recommendations contained in the report, including information as to the specific action they have taken or intend to take with respect to the recommendations.

The departments, in their responses (see Attachments 3 and 4), have expressed general agreement with the recommendations made by the contract auditors and have indicated that they are implementing or will implement most of the changes recommended.

The contract auditors were requested to submit their comments on the departments' responses. A copy of the contract auditors' reply is attached as Attachment No. 1. The auditors limited their reply to those areas where the agency had some special comment to make.

LYBRAND, ROSS BROS. & MONTGOMERY
CERTIFIED PUBLIC ACCOUNTANTS

COOPERS & LYBRAND
IN AREAS OF THE WORLD
OUTSIDE THE UNITED STATES

ALEXANDER YOUNG BUILDING
HONOLULU, HAWAII 96813

January 26, 1972

Mr. Clinton T. Tanimura
Legislative Auditor
State of Hawaii
Honolulu, Hawaii

Dear Mr. Tanimura:

We appreciate the opportunity to respond to the comments made by the Board of Agriculture and the Comptroller, State of Hawaii, of the Department of Accounting and General Services relating to the financial audit report of the Department of Agriculture for the year ended June 30, 1971. We have reviewed the comments from the two agencies and are pleased to note the positive attitude taken by these agencies towards our report. The Board of Agriculture, however, has taken exception to several of our findings. We believe this is partially due to its misunderstanding of our statements of findings which we clarify in this letter. Our response is limited to those comments made by the Board pertaining to the Department's Farm Loan Program which we consider the only area requiring discussion.

Auditors' opinion regarding financial statements of farm loan funds

As a result of our audit of the financial statements of the Department of Agriculture, we concluded that we were not able to render our opinion, as auditors, attesting to the fairness of the representations contained in the financial statements of the Department's farm loan funds.

The Board responded thus, "It is our opinion that were the auditors more familiar with agricultural credit programs and were the Farm Loan Program audit conducted in greater depth, that opinions on the status of key farm loan funds of the department could have been rendered in the report."

Our comment:

The Board apparently does not fully appreciate and understand the basis for an auditor's opinion. One of the auditing standards uniformly applied by CPA's (Certified Public Accountants) as a basis for an opinion is that "sufficient competent evidential matter" be available and examined by the auditor. As explained below, we found such evidential matter lacking, thus the denial of our opinion.

We were unable to satisfy ourselves that the balances of the notes receivable shown on the financial statements of the farm loan funds totaling over $5.8 million at June 30, 1971 represented receivables which can reasonably be expected to be collected in full. This is because over $1.2 million of those receivables represented loans for which some payments were delinquent. In addition, we were unable to ascertain whether the values of the collateral pledged on the notes receivable were adequate to recover delinquent amounts should foreclosure be necessary.

Farmers' inability to repay loans

Our examination of loan application documents disclosed that loans were granted to several farmers where the farmers' financial data showed a working capital deficit at the time of the loan application. By working capital deficit, we mean that the projected cash resources would not have been sufficient to meet the projected expenditures and obligations. We cited the cases of two farmers who were granted not only one loan but several successive loans despite showing a continually increasing working capital deficit. These farmers were delinquent on their loans at June 30, 1971.

The Board, in its response, has taken the position, with respect to the farmers cited in the report, that, (1) "Taking risks beyond what is considered acceptable by commercial lending institutions is an appropriate feature of the Farm Loan Program," and (2) adequate amounts of collateral were pledged.

Our comment:

Even if it were to be acknowledged that the Farm Loan Program should be permitted to take more risks than commercial lending institutions, this should not in any way mean that the Department should allow loans to be granted where there is no assurance that the loan repayments will be made. As stated in our report, to grant such loans would be contrary to law. Section 155-10(3) of the Hawaii Revised Statutes provides, among other things, that "To be eligible for loans...an applicant shall be a sound credit risk with the ability to repay the money borrowed." On this matter, the Department itself has adopted a policy which states that "the ability to repay a loan from earnings is the most determining consideration in any application." The loans cited certainly do not appear to comply with the intent of the statute and the Department's policy.

With respect to the values of the collateral on the loans to the farmers cited in our report, the Board contends that the loans were sound because the values of the collateral were more than adequate to cover the loan amounts. We think the Board missed the point of our finding. The primary criterion in evaluating a loan application is, as stated in the Board's own policy, whether the applicant's financial data shows that, as a "going concern or business," he will be able to generate sufficient earnings and cash to repay the loan. The value of the collateral is significant as a measure of recoverable value should foreclosure result, but not as an indicator of the borrower's ability to repay the loan which is the primary concern of the Department.

Lack of guidelines

To assist in the assessment of a farmer's ability to repay a loan, we recommended that the Board develop guidelines such as a minimum working capital ratio. Such guidelines or criteria would have aided the Department in interpreting the applicant's financial data properly. It would also have provided a minimum base from which recommendation for approval or disapproval of a loan application can be made. To this the Board stated that "Sufficient guidelines do exist in the Division's farm loan manual, the Department's accounting manual and in Board policies."

Our comment:

As stated above, our audit revealed that several loan applications were approved despite the fact that the financial data of the applicants reflected their apparent inability to repay the loan. We believe that the availability of specific guidelines would have aided in the proper evaluation of such loan applications.

High number and amount of delinquent loans

In our audit report, we noted that of the total farm loan notes receivable balance as of June 30, 1971 of $5,830,113, 21% or $1,215,017 represented notes which were delinquent. The amount of principal installments which were in arrears on those delinquent notes at June 30, 1971 totaled $459,676.

The Board states that since 1959 the total loan loss was only $26,000 as of June 30, 1971 and that the delinquent loan amount is only $459,676. It further states that "the level of delinquent accounts in the entire loan program is not unsatisfactory, rather its diminutive size reflects the soundness of the program."

Our comment:

A review of the delinquent loans at June 30, 1971 reveals that the actual loan losses are probably much larger than the $26,000 reported by the Board.

As stated above, of the $1.2 million of delinquent loans, $459,676 represented principal installment amounts which were past due. The period of delinquency is shown below:

Delinquent period	Delinquent installment amounts
Up to 180 days	$113,806
180 days to 1 year	45,507
1 to 2 years	125,979
Over 2 years	174,384
	$459,676

The likelihood of collecting on the delinquent loans, especially those exceeding one year (over $300,000), without first foreclosing on the loans is doubtful. Thus, the actual loss experience of the Farm Loan Program is probably much greater than the $26,000 stated by the Board.

The other point regarding collections on loans which we made in our report is the lack of an aggressive approach by the Farm Loan Program to reduce the amount of the delinquency. In this regard, the Department's farm loan manual contains the following statement:

> "When a loan becomes delinquent to the extent that it is classified as a 'problem' loan (generally 180 days delinquent or when suits are filed), it is anticipated that the situation will have been given sufficient attention that concrete plans as to action necessary to protect the interests of the Program have been made."

The length of time loans remain delinquent, as shown above, is reflective of the collection efforts made by the Farm Loan Program.

Delegation of authority by Board

We questioned the Board's action relating to its delegation of authority for approving farm loans to the Chairman of the Board. The Board, in its response, cites as its source of authority a letter opinion received from the State Attorney General dated August 19, 1963.

The opinion states that "the Board of Agriculture may lawfully and properly delegate to its chairman, where proper standards are established by the Board, powers and authority for the performance of the functions vested in the Board" (underline ours). The language in the Board's minutes which confer this authority to the Chairman is vague and provides no real standard for the Chairman to follow.

* * * * *

We wish to again thank you for the excellent cooperation and assistance we have received from your staff.

Very truly yours,

Lybrand, Ross Bros. & Montgomery

ATTACHMENT NO. 2

THE OFFICE OF THE AUDITOR
STATE OF HAWAII
STATE CAPITOL
HONOLULU, HAWAII 96813

CLINTON T. TANIMURA
AUDITOR

YUKIO NAITO
DEPUTY AUDITOR

December 30, 1971

Mr. Frederick C. Erskine
Chairman, Board of Agriculture
Department of Agriculture
1428 South King Street
Honolulu, Hawaii 96814

Dear Mr. Erskine:

Enclosed are ten copies of our preliminary report on the *Financial Audit of the State Department of Agriculture* covering the fiscal year ended June 30, 1971. The audit was conducted by Lybrand, Ross Bros. & Montgomery, certified public accountants, under contract with this office.

The term "preliminary" indicates that the report has not been released for general distribution. However, copies of this report have been forwarded to the Governor and the presiding officers of both houses of the State Legislature. In addition, a copy of the report was forwarded to the State comptroller since several findings and recommendations affect the department of accounting and general services.

The report contains a number of recommendations directed at your department. I would appreciate receiving the Board's written comments on them, including information as to the specific actions that have been taken or will be taken with respect to the recommendations. The Board's comments will be incorporated into the report. Please have the Board's response submitted to us by January 14, 1972. The report will then be finalized and released shortly thereafter.

If you wish to discuss the report with us, we will be pleased to meet with you on or before January 7. Please call me to fix an appointment. A "no call" will be assumed to mean that a meeting is not required.

We appreciate the assistance and cooperation extended to our auditors by the officers and employees of your department.

Sincerely,

Clinton T. Tanimura

Clinton T. Tanimura
Legislative Auditor

Enc.

ATTACHMENT NO. 3

JOHN A. BURNS
GOVERNOR

FREDERICK C. ERSKINE
CHAIRMAN, BOARD OF AGRICULTURE

WILLIAM E. FERNANDES
DEPUTY TO THE CHAIRMAN

STATE OF HAWAII
DEPARTMENT OF AGRICULTURE
1428 SO. KING STREET
HONOLULU, HAWAII 96814

JANUARY 21, 1972

RECEIVED
JAN 2 6 1972
OFFICE OF THE AUDITOR

MR. CLINTON TANIMURA
LEGISLATIVE AUDITOR
STATE CAPITOL

DEAR MR. TANIMURA:

AS A COMPREHENSIVE AUDIT REVIEW OF THE DEPARTMENT OF AGRICULTURE, YOUR REPORT IS GENERALLY COMPLETE AND ACCURATE IN ITS FISCAL ASPECTS. IN THOSE AREAS, HOWEVER, IN WHICH THE AUDITORS ATTEMPTED TO EVALUATE DEPARTMENTAL PROGRAMS, AND MOST ESPECIALLY, THE FARM CREDIT PROGRAM, WE FEEL THAT THE REPORT COULD HAVE BEEN MORE HELPFUL. WE REGRET THAT A MORE COMPREHENSIVE AGRICULTURAL PROGRAM AUDIT WAS NOT CONDUCTED IN THIS DEPARTMENT'S AUDIT. IT IS OUR OPINION THAT WERE THE AUDITORS MORE FAMILIAR WITH AGRICULTURAL CREDIT PROGRAMS AND WERE THE FARM LOAN PROGRAM AUDIT CONDUCTED IN GREATER DEPTH, THAT OPINIONS ON THE STATUS OF KEY FARM LOAN FUNDS OF THE DEPARTMENT COULD HAVE BEEN RENDERED IN THE REPORT. WHILE WITHHOLDING SUCH OPINIONS MAY BE "STANDARD PROCEDURE" IN SOME AUDIT SITUATIONS, WE FEEL, NEVERTHELESS, THAT AN EVALUATION OF THE STATUS OF THE KEY FARM LOAN FUNDS SHOULD HAVE BEEN BASIC TO THIS AUDIT REPORT.

WE PREFACE OUR COMMENTS ON THE SPECIFICS OF THE REPORT WITH THE QUALIFICATION THAT SOME OF OUR MORE RECENTLY APPOINTED MEMBERS WERE NOT ON THE BOARD FOR THE ENTIRE 1971 FISCAL YEAR, <u>THE PERIOD COVERED BY THE AUDIT</u>. WE HAVE EVALUATED THE AUDITORS' FINDINGS AND RECOMMENDATIONS TO THE BEST OF OUR ABILITY, FOLLOWING A REVIEW OF THE REPORT BY THE DIVISIONS OF THE DEPARTMENT OF AGRICULTURE. IT IS ALSO OBSERVED THAT, LARGELY DUE TO A FRESH APPROACH OF THE BOARD AND THE DEPARTMENT IN THE

LATTER PERIOD OF FY-71, MANY IMPROVEMENTS IN FISCAL AND OPERATIONAL MANAGEMENT WERE EFFECTED THROUGHOUT THE DEPARTMENT, AND MOST OF THE PROBLEMS AND RECOMMENDED CORRECTIVE MEASURES CONTAINED IN THE REPORT WERE SUBSEQUENTLY ATTENDED TO.

WE WISH TO EXPRESS OUR APPRECIATION FOR THE EXCELLENT EFFORT INVESTED IN THIS AUDIT OF THE DEPARTMENT OF AGRICULTURE. THE STATE BOARD OF AGRICULTURE HEREWITH SUBMITS ITS COMMENTS ON THE SPECIFIC OPINIONS AND RECOMMENDATIONS CONTAINED IN THE AUDIT REPORT.

PAGE 59. GUIDELINES RECOMMENDATION. THE BOARD DISAGREES WITH THE AUDITORS' RECOMMENDATION. SUFFICIENT GUIDELINES DO EXIST IN THE DIVISION'S FARM LOAN MANUAL, THE DEPARTMENT'S ACCOUNTING MANUAL AND IN BOARD POLICIES. IN ADDITION TO THE STANDARDS, PROCEDURAL GUIDELINES AND FORMS WHICH HAVE BEEN ESTABLISHED AND USED, THE FARM LOAN PROGRAM NECESSARILY AND APPROPRIATELY RELIES UPON THE PROFESSIONAL JUDGMENT OF ITS LOAN OFFICERS. ADEQUATE CONSIDERATION MUST BE GIVEN TO THE BASIC PURPOSE OF THE PROGRAM -- TO PROMOTE THE DEVELOPMENT OF HAWAII'S AGRICULTURE. IN CITING THE CASES OF "FARMER 1" AND "FARMER 2" AS EXAMPLES OF POOR LOAN RISKS, THE AUDITORS WERE NOT IMPRESSED BY THE FACT THAT THE LOAN PROGRAM IS ACTUALLY HELPING TO PUT FARMER 1 AND FARMER 2 ON A FIRM, AGRICULTURALLY PRODUCTIVE FOOTING. IN THE CASE OF FARMER 1, STATE LOANS ENABLED THE CONTINUATION OF AN IMPORTANT DAIRY OPERATION. THE AUDITORS' VIEW THAT FARMER 1 WAS A POOR RISK IS NOT SUPPORTED BY COLLATERAL EVIDENCE, I.E., MILK QUOTA OF 50 CANS VALUED AT $90,000, DAIRY HERD OF 150 COWS VALUED AT $60,000+ AND OTHER COLLATERAL VALUED AT $25,000. THE TOTAL COLLATERAL VALUE OF $175,000 IS WELL ABOVE FARMER 1'S LOAN BALANCE OF $71,000. THREE PREVIOUS LOANS MADE IN 1962, 1964, AND 1967 WERE ALL PAID IN FULL, AND FARMER 1'S CURRENT LOAN BALANCE IS EXPECTED TO BE SIMILARLY SETTLED.

IN THE CASE OF FARMER 2, THE LOANS REPRESENT SUPPORT OF FARMER 2'S ATTEMPTS AT VARIOUS DIVERSIFIED AGRICULTURAL VENTURES. THESE INCLUDE AN ILL-FATED PASSION FRUIT VENTURE (MARKET FELL FAR BELOW AUTHORITATIVE PREDICTIONS), A PAPAYA VENTURE (DEFEATED BY PHYTOPHTHORA, A DISEASE WHICH SEVERELY AFFECTED THE INDUSTRY), AND FINALLY AN ANTHURIUM VENTURE. THE LAST VENTURE IS SUCCEEDING. FARMER 2'S AGRI-BUSINESS HAS STABILIZED AND HIS LOAN REPAYMENT ABILITY HAS MARKEDLY IMPROVED. HIS LOANS ARE SECURED BY COLLATERAL VALUED AT $128,371. HIS LOAN BALANCE IS $83,702. THE STATE EXPECTS TO FULLY RECOVER ALL LOANS MADE TO FARMER 2.

THESE CASES DEMONSTRATE THE IMPORTANCE OF THE LOAN REPRESENTATIVES WORKING CLOSELY WITH INDIVIDUAL FARMERS. ASSISTING THESE FARMERS OUT OF THEIR FINANCIAL TROUBLES AND HELPING THEM TO SUCCEED IN THEIR CHOSEN AGRICULTURAL ENTERPRISES DEMONSTRATE TWO IMPORTANT FUNCTIONS OF THE FARM LOAN DIVISION. <u>TAKING RISKS BEYOND WHAT IS CONSIDERED ACCEPTABLE BY COMMERCIAL LENDING INSTITUTIONS IS AN APPROPRIATE FEATURE OF THE FARM LOAN PROGRAM</u>.

<u>PAGE 59</u>. <u>LETTERS OF DECLINE RECOMMENDATION</u>. THE BOARD CONCURS WITH THE RECOMMENDATION. LETTERS OF DECLINE DOCUMENTATION HAS BEEN THE POLICY OF THE LOAN DIVISION. IMPLEMENTATION HAS BEEN BY TWO METHODS; I.E., BY LETTER OF DECLINE AND BY BANK DOCUMENTATION ON THE APPLICATION FORM. THE SECOND METHOD WAS INSTITUTED IN RESPONSE TO THE REQUEST OF COMMERCIAL BANKS. BUT AT THE TIME OF ITS IMPLEMENTATION THE DIVISION HAD FAILED TO SO ADVISE THE BOARD. THE BOARD HAS SUBSEQUENTLY TAKEN ACTION TO ENDORSE THE PROCEDURE.

<u>PAGE 60</u>. <u>LOAN PROCEEDS RECOMMENDATION</u>. THE BOARD DISAGREES WITH THE OPINION OF

THE AUDITORS AND REFERS TO ITEM 71, PAGE 73, OF THE FARM LOAN MANUAL AND CHAPTER 155-9 (3), B, C, AND D, HRS. TO CLARIFY THE QUESTION OF THE USE OF THE LOAN FOR INCOME TAX PAYMENT, A LEGAL OPINION WILL BE SOUGHT FROM THE ATTORNEY GENERAL.

PAGE 61. BORROWER ELIGIBILITY RECOMMENDATION. THE DEPARTMENT HAS REQUESTED CLARIFICATION ON THIS MATTER FROM THE ATTORNEY GENERAL. THE ATTORNEY GENERAL'S OFFICE HAS VERBALLY ADVISED THE DEPARTMENT THAT THE FARM LOAN DIVISION IS PROVIDING LOANS AS PRESCRIBED IN THE STATUTES AND THERE IS NO PROVISION THAT PRECLUDES MAKING VARIOUS CLASSES OF LOANS SIMULTANEOUSLY.

PAGE 62. COMPLETION OF FORMS RECOMMENDATION. THE DIVISION HAS INITIATED ACTION TO REVIEW ALL ACTIVE LOANS FOR COMPLETENESS OF DOCUMENTS AND TO INSURE THAT FINANCIAL DATA INCLUDED ARE AS CURRENT AS POSSIBLE.

PAGE 63. INDEPENDENT APPRAISALS RECOMMENDATIONS.

PARAGRAPH 1. THIS RECOMMENDATION IS INAPPROPRIATE, IN THE OPINION OF THE BOARD, INASMUCH AS CURRENT POLICY DOES REQUIRE INDEPENDENT APPRAISALS FOR ALL REAL ESTATE LOANS, WITH ONLY TWO EXCEPTIONS, I.E.,

A. WHEN AN ACCEPTABLE APPRAISAL IS FURNISHED BY THE APPLICANT OR PARTICIPATING BANK AND

B. WHEN THERE IS SUCH AN ABUNDANCE OF COLLATERAL OFFERED THAT THERE IS NO QUESTION CONCERNING THE ADEQUACY OF THE COLLATERAL.

THE BOARD IS OF THE OPINION THAT THE DOCUMENTATION RECOMMENDED IN PARAGRAPH 1 IS NOT PRACTICABLE AT PRESENT STAFFING LEVELS AND NOT JUSTIFIABLE ON THE BASIS OF COST-BENEFITS.

PARAGRAPHS 2 AND 3. THE BOARD AGREES WITH THE AUDITORS, BUT STAFFING CONSTRAINTS LIMIT LOAN REPRESENTATIVES' VISITS TO TWO A YEAR, EXCEPT FOR DELINQUENT CASES WHICH RECEIVE CLOSER SCRUTINY.

PARAGRAPH 4. THE DIVISION MAINTAINS ALL APPRAISAL DOCUMENTATION IN THE INDIVIDUAL LOAN FOLDERS. INSPECTIONS AND REVIEWS ARE PARTIALLY DOCUMENTED, AND THIS DEGREE OF DOCUMENTATION IS CONSIDERED SUFFICIENT FOR THE DIVISION'S OPERATIONAL NEEDS.

PAGE 63. TITLE SEARCH RECOMMENDATION. THERE WAS ONE OVERSIGHT WHICH IS BEING CORRECTED.

PAGE 64. AUDITED FINANCIAL STATEMENTS RECOMMENDATION. THE BOARD WILL REVIEW THE REQUIREMENT FOR AUDITED FINANCIAL STATEMENTS AND TAKE APPROPRIATE ACTION.

PAGE 65. ANNUAL FINANCIAL STATEMENTS RECOMMENDATION. THE DIVISION REQUIRES THE SUBMISSION OF ANNUAL FINANCIAL STATEMENTS, BUT IS UNABLE TO STRICTLY ENFORCE THE REQUIREMENT SINCE THERE ARE ONLY THREE LOAN REPRESENTATIVES AND THE DIVISION HEAD TO HANDLE 420 OUTSTANDING LOAN CASES. COMPLIANCE WITH THE AUDITORS' RECOMMENDATION WOULD REQUIRE A MINIMUM OF THREE ADDITIONAL LOAN REPRESENTATIVES. IN TERMS OF COST BENEFITS, THE ADDITIONAL RESOURCE IS NOT JUSTIFIABLE AT THIS TIME.

PAGE 67. DELINQUENT LOANS RECOMMENDATION. THE BOARD HAS DETERMINED THAT IN THE FARM LOAN PROGRAM, WITH LOANS TOTALING $5.8 MILLION, THE DELINQUENT LOAN AMOUNT IS ONLY $459,676. SINCE 1959, OF 1,200 LOANS TOTALING $14.4 MILLION, THE TOTAL LOSS WAS ONLY $26,000 AS OF JUNE 30, 1971. THESE FIGURES SHOW THAT THE AMOUNT OF POTENTIAL AND ACTUAL LOSS ASCRIBABLE TO DELINQUENT ACCOUNTS IS ACTUALLY VERY SMALL.

THE KEY QUESTION IS NOT WHETHER SOME ACCOUNTS ARE DELINQUENT AS SOME DELINQUENCY MUST BE EXPECTED IN ANY LOAN PROGRAM. THE BOARD CONTENDS THAT THE LEVEL OF DELINQUENT ACCOUNTS IN THE ENTIRE LOAN PROGRAM IS NOT UNSATISFACTORY, RATHER ITS DIMINUTIVE SIZE REFLECTS THE SOUNDNESS OF THE PROGRAM. THE DELINQUENT LOAN LEVEL IS CONSIDERED ACCEPTABLE. AGAIN THE MAIN CONSIDERATION IS NOT MERELY FISCAL BALANCE IN COMPARISON TO COMMERCIAL LENDING INSTITUTIONS. ANY MEANINGFUL JUDGMENT MUST TAKE INTO CONSIDERATION THE REAL PURPOSE OF THE FARM LOAN PROGRAM, WHICH IS TO PROMOTE AGRICULTURAL DEVELOPMENT AS ESTABLISHED BY PPB GOALS. THE FARM LOAN PROGRAM HAS FIGURED VITALLY IN THE DEVELOPMENT OF PAPAYA, DAIRY, COFFEE, SUGAR AND OTHER AGRICULTURAL INDUSTRIES IN THE STATE.

WITH REGARD TO THE RECOMMENDATION THAT MONTHLY DELINQUENT LISTS BE SUBMITTED TO THE BOARD FOR REVIEW, THE DIVISION SUBMITS A QUARTERLY REPORT WHICH IS CONSIDERED ADEQUATE. THE FARM LOAN DIVISION WILL REVIEW THE REPORT FORMAT. BY BOARD ACTION, AUTHORITY HAS BEEN RE-DELEGATED TO THE CHAIRMAN TO WAIVE OR DEFER INSTALLMENT PAYMENTS.

PAGE 69. DELEGATION OF AUTHORITY RECOMMENDATION. THE QUESTION RAISED BY THE AUDITORS AS TO THE PROPRIETY OF THE DELEGATION OF AUTHORITY TO THE CHAIRMAN BY THE BOARD WAS IN FACT CLARIFIED IN THE LEGAL OPINION RENDERED BY THE ATTORNEY GENERAL ON AUGUST 15, 1963. ACCORDING TO THE OPINION, DELEGATION OF LAWFUL AUTHORITY IS LEGAL AND WILL "PROMOTE AND CONTRIBUTE TO A MORE EFFICIENT OPERATION OF THE DEPARTMENT IN THE IMPLEMENTATION OF EXECUTIVE POLICIES AND PROGRAMS. PROPER DELEGATION OF POWERS AND AUTHORITY IN THE MANNER SET FORTH ABOVE WOULD BE APPLICABLE ALSO TO ALL ASPECTS OF YOUR FARM LOAN PROGRAM...."

PAGE 69. REPAYMENT TERMS RECOMMENDATION. THE DIVISION DESIRES THAT REPAYMENT

TERMS BE ON A REGULAR MONTHLY BASIS, BUT BECAUSE OF THE SEASONALITY OF FARM CROPS, MANY FARMERS HAVE LITTLE CHOICE BUT TO PAY ON A PERIODIC BASIS. THE RECOMMENDATION FOR LIMITATION OF PAYMENTS TO A MONTHLY BASIS IS SIMPLY NOT REALISTIC FOR A FARM LOAN PROGRAM.

PAGE 70. DISPOSITION OF PROPERTY RECOMMENDATION. THE BOARD DISAGREES WITH THE RECOMMENDATION. THE BOARD WILL ASK THE ATTORNEY GENERAL FOR A RULING AS TO THE RIGHT OF THE DEPARTMENT TO DISPOSE OF ITS COLLATERAL PROPERTY IN ORDER TO RECOVER THE VALUE FOR THE FARM LOAN FUND.

PAGE 71. MECHANIZED RECORDKEEPING RECOMMENDATION. THE DEPARTMENT HAS, IN THE PAST, REQUESTED ASSISTANCE OF OTHER AGENCIES AND PRIVATE FIRMS IN RECOMMENDING MECHANIZED RECORDKEEPING SYSTEMS FOR THE DIVISION. THE JUDGMENT, HOWEVER, HAS BEEN THAT THE VOLUME OF RECORDKEEPING DID NOT WARRANT CHANGEOVER TO A MECHANIZED SYSTEM. THE DEPARTMENT WILL CONTINUE TO REVIEW ITS DATA PROCESSING NEEDS. THE FARM LOAN DIVISION IS ALSO SUBMITTING A REQUEST TO SWIS FOR ASSISTANCE AND GUIDANCE IN THIS AREA.

PAGE 71-72. SUPERVISED ACCOUNTS RECOMMENDATION. THE BOARD DISAGREES WITH THIS RECOMMENDATION BECAUSE IT IS OF THE OPINION THAT THE 60 SUPERVISED ACCOUNTS HAVE PROVEN TO BE AN EXCELLENT TOOL FOR ASSISTING THESE FARMERS IN THEIR FINANCIAL MANAGEMENT AND IN REDUCING DELINQUENCY. THE ACCOUNTS SERVE TO MAINTAIN CLOSE RELATIONSHIP BETWEEN THE FARMER AND THE BANKER, IMPROVE FINANCIAL MANAGEMENT AND SPEED UP THE DISBURSEMENT PROCESS. THE SUPERVISED ACCOUNT IS ALSO JUSTIFIABLE IN TERMS OF THE OBJECTIVES PRESCRIBED IN CHAPTER 155-4 (3), (4), and (5), HRS, WHICH CITE ASSISTING AND EDUCATING THE FARMER AND MAINTAINING CLOSE RAPPORT AS FUNCTIONS OF THE DEPARTMENT.

PAGE 73. LOAN INTEREST RECOMMENDATIONS. THE DIVISION COMPUTES ON A 365/365 DAY BASIS FOR ALL DIRECT LOANS WHICH THE BOARD FEELS IS FAIRER TO THE BORROWERS THAN THE 365/360 DAY BASIS RECOMMENDED BY THE AUDITORS. IN FACT, THE 365/360 AND 360/360 BASES HAVE BEEN SEVERELY CRITICIZED BY REPRESENTATIVE WRIGHT PATMAN, CHAIRMAN, BANKING COMMITTEE, U.S. HOUSE OF REPRESENTATIVES, WHO STATED, "IF WE WANT TO COLLECT MORE INCOME, WE SHOULD DO IT BY RAISING INTEREST RATES."

PAGE 74. KONA OFFICE RECOMMENDATION. THE RECOMMENDED PROCEDURE WAS INSTITUTED IN EARLY JANUARY 1972.

PAGE 74. IDLE FUNDS RECOMMENDATIONS. THE BOARD AGREES THAT IDLE FUNDS SHOULD BE INVESTED AND HAS SUBSEQUENTLY DETERMINED THAT THE DEPARTMENT OF BUDGET AND FINANCE CAN, UPON REQUEST, MAKE THE INVESTMENTS. THE BOARD WILL FURTHER EXPLORE INVESTMENT PROCEDURES WITH BUDGET AND FINANCE.

PAGE 75. ANNUAL AUDIT RECOMMENDATION. THE BOARD CONCURS AND FURTHER RECOMMENDS THAT FUTURE AUDITS OF THE FARM LOAN DIVISION BE CONDUCTED BY AUDITORS FAMILIAR WITH THE UNIQUE ASPECTS OF AGRICULTURAL LOANS.

PAGE 78. ANALYSIS OF RABIES CONTROL RECOMMENDATION. HAWAII'S RABIES CONTROL PROGRAM IS UNDER CONTINUOUS EVALUATION BY THE DEPARTMENT. RECENT STUDIES COMPLETED INCLUDE THE REPORT OF THE RABIES QUARANTINE STUDY COMMITTEE REQUESTED BY THE 1970 LEGISLATURE, AND A FOLLOW-UP ISSUE PAPER WHICH WILL BE SUBMITTED TO THE CURRENT LEGISLATURE. BOTH STUDIES CATEGORICALLY CONCLUDE THAT THE CURRENT RABIES PREVENTION QUARANTINE PROGRAM SHOULD BE CONTINUED. DR. R. KEITH SIKES, ASSISTANT CHIEF OF THE VETERINARY PUBLIC HEALTH SERVICES, U.S. PUBLIC HEALTH SERVICE, ATLANTA, GEORGIA, A WORLD-RENOWNED AUTHORITY ON RABIES, VISITED HAWAII

IN OCTOBER, 1970, AND VOICED STRONG ENDORSEMENT OF THE STATE'S QUARANTINE MEASURES. SIMILAR STUDIES, MADE RECENTLY IN ENGLAND, SUPPORT QUARANTINE AS THE ONLY EFFECTIVE PREVENTIVE MEASURE AGAINST THE INTRODUCTION OF RABIES (ENGLAND HAS A QUARANTINE REQUIREMENT OF 180 DAYS). THE BOARD REAFFIRMS ITS POLICY OF RABIES PREVENTION THROUGH HAWAII'S RABIES QUARANTINE PROGRAM.

THE DIVISION IS ALSO AGGRESSIVELY SEARCHING FOR EFFECTIVE ALTERNATIVES TO THE QUARANTINE PROGRAM. IT IS EXPLORING POSSIBILITIES FOR FUNDING A $250,000, THREE-YEAR RESEARCH PROJECT ON ALTERNATIVE MEASURES THROUGH PRIVATE ORGANIZATIONS. AS OF SEPTEMBER, 1971, PROSPECTS FOR OBTAINING THE FUNDS WERE GOOD. SHOULD THIS COURSE OF ACTION FAIL, THE DEPARTMENT WILL SEEK FEDERAL ASSISTANCE.

<u>PAGE 85</u>. <u>MORATORIUM ON KENNEL FUNDING RECOMMENDATIONS</u>. THE DEPARTMENT, IN FACT, HAS NOT ASKED FOR ADDITIONAL APPROPRIATIONS FOR KENNEL CONSTRUCTION, AND HAS EXPENDED ONLY HALF OF THE FUNDS THAT WERE APPROPRIATED FOR KENNEL CONSTRUCTION BY THE 1970 LEGISLATURE. SEVENTY OLD KENNELS FROM THE ALA MOANA STATION WERE RELOCATED TO THE NEW STATION FOR TEMPORARY USE TO HELP MEET THE ANIMAL QUARANTINE STATION'S NEEDS.

<u>PAGE 86</u>. <u>KENNEL RECOMMENDATION</u>. THIS RECOMMENDATION IS ESSENTIALLY THE SAME AS THE RECOMMENDATION ON PAGE 85. THE BOARD'S COMMENTS ON THE PREVIOUS RECOMMENDATION APPLY.

<u>PAGE 90</u>. <u>AIRPORT HOLDING FACILITY RECOMMENDATION</u>.

<u>PARAGRAPH 1</u>. SINCE THE CONSTRUCTION OF THE FACILITY WAS COMPLETED IN EARLY NOVEMBER, 1971, THE DEPARTMENT HAS AGGRESSIVELY WORKED TO DEVELOP PROCEDURES FOR OPERATING THE FACILITY. SEVERAL WORKING MEETINGS HAVE BEEN HELD WITH THE AIRLINES, THE HAWAIIAN HUMANE SOCIETY, AND THE DEPARTMENT OF TRANSPORTATION.

A COMMITMENT TO SUPPORT THE PROGRAM HAS BEEN RECEIVED FROM THE AIRLINES AND THE FINAL DETAILS OF AGREEMENT AMONG ALL PARTIES SHOULD BE COMPLETED BY MARCH, 1972.

PARAGRAPH 2. DEPARTMENT REGULATIONS WILL BE REVISED, AS APPROPRIATE, TO IMPLEMENT THE NEW COOPERATIVE HOLDING FACILITY PROGRAM.

PARAGRAPHS 3 AND 4. OPERATING PROCEDURES AND SECURITY MEASURES ARE BEING COVERED IN CURRENT AGREEMENT NEGOTIATIONS.

PAGE 93. RECOMMENDATIONS ON OVERTIME.

PARAGRAPHS 1 AND 2. OVERTIME, RELATING TO ANIMAL QUARANTINE WORK, HAS BEEN CUT TO A MINIMUM AS THE RESULT OF CORRECTIVE ACTIONS TAKEN IN AUGUST, 1971, INCLUDING THE ESTABLISHMENT OF SPLIT-SHIFT SCHEDULES FOR LIVESTOCK INSPECTORS. AN OVERTIME REQUEST AND AUTHORIZATION SYSTEM HAS ALSO BEEN DEVELOPED TO COMPLY WITH POLICY NO. A-30 AND WILL BE STRICTLY ADHERED TO.

PARAGRAPH 3. AN ANIMAL HOLDING FACILITY AT THE HONOLULU INTERNATIONAL AIRPORT HAS BEEN COMPLETED.

PAGE 95. ALLOCATION OF SALARIES RECOMMENDATION. AS OF AUGUST, 1971, THE DIVISION INSTITUTED A TIME SHEET SYSTEM WHICH MORE ACCURATELY ALLOCATES COSTS BETWEEN LIVESTOCK INSPECTIONAL DUTIES AND THE RABIES CONTROL PROGRAM. AFTER-HOURS PICKUP COSTS SHOULD BE MINIMAL WHEN THE AIRPORT ANIMAL HOLDING FACILITY PROGRAM IS IMPLEMENTED.

PAGE 95. FEE STRUCTURE RECOMMENDATIONS. THE FEE STRUCTURE OF THE ANIMAL QUARANTINE PROGRAM HAS BEEN REVIEWED AND THE CONCLUSION WAS THAT THE PRESENT FEE STRUCTURE IS THE MOST PRACTICABLE. WHILE DIFFERING AMOUNTS OF ANIMAL RATIONS IS A FACTOR,

THE MOST SIGNIFICANT COST FACTOR RELATES TO ANIMAL CARE WHILE IN THE FACILITY. SMALLER ANIMALS REQUIRE AS MUCH CARE AS LARGER ANIMALS AND, OFTEN, EVEN MORE CARE. CHANGES IN THE FEE STRUCTURE TO REFLECT FEED AND CARE DIFFERENCES PER ANIMAL WOULD NOT BE JUSTIFIABLE ON A COST-BENEFIT BASIS AND WOULD POSE OTHER MANAGEMENT PROBLEMS. WITH REGARD TO THE POSSIBLE DESIRABILITY OF ASSESSING TRANSIENT ANIMALS AT A HIGHER RATE, THE BOARD SEES NO NEED TO DISCRIMINATE BETWEEN TRANSIENT ANIMALS AND ANIMALS STAYING THE FULL 120 DAYS AT THE ANIMAL QUARANTINE STATION.

PAGE 97. PROMISSORY NOTES RECOMMENDATIONS.

PARAGRAPH 1. PROMISSORY NOTES ARE NOT USED IN THE CASE OF INSTALLMENT PAYMENTS UPON ENTRY. THE PAYMENT METHOD IN USE WAS ADMINISTRATIVELY ADOPTED ON JULY 18, 1968 (POLICY AI-14).

PARAGRAPH 2. PROMISSORY NOTES HAVE BEEN IN USE FOR PAYMENT UPON RELEASE OF ANIMALS WHEN NECESSARY. DURING THE PRECEDING PERIOD, F.Y. 70-71, A TOTAL OF 19 PROMISSORY NOTES ($2075.38) WERE EXECUTED OF WHICH 8 ($607.30) WERE TURNED OVER TO THE ATTORNEY GENERAL'S OFFICE FOR COLLECTION.

THE 6% INTEREST RATE ON DELINQUENT NOTES WILL BE ENFORCED.

PAGE 98. ADVANCE FEE COLLECTION RECOMMENDATIONS. THE DIVISION IS MAKING EVERY EFFORT TO STRICTLY ENFORCE THE REGULATIONS PROVIDING FOR THE ADVANCE PAYMENT OF QUARANTINE FEES, SHORT OF DENYING ANIMAL ENTRY. THE DIVISION MAINTAINS AN AGGRESSIVE FEE COLLECTION PROGRAM INCLUDING THE SENDING OF BILLS APPROXIMATELY EVERY 30 DAYS, WITH THE FINAL BILLING MADE BY REGISTERED MAIL. MORE RECENTLY, A POLICY WAS INSTITUTED WHICH BARS VISITATION PRIVILEGES OF ANIMAL OWNERS WITH DELINQUENT ACCOUNTS. THE DIVISION IS CURRENTLY WORKING WITH THE AIRLINES ON WAYS TO IMPROVE EXISTING PROCEDURES GOVERNING THE ENTRY OF ANIMALS AND THE COLLECTION

OF ADVANCE FEES.

PAGE 105-106. VEHICLE USE STUDY RECOMMENDATION. A STATE-OWNED VEHICLE USE STUDY WAS INITIATED 5 MONTHS AGO AND IS NEAR COMPLETION. BASED ON THE FINDINGS OF THIS STUDY, NEW PROCEDURES WILL BE DEVELOPED AND IMPLEMENTED BY THE DEPARTMENT BEFORE JUNE OF THIS YEAR.

PAGE 106. VEHICLE COMPLEMENT STUDY RECOMMENDATION. THE ADEQUACY OF THE DEPARTMENT'S COMPLEMENT OF VEHICLES IS ALSO BEING DETERMINED IN THE DEPARTMENT'S CURRENT COMPREHENSIVE VEHICLE USE STUDY MENTIONED ABOVE.

PAGE 109. STATE POLICY FOR PERSONAL CAR MILEAGE REIMBURSEMENTS RECOMMENDATION. THE BOARD CONCURS IN THE RECOMMENDATION THAT THE DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES DEVELOP A UNIFORM POLICY FOR PERSONAL CAR MILEAGE REIMBURSEMENTS. (A SIMILAR REQUEST WAS MADE BY THE BOARD CHAIRMAN AND SUBMITTED THROUGH APPROPRIATE CHANNELS IN APRIL, 1971.) UNTIL A NEW, AGENCY-WIDE POLICY IS INSTITUTED, THE DEPARTMENT WILL CONTINUE ITS IMPLEMENTATION OF THE DEPARTMENTAL POLICY ADOPTED BY THE BOARD ON APRIL 23, 1971.

PAGE 110. VEHICLE INFORMATION SYSTEM RECOMMENDATION. WHILE A COMPREHENSIVE VEHICLE INFORMATION SYSTEM MAY APPEAR DESIRABLE, FROM THE STANDPOINT OF COST-BENEFIT CONSIDERATIONS SUCH AN EXTENSIVE RECORD-KEEPING PROGRAM WOULD BE NEITHER JUSTIFIABLE NOR PRACTICABLE. FURTHERMORE, SUCH VEHICLE RECORDS SYSTEM IS NOT MAINTAINED BY ANY AGENCY IN THE STATE. THE CRITERION OF 10 YEARS OF SERVICE OR 100,000 MILES FOR VEHICLE REPLACEMENT WAS ESTABLISHED FOR GOVERNMENT AGENCIES AND IS INTENDED TO ELIMINATE THE LENGTHY AND DETAILED RECORDS OTHERWISE NECESSARY FOR JUSTIFYING VEHICLE REPLACEMENTS. THE DEPARTMENT DOES NOT INTEND TO TAKE ACTION ON THIS RECOMMENDATION UNLESS ALL OTHER STATE AGENCIES DO SO.

PAGE 112. PREVENTIVE MAINTENANCE SYSTEM RECOMMENDATION. THE FIRST PHASE OF A PREVENTIVE MAINTENANCE SYSTEM FOR DEPARTMENT VEHICLES WAS INITIATED ON OCTOBER 1, 1971. IT INCLUDES PROVISIONS FOR A SHOP PLANNING SCHEDULE AS RECOMMENDED. OTHER RECOMMENDED FEATURES ARE BEING DEVELOPED AND WILL BE INCORPORATED IN THE NEW SYSTEM.

PAGE 113. TRAVEL MILEAGE LOG RECOMMENDATION. A TRAVEL AND MILEAGE LOG SYSTEM HAS BEEN IN EFFECT FOR POOL CARS AND WILL BE EXPANDED TO INCLUDE ALL VEHICLES.

PAGE 114. ALLOCATION OF AUTOMOTIVE MAINTENANCE LABOR COSTS RECOMMENDATION. THE ALLOCATION OF MECHANIC'S SALARY AND FRINGE BENEFIT COSTS TO DEPARTMENT PROGRAMS IS NOT PRACTICABLE BECAUSE OF THE FUNDING SYSTEM OF THE STATE. CHARGING FRINGE BENEFITS TO GENERAL FUND-FINANCED PROGRAMS WOULD RESULT IN "DEFICIT" SPENDING AS THESE PROGRAMS RECEIVE NO APPROPRIATIONS FOR SUCH BENEFITS. THE DEPARTMENT DOES NOT INTEND TO TAKE ACTION ON THIS RECOMMENDATION.

PAGE 116. FAILURE TO ACCOUNT FOR ALL ASSETS FINDING. (SECOND PARAGRAPH) THE $3.8 MILLION REFERS TO CAPITAL ASSETS THAT HAD NEVER BEEN TRANSFERRED BY THE DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES TO THE DEPARTMENT OF AGRICULTURE. THE $180,000 FIGURE FOR PROPERTY TRANSFERRED FROM THE CITY AND COUNTY OF HONOLULU IS INCORRECT. THE PROPERTY VALUE WAS $67,369.

PAGE 116. INVENTORY COUNT RECOMMENDATIONS.

PARAGRAPH 1. THE DEPARTMENT TAKES AN ANNUAL INVENTORY COUNT OF ITS PROPERTY, AND, THEREFORE, NO ACTION WILL BE TAKEN ON THIS RECOMMENDATION.

PARAGRAPH 2. RECONCILIATION OF FINANCIAL RECORDS AND INVENTORY COUNTS HAS BEEN PERFORMED SINCE JULY 1, 1971. NO OTHER ACTION IS REQUIRED.

PARAGRAPH 3. NOT APPLICABLE TO THE DEPARTMENT.

PAGE 118. ACCOUNTING SYSTEM RECOMMENDATIONS.

PARAGRAPH 1. A STUDY OF A UNIFORM STATE-WIDE ACCOUNTING SYSTEM IS CURRENTLY BEING CONDUCTED BY THE DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES. THE DEPARTMENT WILL TAKE NO ACTION ON INSTITUTING A RECOMMENDED DOUBLE-ENTRY SYSTEM, PENDING DAGS' DECISION ON THIS MATTER.

PARAGRAPH 2. THE DEPARTMENT'S ACCOUNTING MANUAL IS BEING UPDATED AS RECOMMENDED.

PAGE 118. FINANCIAL PLANNING FINDINGS.

PARAGRAPH 2. THE FINDING THAT "THE DEPARTMENT WAS UNABLE TO ASCERTAIN ITS SAVINGS UNTIL APRIL 1971" IS INACCURATE AS THE DEPARTMENT HAS ON FILE CORRESPONDENCE DATED NOVEMBER 11, 1970, REQUESTING AUTHORIZATION FROM THE ADMINISTRATION TO USE THE ANTICIPATED "SAVINGS." (AN AFFIRMATIVE RESPONSE WAS CONVEYED TO THE DEPARTMENT BY LETTER DATED NOVEMBER 17, 1970.)

PARAGRAPH 3. CONTRACT BIDDING AND AWARDING WERE HANDLED BY THE STATE PURCHASING AND SUPPLY DIVISION, DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES. UPON PUBLICATION OF THE NOTICE TO BIDDERS BY THE PURCHASING OFFICE, THE WEIGHTS AND MEASURES DIVISION INVITED 5 COMPANIES TO SUBMIT BIDS; 2 OTHER COMPANIES SUBSEQUENTLY EXPRESSED THEIR INTEREST IN THE CONTRACT.

PAGE 119. EXTENSION REQUEST RECOMMENDATION. THE DIVISION HAS, IN FACT, ASKED FOR AND OBTAINED AN EXTENSION OF TIME TO INSTALL THE SCALE.

PAGE 120. ADJUSTMENT OF PETTY CASH BALANCE RECOMMENDATION. THE DEPARTMENT'S

PETTY CASH FUND WILL BE REDUCED TO $150 ON FEBRUARY 29, 1972, AS RECOMMENDED.

PAGE 120. COFFEE DEFICIT COLLECTION RECOMMENDATION. THE FEE RATE OF 15¢ PER BAG WAS SUFFICIENT TO MEET INSPECTION COSTS ON A 50-50 BASIS WHEN IT WAS ORIGINALLY ESTABLISHED. AS THE INDUSTRY FLUCTUATED AND DECLINED, HOWEVER, THE ORIGINAL FEE RATE PROVED NO LONGER SUFFICIENT TO MEET HALF THE COST OF INSPECTION. THE DEPARTMENT DELAYED EFFECTING INCREASES IN THE FEE RATE BECAUSE ANY SUBSTANTIAL INCREASE WOULD HAVE AGGRAVATED AN ALREADY CRITICAL SITUATION FOR THE COFFEE INDUSTRY. TO PRO-RATE INSPECTION COSTS ON A 50-50 BASIS AGAIN WOULD REQUIRE THE INCREASE OF FEES TO 25¢. HOWEVER, TO RECOVER THE "DEFICIT," RATES WOULD HAVE TO BE RAISED TO NO LESS THAN 35¢.

THE DEPARTMENT INTENDS TO COMPLY WITH THE RECOMMENDATION OF THE AUDITORS, BUT BEFORE EFFECTING ANY SUBSTANTIAL FEE INCREASE, THE BOARD WILL CONSULT WITH THE LEGISLATURE REGARDING PROVISIONS OF THE APPROPRIATIONS ACT.

PAGE 121. PURCHASE ORDER SIGNING RECOMMENDATION. THE DEPARTMENT NOW REQUIRES THE SIGNING, IN FULL, OF PURCHASE ORDERS BY THE PURCHASING CLERK (INSTEAD OF THE PREVIOUS PRACTICE OF INITIALLING PURCHASE ORDERS BY THE PURCHASING CLERK).

PAGE 121. ANIMAL QUARANTINE REFUND RECOMMENDATION. THE DEPARTMENT CHANGED THE LOCATION OF THE PAYMENT OFFICE TO THE ANIMAL QUARANTINE STATION ON JANUARY 2, 1972 AND HAS ADJUSTED PERSONNEL ASSIGNMENTS ACCORDINGLY. THIS ACTION IS EXPECTED TO EXPEDITE PROCESSING OF REIMBURSEMENTS FOR OVERPAYMENT. BECAUSE OF THE NEW SYSTEM, A SEPARATE IMPREST CHECKING ACCOUNT IS NOT NECESSARY.

PAGE 122. MONKEY DEPOSIT RECOMMENDATION. THE BOARD WILL IMPOSE A TEMPORARY BAN ON THE IMPORTATION OF MONKEYS INTO THE STATE WHILE IT CONDUCTS A THOROUGH REVIEW

OF THE DEPARTMENT'S POLICY AND CONTROL PROVISIONS FOR THE IMPORT OF MONKEYS.

PAGE 125. VETERINARY POLICY RECOMMENDATION. THE BOARD AMENDED POLICY AI-1 ON DECEMBER 17, 1971, AS FOLLOWS:

WORKING POLICY OF THE DIVISION OF ANIMAL INDUSTRY

THE STATE VETERINARIANS SHALL PERFORM ALL DUTIES DESCRIBED BY LAW OR REGULATION WITHOUT CHARGE TO THE OWNER FOR PROFESSIONAL SERVICES.

EXAMPLES ...

VISITATIONS. IT IS THE DUTY OF A STATE VETERINARIAN TO SERVICE EACH AND EVERY LIVESTOCK OWNER ON A ROUTINE, SCHEDULED BASIS. HE SHALL DEVELOP A PROGRAM OF VISITATIONS AND CONSULTATIONS TO EVERY FARM WITHIN HIS ASSIGNED DISTRICT AND SUBMIT A MONTHLY REPORT OF ACTIVITIES TO THE STATE VETERINARIAN WITH A COPY IN THE DISTRICT OFFICE. (A FARM IS DEFINED AS THE PREMISES UPON WHICH LIVESTOCK OR POULTRY IS RAISED ON A COMMERCIAL BASIS INCLUDING, BUT NOT LIMITED TO, A MINIMUM OF EITHER FIVE HEAD OF CATTLE, FIVE SWINE, OR FIFTY POULTRY, THE OWNER OF WHICH SHALL HAVE A BONA FIDE GROSS INCOME LICENSE. SERVICE TO ALL OTHER LIVESTOCK OWNERS SHALL BE RENDERED ON REQUEST BASIS.)

HOURS OF WORK: STATE VETERINARIANS SHALL MAINTAIN REGULAR HOURS OF WORK AND ADHERE TO THE PROVISIONS OF DEPARTMENT POLICY A-30 WHEREVER APPLICABLE.

DESIGNATION OF OFFICE: EACH VETERINARIAN SHALL BE BASED AT A STATE OFFICE AS DESIGNATED BY THE CHAIRMAN OF THE BOARD, AND SHALL OPERATE FROM THAT OFFICE.

OUTSIDE EMPLOYMENT: OUTSIDE EMPLOYMENT IS PERMISSIBLE SO LONG AS SUCH ACTIVITIES DO NOT RESULT IN CONFLICT OF INTEREST, EMBARRASSMENT TO OR CRITICISM OF THE DIVISION, OR INTERFERE WITH THE EFFICIENT PERFORMANCE OF OFFICIAL DUTIES; EXCEPT THAT, IN EXTENUATING CIRCUMSTANCES DUE TO A LACK OF AVAILABLE VETERINARIANS IN THE DISTRICT, IT MAY BE NECESSARY TO PROVIDE TREATMENT AND CARRY ON WORK WHICH MAY BE OF A PRIVATE NATURE. UNDER SUCH SPECIAL CIRCUMSTANCES, A FULL REPORT SHALL BE SUBMITTED TO THE ETHICS COMMISSION WITH A COPY TO THE STATE VETERINARIAN.

EMPLOYEES WHO MAY CONSIDER PERFORMING SERVICES DURING OFF-DUTY HOURS FOR A CLIENT SHOULD ASCERTAIN FROM THE ETHICS COMMISSION THAT SUCH SERVICE IS NOT IN CONFLICT WITH HIS OFFICIAL DUTY ASSIGNMENT. ALSO, EMPLOYEES ENGAGED IN OUTSIDE EMPLOYMENT SHALL NOT ALLOW SUCH EMPLOYMENT TO INTERFERE IN ANY WAY WITH ASSIGNED WORKING HOURS OF THE DIVISION.

PAGE 127. PERSONNEL RECLASSIFICATION RECOMMENDATION. THE DEPARTMENT HAS PURSUED THE MATTER WITH THE DEPARTMENT OF PERSONNEL SERVICES AND THE RECLASSIFICATION ACTION WAS COMPLETED ON DECEMBER 23, 1971.

PAGE 129. COORDINATION WITH PURCHASING AND SUPPLY DIVISION RECOMMENDATION. AS SHOWN IN THE RECORDS, THE WEIGHTS AND MEASURES DIVISION DID, IN FACT, MAINTAIN CONTACT, ON VIRTUALLY A MONTHLY BASIS, WITH THE DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES' PURCHASING AND SUPPLY DIVISION REGARDING THIS PROCUREMENT. THERE IS ALSO EVIDENCE OF CHANGES MADE IN THE TERMS OF THE CONTRACT BY THE PURCHASING AND SUPPLY DIVISION, ABOUT WHICH THE USER AGENCY WAS NOT CONSULTED. BY OCTOBER 1970, THE WEIGHTS AND MEASURES DIVISION FELT THAT THE $10 PER DAY PENALTY FOR FAILURE TO PERFORM SHOULD HAVE BEEN IMPOSED ON THE CONTRACTOR AND SO RECOMMENDED TO THE PURCHASING AND SUPPLY DIVISION.

THE BOARD IS OF THE OPINION THAT THE DEPARTMENT'S EFFORTS TO PERIODICALLY REVIEW THE STATUS OF CONTRACTS HANDLED BY THE PURCHASING AND SUPPLY DIVISION WERE ADEQUATE, AND THE ADMONITION CONTAINED IN THE RECOMMENDATION ON PAGE 129 IS NOT WARRANTED.

IT SHOULD ALSO BE NOTED THAT THE VEHICLE FINALLY RECEIVED BY THE DEPARTMENT DID NOT CONFORM TO THE DIVISION'S SPECIFICATIONS AND REQUIREMENTS. THE DIVISION, NEVERTHELESS, WAS COMPELLED TO ACCEPT THE TRUCK BECAUSE OF URGENT DEMANDS FOR ITS SERVICE AND THE INORDINATE DELAYS THAT HAD ALREADY BEEN EXPERIENCED.

AS ILLUSTRATION OF MORE RECENT DIFFICULTIES ENCOUNTERED IN THE DEPARTMENT'S EFFORTS TO COORDINATE PURCHASE REQUESTS, THE PURCHASING AND SUPPLY DIVISION HAS NOT BEEN RECEPTIVE TO THE USE OF A DEPARTMENT REQUEST FORM (INSTITUTED IN JUNE 1971)

DESIGNED TO STANDARDIZE THE SUBMISSION OF REPLACEMENT VEHICLE SPECIFICATIONS.

PAGE 130. MEASURING DEVICE LICENSING RECOMMENDATIONS.

PARAGRAPH 1. THE PRESENT SYSTEM OF MAILING THE APPLICATION FOLLOWED BY MAILING OF THE LICENSE UPON RECEIPT OF PAYMENT, IS CONSIDERED MORE DESIRABLE THAN THE MAILING OF COMBINED APPLICATION AND LICENSE CARD. UNDER THE PRESENT SYSTEM THE UNMAILED LICENSE SERVES AS A "TICKLER" FOR UNRETURNED APPLICATIONS. NO ACTION WILL BE TAKEN ON THIS RECOMMENDATION.

PARAGRAPH 2. THE DIVISION INTENDS TO REPLACE THE CURRENT LABELS WITH UNSERIALIZED LABELS OF A DIFFERENT DESIGN. THE NEW LABELS WHICH WILL BE IN EFFECT BY JULY 1, 1972, WILL BE DESIGNED TO AVOID ANY POSSIBILITY OF MISINTERPRETATION BY NON-INSPECTORS.

PARAGRAPHS 3 AND 4. COMMENT ON PARAGRAPH 1, ABOVE, APPLIES.

PARAGRAPH 5. NOT APPLICABLE AS LABELS ARE UNNUMBERED. COMMENT ON PARAGRAPH 2, ABOVE, APPLIES.

IN CONCLUSION, THE BOARD WISHES TO AGAIN EXPRESS ITS APPRECIATION FOR THE SEVERAL CONSTRUCTIVE RECOMMENDATIONS CONTAINED IN THIS REPORT. WE INTEND TO INSURE THAT FOLLOW-UP ACTION WILL BE EXPEDITIOUSLY COMPLETED. THIS BOARD, THE DEPARTMENT OF AGRICULTURE, AND ITS DIVISIONS ARE WORKING TO BECOME EVEN MORE EFFECTIVE IN ORDER TO ACHIEVE THE HIGHER GOALS WHICH WE HAVE HELPED TO SET FOR HAWAII'S AGRICULTURAL FUTURE. BECAUSE OF THIS, YOUR REPORT IS BOTH TIMELY AND VALUABLE.

WE FACE TODAY A GREATER CHALLENGE THAN EVER BEFORE IN CARRYING OUT OUR RESPONSIBILITIES, I.E., TO PROMOTE THE CONTINUED AND BEST USE OF ALL OF HAWAII'S

AGRICULTURAL RESOURCES, TO STRENGTHEN THE ECONOMY OF THE STATE, TO ABATE AGRICULTURAL POLLUTION AND TO IMPROVE THE WELL-BEING OF HAWAII'S FARMERS AND ALL THOSE ENGAGED IN AGRICULTURE. WE MUST, THEREFORE, ASSIST, LEAD AND BOLSTER THE PRIVATE AGRICULTURAL SECTOR IN INCREASING PRODUCTIVITY, DIVERSIFYING CROPS AND EXPANDING MARKETS. THE PROGRAMS OF THE STATE, INCLUDING FARM CREDIT, ARE MORE VITAL NOW THAN EVER BEFORE IN THEIR SUPPORT OF NEW AGRICULTURAL ENDEAVORS. THESE INCLUDE FEED GRAIN PRODUCTION, AQUACULTURE, TOTAL AREA REDEVELOPMENT, AND RECYCLING OF FARM AND PLANTATION WASTE MATERIALS, TO MENTION BUT A FEW.

WE MUST MOVE AGGRESSIVELY ON MANY FRONTS; YET WE MUST OPERATE WITHIN STRICT ECONOMIC AND FISCAL CONSTRAINTS. BECAUSE OUR AGENCIES HAVE WORKED WELL TOGETHER THROUGHOUT THE LONG PERIOD OF THIS FISCAL AUDIT, WE KNOW THAT WE CAN AND MUST JOIN TOGETHER IN MEETING NOW, TOMORROW'S CHALLENGE.

SINCERELY YOURS,

BOARD OF AGRICULTURE

Frederick C. Erskine

FREDERICK C. ERSKINE, CHAIRMAN

ATTACHMENT NO. 4

JOHN A. BURNS
GOVERNOR

KENAM KIM
COMPTROLLER

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING
AND GENERAL SERVICES
P. O. BOX 119
HONOLULU, HAWAII 96810

RECEIVED
JAN 17 1972
OFFICE OF THE AUDITOR

January 14, 1972

Mr. Clinton T. Tanimura
Legislative Auditor
State of Hawaii
Honolulu, Hawaii 96813

Dear Mr. Tanimura:

This letter is submitted in reply to your request of December 30, 1971, for a response on your preliminary report covering an audit of the Department of Agriculture for the fiscal year ended June 30, 1971. In your letter, our attention was directed to particular subjects in the audit report on which the findings and recommendations affect our department. The following comments are arranged in the order of the subject list contained in your letter.

Personal Car Mileage Reimbursement

Recommendation is made in the report that the Department of Accounting and General Services develop and implement a uniform State policy for personal car mileage reimbursements. Presently, our rules and regulations governing official travel and transportation expenses, as last amended effective January 20, 1969, state in Section X the general policy on automobile allowances, both flat allowances and mileage allowances. Departments and agencies have conformed to the general policy effecting appropriate department-level policies. To the extent that department-level policies are consistent with the general policy and are fair to all State employees regardless of the department in which employed, this has been a workable over-all policy, recognizing that a detailed policy on a statewide level would have to cover an extremely wide variation of circumstances conforming to similarly varied operations from department to department.

Because of questions that have been raised from time to time as to the consistency of department-level policies, we began a review last year to determine whether our general policy could be expanded in a helpful manner without becoming overly detailed with respect to individual departmental operations. As a result of the review, a draft of a revision to Section X of our present rules and regulations will be considered in the next revision of the total rules and regulations, preparation for which is being made currently. We believe the anticipated revision will correct any potential inequities in mileage reimbursement.

Inventory of Property

This department agrees with the statements regarding the importance of accurate inventory reports and the means by which such reports can be accomplished. We do not agree, however, that the DAGS-prescribed procedures for accounting for assets need revision; on the contrary, they are believed to be adequate if followed by the agencies having custody of state-owned property.

In support of this position, we are attaching copies* of the following directives published by this department:

DAGS Circular 192 - "Classification of Personal Property"
DAGS Circular IM-1-70 - "Quarterly Report of Inventory Change"
DAGS Circular IM-2-70 - "Inventory Nomenclature"
DAGS Circular IM-3-70 - "Transfer of Property"
DAGS Circular IM-4-70 - "Annual Inventory"
"Rules and Regulations Providing for Disposal of Equipment"

Your attention is invited specifically to the IM-4-70 attachment titled "Inventory Taking Procedures"; this calls for the actual count and reconciliation recommended on page 116 of the audit report.

Within its limited capabilities, the Inventory Management Branch of this department attempts to encourage compliance with the above directives by making random spot checks of records against items actually on hand in the various departments and agencies of the State.

Procurement of Items Under Contract

On the specific purchase discussed under this heading, i.e., a scale calibration truck for the Division of Weights and Measures, considerable trouble was experienced and the vehicle was not accepted until nearly six months after the original contract completion date (not eleven months as stated in the report). This experience was completely atypical however; the delay encountered was the result of more factors than recognized in your report, and some of them were attributable to mainland sources beyond control of the contractor.

It must be recognized that this truck is not a standard model delivered from an established assembly line. Rather, it is a highly specialized, unique piece of equipment, made to order as an assemblage of standard and specially fabricated components; in retrospect it appears that on an item of this nature, the contract completion date should be stated as a target rather than a hard and fast requirement.

* Copies not attached

Because the chassis, made in the mid-west, had to be processed through a plant in California for addition of body and controls and because of parts shortages and shipping difficulties occasioned by its size, the vehicle did not reach the local sub-contractor for installation of crane until August 1970 -- approximately six weeks prior to contract delivery date. Inspection on arrival revealed a number of deficiencies such as wrong seats, transmission and tires and absence of trailer hose and wire connections; parts to correct these deficiencies had to be brought from the mainland and installed by the contractor. To compensate for some of this delay a contract extension was granted as stated in your report; the Weights and Measures Division was fully cognizant of this, however, as evidenced by internal memoranda in that Division.

Additional delay was occasioned by the fact stated in your report, that the contractor did not submit layout drawings of flooring, rack placement and derrick installation for approval prior to construction. Rather, he worked from sketch drawings furnished by Weights and Measures and applied "cut and try" methods in several instances; this resulted in an unsatisfactory product that had to be reworked to meet requirements. It is believed that this course was followed in an effort to make up for some of the mainland delay by short cutting the detailed drawing phase; unfortunately, the plan backfired at considerable cost to the contractor and produced further delay in project completion. Weights and Measures representatives who were performing technical follow-up on the contract were alleged to have given oral approval to the contractor's approach and to some of his deviations from specifications; this was later denied and the deviations had to be corrected.

Liquidated damages were not assessed for three reasons:

1. Causes of the delay were so many and varied -- some being the fault of the mainland manufacturer and thus beyond control of the contractor -- that it would have been extremely difficult to pin the responsibility and resulting charges on any one party.

2. By having to redo a large part of the local installation as well as make corrections on deficiencies originating in the mainland, both the contractor and his local sub-contractor had already suffered serious losses, and it did not seem equitable to assess them additionally for delay that was only partially their fault.

3. Weights and Measures advised that they had discussed this matter with their Deputy Attorney General and had been advised that it would be very difficult to defend such an assessment if it were challenged in court.

With respect to the recommendation related to this section, this department agrees that on future contracts of this nature, much closer follow-up must be performed and much closer liaison must be maintained between the Purchasing and Supply Division, that awards the contract, and the user agency, that exercises technical supervision over performance of the work and is responsible for final inspection to determine compliance with specifications, for acceptance of the product and for vouchering for payment. Standing operating procedures will be modified, where necessary, to accomplish such follow-up and liaison.

We appreciate the opportunity to reply on the subjects above as addressed in the audit report. If we can provide further information or assistance, please let me know.

Very truly yours,

KENAM KIM
Comptroller

cc: The Honorable John A. Burns
Governor, State of Hawaii