

AUDIT REPORT
NO. 74-2
MAY, 1974

FINANCIAL
AUDIT
OF THE
STATE DEPARTMENT
OF DEFENSE
AND CIVIL AIR PATROL
(HAWAII WING)

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
STATE CAPITOL
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FOREWORD

FINANCIAL AUDIT OF THE STATE DEPARTMENT OF DEFENSE
AND THE
STATE GRANT FOR CIVIL AIR PATROL

Fiscal Year Ended June 30, 1973

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. 74-2
May 1974

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FOREWORD

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Introduction

This financial audit report is the result of our examination of the financial statements and records of the State department of defense and of the financial management practices of the Hawaii wing of the civil air patrol for the fiscal year ended June 30, 1973. It was conducted pursuant to section 23-4 of the Hawaii Revised Statutes which requires this office to conduct post-audits of all transactions and of all books and accounts kept by the departments, offices, and agencies of the State and its political subdivisions.

Financial Statements and Opinions

This report is divided into four parts. Part I contains introductory information, including the objectives and scope of the audit. Part II contains some background information on the department of defense and our findings, comments, and recommendations regarding the financial management practices, the financial statements, and selected problems of the department. Part III contains some background on the civil air patrol and our findings, comments, and recommendations regarding the financial management practices of the Hawaii wing.

Allotments, Expenditures, and Balances
Statement of Revenue and Appropriated Receipts (General Fund)

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. The responses of the agencies are included in Part IV of this report titled "Responses of Affected Agencies."

Point of Departmental Approval

We wish to express our sincere appreciation for the fine cooperation and assistance extended by the officers and staff of the State department of defense and the Hawaii wing of the civil air patrol.

Objectives and Purposes

Membership

Organization Structure

The Hawaii Wing

Clinton T. Tanimura
Legislative Auditor

Financial Management Practices

RT IV. RESPONSES OF AFFECTED AGENCIES

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PART I
INTRODUCTION AND SOME BACKGROUND

Chapter 1

INTRODUCTION

This is a report on our financial audit of the transactions, books, and accounts of the department of defense and of the financial management practices of the Hawaii wing of the civil air patrol. The audit was conducted pursuant to section 23-4, Hawaii Revised Statutes, which requires the office of the auditor to conduct postaudits of all transactions and of all books and accounts kept by or for all departments, offices, and agencies of the State and its political subdivisions.

Objectives of the Audit

Our audit had the following objectives:

Department of defense

1. To assess the adequacy of the department of defense's systems and procedures for financial accounting, internal control, and financial reporting.
2. To determine the accuracy of the

department of defense's financial statements and to render opinions thereon.

3. To recommend such actions as appropriate to correct any deficiencies as may exist.

Civil air patrol

1. To assess the equity in the allocation of State funds to each civil air patrol unit.
2. To determine the propriety of the expenditures made and the extent to which State funds are expended in accordance with the Hawaii Revised Statutes governing the program.

Scope of the Audit

1. This audit examined the department of defense's financial records for, and the transactions had during, the fiscal year July 1, 1972 to June 30, 1973. It included tests of the accounting records and the use of such auditing procedures as we considered necessary. The audit also examined the personnel and financial management policies and practices of the department.

2. In addition, the financial records of the Hawaii wing of the civil air patrol were examined. The civil air patrol is a private organization which receives an annual grant of \$56,000 appropriated from the State's airport revenue fund.¹ Our examination covered the 1972-73 fiscal year and was limited to an assessment of the propriety of the expenditures made with State funds and the equitableness with which the Hawaii wing utilized State funds in support of the activities of the various civil air patrol units within the State. Our examination did not include an attestation as to the accuracy of the Hawaii wing's financial statements because an audit for the purpose of such verification is conducted annually by an independent certified public accounting firm in accordance with national civil air patrol regulations.

Organization of the Report

This report is organized into four parts. Part I (chapter 1) contains this introduction. Part II (chapters 2, 3, and 4) relates to the department of defense. It contains some background information on the department and our findings, comments, and recommendations regarding the financial management practices, the financial statements, and selected problems of the department of defense. Part III (chapters 5 and 6) is on the Hawaii wing of the civil air patrol. It contains some background on the civil air patrol and our findings, comments, and recommendations regarding the financial management practices of the Hawaii wing relating to the State grant. Part IV contains the responses of the audited agencies and our comments on the responses.

¹HRS, section 261-6. In 1974, the legislature amended Act 218, SLH 1973, to provide for an additional \$19,000 per year in fiscal biennium 1973-75 (H.B. No. 2374-74, H.D. 1, S.D. 1, C.D. 1, Seventh Legislature 1974), without amendment of the general statute; the additional amount appropriated by the legislature in 1974 is a one-time appropriation.

**PART II
DEPARTMENT OF DEFENSE**

Chapter 2

SOME BACKGROUND

The department of defense is the State agency responsible for the defense, safety, and welfare of the people of the State in case of war or natural or man-made disasters. The head of the department is known as the adjutant general of the State. He is a member of the governor's cabinet. The adjutant general is also the commanding general of the Hawaii national guard and the State director of civil defense.

Organization of the Department

Organizationally, the department of defense is comprised of the staff services units, the Hawaii national guard, and the State civil defense. A brief discussion of the functions of each is presented below.

1. **Departmental staff service units.** The department has five organizational units which provide the required staff services for departmental operations and which serve as the staff of the adjutant general. These five departmental staff service units employ full-time

federal employees as well as State employees. The staff service units are as follows.¹

a. ***U. S. property and fiscal office.*** This office provides and accounts for federal property, funds, and services provided to the Hawaii national guard. The office is headed by a national guard officer on active duty who serves as the logistical and fiscal advisor to the adjutant general.

b. ***Engineering and facilities maintenance services office.*** This office manages all real property under the jurisdiction of the department, including the acquisition, construction, disposal, and maintenance of facilities. It also provides operational supervision over custodial and security personnel and services at departmental installations.

c. ***Administrative services office.*** This office administers all federal and State funds appropriated and/or received by the department. It also coordinates all departmental activities related to planning, programming, budgeting, and execution of departmental programs and performs the departmental accounting function.

¹From the department of defense, *Annual Report, Fiscal Year 1973*, pp. 21-29.

d. **Civilian personnel office.** This office provides centralized personnel services for all national guard technicians and State employees of the department. It is responsible for the management of the department's personnel programs within the policies and practices established by the federal and State personnel systems.

e. **Military support of civil authorities section.** This section is responsible for the development of plans relating to military assistance to be provided to civil authorities during civil defense emergencies, civil disturbances, and natural disasters.

2. **Hawaii national guard.**² The Hawaii national guard is the military component of the department. It consists of two separate divisions, the army national guard and the air national guard. At the end of the fiscal year 1972-73, the combined strength of both divisions stood at 4822. A majority of the national guard members are not full-time employees of the department and only train and serve with federal pay during selected weekends and during the annual 15-day training period.

Hawaii national guard members occupy a dual status. They serve simultaneously as members of the State militia and as a reserve component of either the U.S. Army or the U.S. Air Force. In keeping with the dual status of its members, the Hawaii national guard serves a

²*Ibid.*, pp. 2-16.

dual mission. It provides for the public's safety during State emergencies and serves as a reserve unit ready for call to active duty by the President of the United States in a national emergency.

3. **Civil Defense.**³ The civil defense division is the non-military arm of the department. Its mission is to minimize the loss of life and damage to property and to expedite the restoration of essential public services during natural or man-made disasters within the State. Administratively, it is headed by the adjutant general who serves as the State director of civil defense, a vice director, and deputy directors in each of the State's four counties. During civil defense emergencies, this division provides the nucleus for the emergency State headquarters and coordinates the civil defense activities of all public and private organizations within the State.

Chapter 3

FINANCIAL STATEMENTS AND OPINIONS

Introduction

This chapter contains the results of our examination of the financial statements of the department of defense for the fiscal year July 1, 1972 to June 30, 1973. It contains a brief

³*Ibid.*, pp. 17-20.

description of the financial statements and our opinions regarding the reasonable accuracy of the financial statements of the various funds administered by the department of defense. The financial statements included in this chapter are the following:

- . Statement of Appropriations, Expenditures, and Unencumbered Balances (General Fund)
- . Statement of Cash Receipts, Disbursements, and Balances of Trust and Agency Funds
- . Statement of General Obligation Bond Fund Appropriations, Allotments, Expenditures, and Balances
- . Statement of Revenue and Appropriated Receipts (General Fund)

Department's Method of Accounting

The accounts of the department of defense are maintained and the financial statements are prepared on a modified accrual basis of accounting. Generally, under the modified accrual basis of accounting, revenue is recognized when actually received in cash and expenditures are recognized at the time liabilities are incurred.

The accounting procedures provide for the recording of commitments at the time contracts

are awarded and orders placed for services, equipment, construction, and supplies. These commitments are represented as encumbrances and are necessary to reflect obligations which are chargeable to an appropriation and for which a part of the appropriation is reserved.

Capital assets constructed or purchased by the department of defense are recorded as expenditures of the respective funds expending the monies. These capital expenditures are shown as assets in the statewide general fixed asset accounts. Depreciation on these assets are generally not recorded by the State.

As is the practice followed by other State agencies, the department of defense does not reflect in its financial statements any earned vacation and sick leave credits. Vacation credits, although technically accrued when earned, are recorded as expenditures and charged against the department's appropriation only as the vacations are taken or claimed (in cases of employment termination). Sick leave credits, although accrued, can only be applied when an employee is ill; there is no cash payoff for unused, accrued sick leave credits upon the termination of employment.

All full-time State employees of the department of defense are required by section 88-42 of the Hawaii Revised Statutes to become members of the employees' retirement system of the State. The system requires contributions to be made by both the employee and the employer (State). The employer's share of the contributions for the department's

employees along with those for all State employees, is annually appropriated to the department of budget and finance and is thus not reflected in the department of defense's financial statements.

Statement of Appropriations, Expenditures, and Unencumbered Balances (General Fund)

The department's statement of appropriations, expenditures, and unencumbered balances (general fund) for the year ended June 30, 1973 is shown in table 3.1.

1. **Opinion on statement.** In our opinion, the department's statement of appropriations, expenditures, and unencumbered balances (general fund) reflects fairly the resources of the general fund that were available to and the expenditures and obligations that were made by the department during the fiscal year ended June 30, 1973.

2. **General description of the statement.** The statement of appropriations, expenditures, and unencumbered balances (general fund) presents a summary of the general fund transactions of the department for the period presented. The State general fund is used to account for all resources not specifically reserved for special purposes. Any State activity not financed through another fund is financed by the general fund. The statement of appropriations, expenditures, and unencumbered balances (general fund) presented in table 3.1 reflects the general fund resources

and obligations only of the department. A discussion of the general fund resources that were available to and the expenditures made from the general fund by the department of defense follows.

3. Resources

a. **State general fund appropriations.** For the fiscal period beginning July 1, 1972 and ending June 30, 1973, the State legislature, by Act 68, SLH 1971, appropriated \$1,524,267, out of the general revenues of the State, for the operation of the department of defense. However, the State department of budget and finance reduced the allotments made to the department by \$43,164 for the following reasons:

Increase in federal fund receipts which reduced the State general fund requirements	\$25,836
Restrictions on appropriations	<u>17,328</u>
Total	<u>\$43,164</u>

The \$17,328, "restrictions on appropriations," was the amount withheld from the department as part of the "belt-tightening," fiscal austerity program of the State.

The department also received an allotment from the governor of \$300,000 to be expended to relieve the conditions created by the earthquake disaster which occurred in the Hawaii county on April 26, 1973. This

Table 3.1
Department of Defense
General Fund
Statement of Appropriations, Expenditures, and Unencumbered Balances
For the Year Ended June 30, 1973

	Total	Depart- mental Adminis- tration	Hawaii Air National Guard	Hawaii Army Guard	Civil Defense	Pacific War Memorial	Public Employ- ment Program
Resources							
Appropriations							
Act 68, Session Laws of Hawaii 1971	\$ 1,524,267	\$ 701,418	\$ 84,707	\$ 527,182	\$ 206,760	\$ 4,200	\$ --
Sec. 127-11, Hawaii Revised Statutes	300,000	--	--	--	300,000	--	--
Appropriated Receipts							
Federal funds	476,956	66,025	106,116	97,127	207,688	--	--
State-vacation credit transferred in	1,611	1,611	--	--	--	--	--
Balances-July 1, 1972	119,964	20,247	22,321	35,511	38,484	6	3,395
Transfers and other credits	18,854	8,907	--	[6,186]	[2,721]	--	18,854
Total Resources	\$ 2,441,652	\$ 798,208	\$ 213,144	\$ 653,634	\$ 750,211	\$ 4,206	\$ 22,249
Expenditures and Encumbrances							
Personal Services	\$ 1,315,622	\$ 692,995	\$ 53,932	\$ 310,232	\$ 232,619	\$ 3,600	\$ 22,244
Other Current Expenses	500,005	67,030	82,757	227,295	122,571	352	--
Equipment	9,098	1,171	1,322	3,139	3,466	--	--
Encumbrance Balances-June 30, 1973	83,832	3,891	25,727	29,806	24,408	--	--
Total Expenditures and Encumbrances	\$ 1,908,557	\$ 765,087	\$ 163,738	\$ 570,472	\$ 383,064	\$ 3,952	\$ 22,244
Excess of Resources Over Expenditures	\$ 533,095	\$ 33,121	\$ 49,406	\$ 83,162	\$ 367,147	\$ 254	\$ 5
Lapses	127,087	26,156	22,460	46,801	31,416	254	--
Unencumbered Balances-June 30, 1973	\$ 406,008	\$ 6,965	\$ 26,946	\$ 36,361	\$ 335,731	\$ --	\$ 5

allotment was made under the authorization granted to the governor by section 127-11, Hawaii Revised Statutes, to expend from

the general revenues of the State sums not in excess of \$500,000 for immediate relief in the event of the occurrence of any major disaster in

any part of the State. As of the fiscal year ended June 30, 1973, no claim had been processed against this allotment.

b. *Appropriated receipts.* Appropriated receipts are funds received by the State for designated purposes and specifically authorized by the State legislature to be expended for those purposes. Depending upon the designated purposes of these receipts, the unencumbered balances remaining at the end of the fiscal year may either lapse or be carried over until completely expended. For the fiscal year ended June 30, 1973, the State received \$476,956 of federal funds in support of the defense department's programs. In addition, \$1611 in general fund monies was credited to the account of the department. The \$1611 represented vacation credits that the employees who transferred into the department from other State and county agencies had earned while employed by such other agencies.¹ A description of the types of receipts and the programs for which federal funds were received is discussed in detail in the section on the department's statement of revenue and appropriated receipts.

c. *Prior fiscal year carryover balances.* At July 1, 1972 the department had a total of \$119,964 in funds carried over from the prior

¹It is the usual practice for the amount of vacation credits earned by an employee while employed in another State or county agency to be paid into the State general fund if the employee, while employed in such other agency, had been paid from funds other than the State general fund and to credit such amount to the State agency to which the employee transfers.

fiscal year's appropriation. Of this total, \$83,841 represented State funds which were encumbered as of June 30, 1972. The remaining \$36,123 represented federal funds received for designated purposes which were allowed to be carried over until completely expended.

d. *Transfers and other credits.* Act 68, SLH 1971, authorized the transfer of funds (except capital improvement funds) between appropriations upon the approval of the governor and/or the director of the department of budget and finance. During the fiscal year, the department made several intra-departmental transfers of the resources appropriated to it. These transfers did not affect the total resources made available to the department. The increase in the amounts for some programs was offset by a decrease in the amounts for those programs from which the amounts were transferred.

In addition, the department received the sum of \$18,854 from the department of personnel services (DPS) to reimburse the department for personal service costs incurred by the department in the employment of three persons under the public employment program (PEP). The PEP program is a federally funded program authorized by the Federal Emergency Employment Act of 1971. This program provides federal funds to the State for the employment of unemployed persons who do not possess the minimum qualifications to qualify for a civil service position with the State. The State's participation in this federal program is under the administrative control of the department of personnel services. DPS receives

the federal funds and distributes the funds to participating State agencies.

4. **Expenditures.** Expenditures are actual disbursements of funds in payment for goods received and/or services performed. In the fiscal year ended June 30, 1973, the department of defense incurred a total of \$1,908,557 in expenditures. This sum of \$1,908,557 was exclusive of those expenditures incurred and paid for directly by the federal government in support of the Hawaii national guard program. The expenditures paid for directly by the federal government included the payroll cost of full-time federal technicians assigned to the department, the purchase cost of national guard equipment and vehicles, and the drill status pay for Hawaii national guard members. In the fiscal year ended June 30, 1973, these federal expenditures totaled approximately \$21,855,203.² A brief discussion of the major categories of expenses included in the \$1,908,557 total expenditure of State general fund follows:

a. **Personal services.** Personal services, which include salaries, overtime pay, and other pay adjustment actions, totaled \$1,315,622 for the fiscal year—approximately 70 percent of the department's total operating expenditures.

b. **Other current expenses.** This category of expenditures includes all expenditures except

²This \$21,855,203 is only an approximation. Since the expenditures paid for directly by the federal government are not under the control of the State, they were not audited.

those for personal services and equipment. The department incurred a total of \$500,005 in other current expenses for the fiscal year ended June 30, 1973. More than half (\$281,223) of this total was spent for communications, utilities, and repairs and maintenance.

c. **Equipment expenditure.** The department expended a total of \$9098 in equipment purchases during the fiscal year. The equipment purchased included such items as office machines, water heaters, water coolers, and office furniture.

d. **Encumbrances.** Included in the \$1,908,557 total expenditure amount was the sum of \$83,832 in encumbrances. Encumbrances, as previously explained, reflect obligations which, although not yet paid, are chargeable to that portion of the total resources that were available to the department during the fiscal year which would have lapsed as unspent at the close of the year unless reserved. The total encumbered balance of \$83,832 represented obligations of \$3,046 for personal services and \$80,786 for other current expenses.

5. **Excess of resources over expenditures.** In the fiscal year ended June 30, 1973, the total expenditures were \$533,095 less than the total resources that were available to the department (\$2,441,652 - \$1,908,557 = \$533,095).

6. **Lapsed balance.** Of the \$533,095 remaining at the close of the fiscal year, the sum of \$127,087 lapsed and was returned to the State general fund. This lapsed balance

represented primarily the balance of the State funds appropriated by the legislature by Act 68, SLH 1971, for the fiscal year that was unexpended and uncommitted at June 30, 1973. Included in this lapsed balance was the sum of \$43,164 which, as we pointed out earlier, was withheld by the department of budget and finance and not allotted to the department of defense.

7. **Unencumbered balances.** The unexpired and unencumbered balance of \$406,008 included \$106,008 of federal funds which were permitted to be carried over from one fiscal year to another until completely expended and the \$300,000 disaster fund for the Hawaii county against which no reimbursable claims had been processed as of June 30, 1973.

Statement of Cash Receipts, Disbursements, and Balances of Trust and Agency Funds

The department's statement of cash receipts, disbursements, and balances of trust and agency funds for the year ended June 30, 1973 is shown in table 3.2.

1. **Opinion on statement.** In our opinion, the statement shown in table 3.2 presents fairly the receipts, disbursements, and balances of the trust and agency funds of the department of defense for the year ended June 30, 1973.

2. **General description of the statement.** The department of defense is entrusted with the management of three trust and agency funds.

The funds are managed in accordance with specific agreements or other governing regulations. The statement of cash receipts, disbursements, and balances of trust and agency funds summarizes the results of the cash transactions of each of these funds during the fiscal year. A description of each of the three trust and agency funds follows.

3. **Donations— Pacific war memorial.** This fund consists of private contributions made by persons interested in the creation, preservation, and maintenance of State memorials in honor of those who gave their lives in combat. These funds are generally invested in time deposits until such time as they are needed for war memorial purposes. Expenditures are made from this fund upon authorizations of the Pacific war memorial commission.

The Pacific war memorial commission is lodged in the department of defense for administrative purposes. The functions, duties, and powers of the commission over State memorials are subject to the administrative control of the adjutant general. The commission is comprised of seven members. Six members are appointed by the governor and the adjutant general serves as an ex officio, seventh voting member.

4. **Health fund.** This fund was established to account for the deductions made from the salaries of those federal employees assigned to the department of defense who subscribe to the federal employees' organization's group life insurance plan. The

deductions represent the amount of the premiums the employees are required to pay for their group life insurance. Once every month, the federal government deposits with the

department of defense the month's payroll deductions. The department in turn deposits these funds with the federal employees' organization who pays the insurer.

Table 3.2
 Department of Defense
 Trust and Agency Funds
 Statement of Cash Receipts, Disbursements, and Balances
 For the Fiscal Year Ended June 30, 1973

	Donations and gifts Pacific War Memorial	Temporary deposits health fund	Civil defense reim- bursement to counties
Cash July 1, 1972			
Certificate of deposit	\$ 750	\$ -	\$ -
State treasury	269	-	-
	<u>1,019</u>	<u>-</u>	<u>-</u>
Receipts:			
Temporary deposits	-	31,806	266,881
Donations	31	-	-
Interest on time deposits	42	-	-
	<u>73</u>	<u>31,806</u>	<u>266,881</u>
Disbursements:			
Transfers	-	31,806	266,881
	<u>-</u>	<u>31,806</u>	<u>266,881</u>
Cash June 30, 1973			
Certificate of deposit	800	-	-
State treasury	292	-	-
	<u>\$1,092</u>	<u>\$ -</u>	<u>\$ -</u>

5. **Civil defense—reimbursements to counties.** The department of defense is responsible for the administration of civil defense contracts for the various counties of the State. All claims for federal reimbursement of civil defense costs incurred by the counties are submitted and all federal reimbursements due the counties are channeled through the department. This trust fund serves as a clearing account into which federal reimbursements are deposited and then subsequently distributed to the counties.

Statement of General Obligation Bond Fund Appropriations, Allotments, Expenditures, and Balances

The department's statement of general obligation bond fund appropriations, allotments, expenditures, and balances for the year ended June 30, 1973 is shown in table 3.3.

1. **Opinion on statement.** In our opinion, the statement shown in table 3.3 presents fairly the financial transactions of the bond fund for the year ended June 30, 1973, with respect to the appropriations contained in the statement.

2. **General description of the statement.** The bond fund accounts for the proceeds from the sale of bonds to finance capital improvement projects. Generally, the department of accounting and general services (DAGS) is the agency responsible for the administration of the capital improvement projects for the State. However, from time to time, DAGS delegates to

a department for execution a project or a portion of it when that department has the staff capability to administer capital improvement projects. The statement of general obligation bond fund appropriations, allotments, expenditures, and balances for the department of defense (table 3.3) presents a summary of the transactions of the bond proceeds for those capital improvement projects the execution of which had been delegated to the department of defense.

A discussion of the department's bond fund appropriations, allotments, expenditures, and balances follows.

3. **Appropriations.** "Appropriated amounts" in table 3.3 represents the sums appropriated by the State legislature for those capital improvement projects listed in the table and delegated to the department by DAGS for execution. The amounts for some of the projects represent only portions of the total monies appropriated by the State legislature. This is because only portions of these projects had been delegated to the department by DAGS for execution. As an example, Act 68, SLH 1971, appropriated \$43,000 for the replacement of disaster warning sirens, but at June 30, 1973, DAGS had delegated to the department for execution only that portion of the project costing \$13,500.

4. **Allotments.** The fact that a department has been delegated by DAGS a project or a portion of a project for execution does not mean that the department may

Table 3.3
 Department of Defense
 Bond Fund – General Obligation Bonds
 Statement of Appropriations, Allotments, Expenditures, and Balances
 For the Year Ended June 30, 1973

	Amount Appropriated	Allotments	Expenditures		Balances	
			Prior Year	Current Year	Allotment	Encum- brances
<u>Act 68, Session Laws of Hawaii 1971</u>						
Design and installation of radio controlled siren warning system	\$150,000	\$ --	\$ --	\$ --	\$ --	\$ --
Combined armory and army aviation maintenance shop	80,000	\$ 8,000	--	--	4,430	3,570
Additional disaster warning sirens, statewide	26,500	3,005	--	--	3,005	
Replacement of disaster warning sirens—construction	13,500	4,500	--	--	3,143	1,357
Battery hauling and radio hut, Diamond Head crater	10,000	10,000	--	--	5,041	4,959
<u>Act 187, Session Laws of Hawaii 1970</u>						
Modification of three tunnels of Diamond Head crater	22,000	22,000	19,233	1,969	798	--
Additional disaster warning sirens, statewide	26,000	26,000	--	--	4,656	21,344
Replacement of civil defense warning sirens	10,000	10,000	--	--	--	10,000
<u>Act 155, Session Laws of Hawaii 1969</u>						
Additional disaster warning sirens, statewide	20,000	20,000	--	17,585	--	2,415
Replacement of civil defense warning sirens, statewide	9,000	9,000	616	152	--	8,232
Total	\$367,000	\$112,505	\$19,849	\$19,706	\$21,073	\$51,877

automatically expend the amounts set aside for the project. The department can expend the amount only through an allotment process. As needed, the department must request an allotment from the department of budget and finance. The figures in the column headed, "Allotments," represent the amounts allotted to be spent by the department of defense for the projects listed.

5. **Expenditures.** During the fiscal year ended June 30, 1973, the department expended a total of \$19,706 for the modification of tunnels in the Diamond Head crater and for the installation and replacement of warning sirens for civil defense purposes.

6. **Encumbrances.** At June 30, 1973, the amounts encumbered for various projects totaled \$51,877. The amounts encumbered represent the unexpended amounts of the allotments for the projects.

Statement of Revenue and Appropriated Receipts (General Fund)

The department's statement of revenue and appropriated receipts (general fund) for the year ended June 30, 1973 is shown in table 3.4.

1. **Opinion on statement.** In our opinion, the statement shown in table 3.4 fairly presents the revenue and appropriated receipts (general fund) collected by the department of defense in the year ended June 30, 1973.

2. General description of the statement.

In general, the department's cash receipts come from two major sources:

- . Federal grants and contracts
- . Rental of departmental facilities

A total of \$545,098 was collected from the above sources during the year. A discussion of these cash receipts follows.

3. **Federal grants and contracts.** Federal grants and contracts (the receipt on account of which totaled \$535,623³ in the year ended June 30, 1973) are those which reimburse the State, for costs incurred, on a 100 percent basis or on some matching basis. Reimbursable costs include the costs of the civil defense program and the costs of the army and air national guards.

In addition to the amounts actually received, the sum of \$143,534 in reimbursements was receivable from the federal government as of June 30, 1973. This amount is not included in table 3.4 because the claims (billed and unbilled) had not been paid by the federal government as of June 30. The amounts will be reported as revenue in the year of actual

³Note that the total federal fund receipts (\$535,623) shown in table 3.4 exceeded the total federal fund appropriated receipts (\$476,956) shown in table 3.1 by \$58,667. This difference represented the reimbursements received from the federal government for the fringe benefit costs of the department's personnel (such as the costs of medical and health plans). These reimbursements were deposited into the State general fund and were not available for expenditure by the department, and thus is not shown in table 3.1.

Table 3.4
 Department of Defense
 General Fund
 Statement of Revenue and Appropriated Receipts
 Year Ended June 30, 1973

Federal funds			
Army guard contracts	.....	\$176,267	
Air national guard contract	.....	123,114	
Civil defense contracts	.....	236,242	\$535,623
Rental of departmental facilities			
Armory	.....	2,046	
Building	.....	4,741	
Ground	.....	500	
Housing	.....	1,555	8,842
Miscellaneous reimbursements	.....		633
TOTAL	.....		\$545,098

receipt. These receivables are subject to audit by the contracting federal agencies and, therefore, adjustments may be made to the amounts claimed.

The following is a brief discussion of the major reimbursable cost items.

a. *Hawaii national guard.* The department of defense receives federal fund support for its national guard activities under cost reimbursement contracts which are negotiated between the State and the federal national guard bureau annually. These contracts

provide for the reimbursement of authorized expenditures incurred by the department in the maintenance and operations of buildings and grounds used by the Hawaii national guard units in the performance of federally supported activities. Reimbursements received under these contracts are deposited into the State treasury and are appropriated by the legislature for use by the department.

For the fiscal year ended June 30, 1973, the department received federal reimbursements totaling \$299,381 from these contracts. Of this total, \$176,267 was on account of the army

national guard and \$123,114 was on account of the air national guard. The receipts on account of the army national guard were based on two contracts, a service contract and a training site contract. Under the service contract, the State was reimbursed for 75 percent of the authorized expenditures incurred in the maintenance, repair, and operation of the army national guard facilities. Under the training site contract, the State received 100 percent of the approved costs of operating and maintaining State-controlled, army national guard's annual and weekend training sites. The federal reimbursements on account of the air national guard were based on a service contract which provided for reimbursement of 80 percent of the authorized expenditures incurred in the maintenance of the air national guard's equipment.

b. *Civil defense contracts.* During the fiscal year, the department of defense received an aggregate of \$236,242 in federal support for the following civil defense programs.

Personnel and administration (Public Law 85-606)	\$119,726
Civil defense equipment (Public Law 920)	50,573
Radiological maintenance, calibration, and shelter survey . . .	<u>65,943</u>
	<u>\$236,242</u>

For the first two programs (personnel and administration and civil defense equipment), the federal government, on a matching basis, paid for 50 percent of the authorized expenditures incurred by the State for equipment, supplies,

utilities, communications, and personnel and administration. For the third program (radiological maintenance, calibration, and shelter survey), the federal government provided 100 percent funding under contracts with the State.

4. **Rental of departmental facilities.** The department earned \$8842 during the fiscal year from the rental of departmental facilities such as armories, buildings, open grounds, and housing to various organizations. The practice of the department is to rent to community organizations departmental facilities during those hours when the facilities are not being utilized for departmental purposes. The legal propriety of this practice is discussed in chapter 4 of this report.

Chapter 4

SELECTED PROBLEMS

Introduction

Our examination of the department's financial management practices and internal control systems revealed that generally the department's practices and systems are adequate. There are some problems, however, in the following areas:

- . Personnel pay policies
- . Federal contract reimbursements
- . Use of departmental armories

Personnel Pay Policies

1. **Background.** As previously indicated in chapter 2, the department of defense has both a State and a federal mission. Its State mission is to respond, with trained personnel, to disasters and civil disturbances within the State. Its federal mission is to provide trained military manpower when called to federal active duty in times of national emergency.

To carry out this dual mission, the department has both full-time and part-time personnel. Part-time personnel are those who are members of the Hawaii army national guard or the Hawaii air national guard who devote a part of their time (on weekends and for a limited period during summers) for military drills and training and are subject to call (mobilization) in the event of a State or national emergency. Their regular employment is other than as members of the national guard.

Full-time personnel are those whose regular jobs are with the department of defense. They carry out the day-to-day operations of the department. Full-time personnel consist of both federal and State employees. There are approximately 811 federal and 120 State authorized, full-time positions.

a. **Federal personnel.** Except for one military position, all of the federal positions are civilian (technician) positions. The federal employees assigned to the department are employed by the adjutant general and are under the direct supervision of the department. However, they are paid directly by the federal government, and, except for 45 federal employees who elected to remain with the State retirement system when their positions were converted from a State to a federal status, the federal employees do not participate in any State employee benefit program.¹

But for a handful of clerical positions, each of the federal civilian (technician) positions is required to be filled by a member of the Hawaii army or air national guard of the military rank specified for that position by the federal government. Each position, although classified as a general schedule (GS) or wage board (WB) position, is a noncompetitive U.S. civil service position. The federal employees, as members of the national guard are subject to drills and training and mobilization in an emergency like any other member of the guard.

¹The conversion from State to federal status occurred in January 1969 under the federal National Guard Technician Act of 1968 (Public Law 90-486, 90th Congress). Even before the conversion, however, the technicians were paid from federal funds based on comparable classified and blue-collar federal rates.

b. *State personnel.* The 120 State, full-time positions include 101 civilian and 19 military positions. Seventeen of the 101 civilian positions are in the civil defense division and the remaining 84 are in the various other units of the department. These civilian positions are within the State's civil service system and consist of non-supervisory white collar, supervisory and non-supervisory blue collar, and professional and scientific positions. The 17 civil defense positions are funded under the federal 50-50 matching or 100 percent funding contracts. The 84 non-civil defense positions are fully funded by the State.

The 19 State-funded, full-time military positions are filled by commissioned officers and enlisted personnel of the Hawaii army and air national guards. These 19 positions are exempt from the State's civil service system, and membership in the Hawaii national guard is a requirement for appointment to these positions. Of the 19 positions, two are those of the adjutant general (head of the department) and the deputy adjutant general, seven are filled by those on active military duty status, and ten are occupied by those not on active military duty status. Five of the seven on active duty status occupy positions which make them the superiors of high level federal employees and also of State employees. The ten positions occupied by those not on active military duty status are generally those of first line supervisors who supervise State civilian employees and some lower level federal employees. The 19 military positions are as follows:

<i>Position Title</i>	<i>Rank of Incumbent</i>
Adjutant general	Major general
Deputy adjutant general	Brigadier general
*Chief of staff	Brigadier general
*Military personnel officer	Colonel
*Engineering officer	Colonel
*Military air staff officer	Lieutenant colonel
*Military plans & training officer	Lieutenant colonel
Building & grounds maintenance superintendent	Lieutenant colonel
Public affairs officer	Major
Assistant military personnel officer	Major
*Administrative services officer	Major
Assistant building & grounds maintenance superintendent	Captain
Administrative, supply & maintenance officer	Captain
Fiscal officer	Captain
*Military administrative assistant	Chief warrant officer 4
Public information technician	Chief warrant officer 3
Supply & maintenance officer	Chief warrant officer 2
Purchasing agent	Master sergeant
Clerk-chauffeur	Vacant

*Active duty status.

c. *Summary of findings.* Our observations regarding the State positions are, in summary, as follows:

- . There are problems in the compensation paid to State employees.
- . Some of the State-funded, military positions could be brought within the State's civil service system.

2. **Problems in compensation.** There are three separate pay schedules applicable to the employees of the department of defense:

U.S. civil service schedules. The federal employees are paid on the general and wage board schedules of the U.S. government.

State civil service schedules. The State civilian employees are subject to the State's civil service system and are paid on the schedules prescribed by the State's civil service laws and collective bargaining contracts.

The State military employees not on active duty status are exempt from the State's civil service system, but are paid on a schedule comparable to that for white collar, civil servants.

Federal military schedules. The adjutant general, the deputy adjutant general, and those State military employees on active duty status are entitled to receive the pay and allowances of officers and enlisted men of similar ranks in the United States Army and Air Force.

The adjutant general and the deputy

adjutant general are entitled to receive the pay and allowances of officers of similar ranks in the federal military service simply by virtue of their offices. With respect to the adjutant general, HRS section 121-8 (a section in that chapter dealing with the national guard) provides:

“The adjutant general shall have the grade of a general officer. There shall be paid monthly by the State to the adjutant general, the pay and allowances as fixed by federal law for a member of the armed forces of the United States of like grade and length of service.”

Then, section 26-52, relating to the salaries of the heads of the departments of the State, states in part:

“Effective July 1, 1970 the salary of the adjutant general shall be not less than \$26,250 nor more than \$30,250 a year. If the maximum rate is in conflict with the pay and allowance fixed by the tables of the regular army of the United States, the latter shall prevail.”

There is no specific statute which fixes the pay of the deputy adjutant general to that of an officer of similar rank in the United States armed forces but this is accomplished by implication through section 26-53, relating to the salaries of the first deputies or first assistants to department heads, which establishes his pay at 85 percent of that of the adjutant general.

Those on active duty status are entitled to receive the pay and allowances of officers and enlisted men of similar ranks in the regular United States armed forces, not by virtue of the offices or positions they hold, but because of their active duty status. HRS section 121-39, with respect to officers, and HRS section 121-40, with respect to enlisted men, provide that officers and enlisted men "while on active duty" of the State "shall receive" the same pay and allowances as officers and enlisted men of similar ranks in the United States Army and Air Force.

a. The problems summarized. The compensation problems within the department of defense may be summarized as follows. The rates of the federal civil service pay schedules tend to be higher than the rates of the State's civil service schedules for comparable positions. This results from time to time in the compensation of State military employees occupying positions superior to those high level positions held by the federal employees, when measured in terms of the State's civil service schedules, to be less than that of the federal employees. To provide some consistency in the pay of these State employees and the pay of the federal personnel whom the State employees supervise, these State employees have been put on active duty status which entitles them to be paid on the federal military pay schedules.² The

²The adjutant general and the deputy adjutant general are entitled to be compensated on the federal military pay schedules by virtue of their offices. Thus, they have not been placed on active duty status. However, for the purposes of this report,

federal military pay schedules bear some relationship to the federal civil service schedules, and thus placing these State employees on active duty status makes for some consistency in their pay and the pay of the federal employees. But achieving consistency in the pay of those placed on active duty status and the pay of the federal employees causes disparities in the pay of these State people on active duty status and that of other State employees within the department (and incomparability in their pay and that of other State employees within and without the department occupying relatable or comparable positions). Because such disparities result, these State employees placed on active duty do not always receive the full pay and allowances provided for in the federal military pay schedules to which they are entitled.

The use of active duty status to equalize the pay of certain State employees with the pay of federal employees is of questionable legality, but, if the State employees are indeed legally on active duty, denying them the full pay and allowances of officers and enlisted men of equal rank in the U.S. Army and Air Force is contrary to statute. Further, the desire to achieve both consistency in the pay of State employees and the pay of federal personnel whom the State employees command and consistency in the pay of all State employees within the department causes, whenever the federal pay increases,

unless otherwise indicated, they are treated as military personnel on active duty status, for they are in fact so treated by the State with respect to the pay problem described in the text of this report.

difficulties and long delays in settling upon the compensation to be paid the State employees on active duty, with results which achieve neither end fully.

We explore each of these points in the paragraphs below.

b. Questionable use of active duty status.

The active duty status of the seven State military officers (other than the adjutant general and deputy adjutant general) traces back to 1951, when the governor, at the request of the adjutant general, ordered the then occupants of the positions to active duty. In his letter to the governor requesting such active duty status, the adjutant general gave the following reason for the request.³

“In view of the vast amount of work and responsibility required in the administration, training and supply of sixty-six organized units, totalling 6,300 officers and men, the number of installation under control of this department, the vast amount of Federal property totalling over \$20,000,000 now in hands of troops which must be accounted for and maintained, it is extremely necessary that the key officers on my staff be placed on a pay status commensurate with their rank and service”

³Letter, dated July 12, 1951, from the adjutant general to the governor.

Although the adjutant general's letter indicated workload and responsibility as the reason, it is commonly recognized today that the active duty status was invoked to equalize the pay of the officers filling these State military positions and the pay of certain high level civilian technicians who were being paid on the federal classified schedules and who later became federal employees of whom the State military officers were (in terms of job assignments) the immediate superiors. This command relationship between the State-funded military positions and the high level federally funded civilian positions and the felt need for equity in the compensation paid to those in this relationship have persisted throughout the years and are the reasons why the occupants of the State positions are even today on active duty status, some 23 years after the issuance of the initial order. Indeed, even as recently as June 1973, the department of personnel services and the department of defense acknowledged that “it is the ‘active military duty’ status which provides the mechanism for maintaining a reasonable degree of internal consistency relative to compensation within the department of defense,”⁴ meaning, of course, consistency as between the pay of the federal employees and the seven State positions.

⁴Memorandum, dated June 28, 1973, from the director of personnel services and the adjutant general to the governor, subject: “Study of the Pay Systems Within the Hawaii Department of Defense.”

Although there is merit to the argument that the people in the seven State military positions ought to receive more pay than the federal civilians whom they command, the use of active duty status to accomplish this end is questionable. When the occupants of the State positions were initially placed on active duty status, the authority cited for such action was those sections of the then Revised Laws of Hawaii 1945 similar in language to the current HRS sections 121-29 and 121-39. HRS section 121-39, as noted above, provides for the payment of compensation on the federal military pay scale to those officers on active duty status. HRS section 121-29 provides that:

“Active service is any duty or service done under or in pursuance of an order or call of the President of the United States or an order of the governor. Any officer or body of troops while on active service may be relieved from duty by order of the proper authority.”

This section, if taken literally, would enable all military personnel within the department to be paid on the federal military pay scale, for, technically, they all take orders from the governor, who is the commander-in-chief of the State militia and the chief executive of all State agencies. Such, of course, is not the intent of section 121-29, for if it were, there would be no meaning to the act of “calling” or “ordering” any military personnel to active duty.

Section 121-29 is essentially a section which defines “active duty” or “active service.” It says nothing about *when* a person may be called to active duty. For that, we must turn to section 121-30, which provides as follows:

“In case of war, insurrection, invasion, riot, or imminent danger thereof, or any forcible obstruction to the execution of the laws, or reasonable apprehension thereof, or for assistance to civil authorities in disaster relief or civil defense, the governor may order the national guard or other component of the militia or any part thereof into active service.”

Sections 121-29 and 121-30 when read together seem to suggest that “active duty” or “active service” means any duty or service beyond that normally expected to be performed and duty or service performed in connection with the existence of one of the conditions enumerated in section 121-30. Clearly, section 121-30 does not include inequality in pay as authorizing the call of military personnel to active duty.

Even if the original 1951 order could be legally justified, it is questionable whether the officers currently filling the seven State military positions can be treated as being on active duty. *First*, if our interpretation of “active duty” is correct, then such status continues only for the duration of that period necessary to cope with any of the conditions enumerated in section

121-30, and not permanently, as appears to be the case with respect to the seven positions.

Second, the term, "active duty," normally applies to the person, and not the position. It is the person who is called to active duty, for it is the person who must perform whatever duty is required to be performed. Indeed, the 1951 order was directed to certain named individuals. It read, "the following named *officers* are ordered to active duty," (emphasis added) and it specifically named the officers concerned. None of the officers named in the 1951 order is any longer in the position he occupied then. None of the successors to the positions originally held by the named officers was ever personally ordered to active duty.

Third, although there are currently seven positions on active duty status, the original order in 1951 named only five officers. The five officers occupied the positions of military plans, training, and information officer; military property and supply officer; budget and fiscal officer; military air staff officer; and adjutant and G-1. (The current positions of engineer, administrative services officer, and chief of staff are probably the successor positions of the then military property and supply officer, budget and fiscal officer, and adjutant and G-1, respectively.) The holder of neither the position of military personnel officer nor the position of military administrative assistant was ordered by the 1951 order to active duty. It is possible that both individuals were ordered to active duty by subsequent orders, but copies of such orders could not be found.

c. Balancing needs. The desire to make the pay of the adjutant general, the deputy adjutant general, and the seven officers consistent with the pay received by the federal employees whom they command, without creating undue inconsistencies in the pay of all State employees within the department causes the department of defense, each time the federal government raises the pay of its civil servants or its military personnel, to experience considerable difficulties and long delays before the pay of the adjutant general, the deputy adjutant general, and the State employees on active duty status is finally adjusted; and the adjustments that are finally made invariably fall short of that which the State employees are legally entitled to, assuming the validity of their active duty status. A most recent example of this is the action now pending.

New federal military pay schedules took effect on January 1, 1973. The adjutant general formulated pay adjustments for the seven positions on January 5, 1973, and requested the governor for approval to implement the adjustments.⁵ The adjustments proposed were less than what the officers would have been entitled to if section 121-39 were strictly followed. In his letter requesting approval of the proposed adjustments, the adjutant general noted that not only had the federal military pay rates increased but the pay rates of the federal employees also increased such that the officers in some of the seven positions were receiving

⁵Memorandum, dated January 5, 1973, from the adjutant general to the governor, subject: "Pay Adjustments."

equal or less pay than some of the federal employees whom the officers commanded.

The governor withheld action on the adjutant general's request and, upon the recommendation of the department of budget and finance,⁶ directed the department of personnel services in conjunction with the department of defense to study the matter of pay disparity within the defense department.⁷ On June 28, 1973, the department of personnel services and the department of defense jointly reported to the governor and recommended that the department of defense "continue to compensate certain employees in accordance with the pay and allowances schedules of the active military service," and that the adjutant general establish a specific compensation within the salary range authorized for each position.⁸ They implied, however, that an officer should not necessarily receive the pay and allowances of an officer of equal rank in the U.S. armed forces but that he may be paid the pay and allowances of a lower ranking officer, for they attached to the memorandum a table indicating the maximum military grade of each position upon which the compensation should be based.

⁶Memorandum, dated February 13, 1973, from the director, department of budget and finance, to the governor, subject: "Department of Defense—Pay Adjustments for State Funded Military Personnel."

⁷Memorandum, dated February 16, 1973, from the governor to the director, department of personnel services, subject: "Department of Defense Pay Adjustments for State Funded Military Personnel."

⁸Memorandum, dated June 28, 1973, from the director of personnel services and the adjutant general to the governor, subject: "Study of the Pay Systems Within the Hawaii Department of Defense."

The governor on February 28, 1974 directed the adjutant general to prepare recommendations on adjusting the pay of the army chief of staff, military air staff officer, military personnel officer, military plans and training officer, engineer officer, and administrative services officer.⁹ He directed that the adjustments should be made within the following limitations:

"[T]he recommended increases will include all pay and allowances and will not exceed 5.5% effective February 1, 1973, and will not exceed 5.5% effective July 1, 1973."

The governor cautioned that the recommended adjustments should not "result in any inequitable internal relationships among the seven officers paid by military grade," and stated,

"In this regard, it may not be feasible to grant full 5.5% increases in each case, and this percentage should be construed as the maximum limit rather than a minimum requirement. It may also be well to consider if raises are justified for any recently promoted officers."

The governor explained that he was not including the military administrative assistant

⁹Memorandum, dated February 28, 1974, from the governor to the adjutant general, subject: "Pay Adjustments Within the Department of Defense."

since "the incumbent has already received a pay increase during this fiscal year." As to the deputy adjutant general, the governor noted that his pay should be adjusted to a military pay grade commensurate to 85% of the adjutant general's pay. He further stated that he was deferring consideration of any adjustment to the adjutant general's pay "until such time as pay increases for all cabinet officers can be considered."

In response, the adjutant general submitted his recommendations, generally within the guidelines established by the governor.¹⁰ The recommended adjustments were less than those which the concerned officers would otherwise have been entitled to receive under section 121-39.

More than a year has gone by since the adjutant general's initial request for pay adjustments for these officers on active duty. Yet, no final decision has been reached.

Long periods of indecision are of course demoralizing and unfair to the officers concerned. Further, if the seven State military officers are indeed legally on active duty status, compensating them at rates less than those established by the federal military schedule and at ranks other than those held by the officers concerned is, of course, technically a violation of section 121-39. So also is the denial of

¹⁰Memorandum, dated March 15, 1974, from the adjutant general to the governor, subject: "Pay Adjustments Within the Department of Defense."

federal military pay to the adjutant general and the deputy adjutant general. The statutes clearly provide that the adjutant general, the deputy adjutant general (by implication), and the officers on active duty status "shall receive" the pay and allowances of officers of similar grades in the United States Army or Air Force.

d. An observation. The simultaneous accomplishment of the two ends—(1) consistency in the pay of federal employees and that of State military personnel who are the immediate superiors of the federal employees and (2) consistency in the pay of all State employees, military and non-military, active duty and non-active duty—is extremely difficult, if not impossible. The State has no control over the federal pay schedules.

If the State is indeed committed to pursue the first of the two goals—federal-State consistency—then adjustments in the pay of the affected State military employees should automatically follow whenever the salaries of the federal employees increase, without regard to the inconsistencies that may thereby be created in the pay of these State employees and the pay of all other State employees. This is not to say that consistency in the pay of all State employees is not a legitimate end. It is. However, the approach advocated here simply recognizes that there is a small group of State military employees who, because of circumstances, are unique and therefore for pay purposes ought to be treated differently from other State employees—indeed to be treated as if they were federal employees.

Treating this small group of State military employees as if they were federal employees is not as inappropriate or novel as it may seem. This group of State employees and the federal employees, particularly those with high GS ratings, have much in common. The State employees occupy the top military command positions in the department. Except for the fact that the positions they occupy are the top command positions in the department and thus must necessarily be filled by State personnel to ensure State rather than federal control of the department, their positions might well have been converted to federal civilian positions along with those of others when a large number of State positions were so converted under the enabling federal legislation.¹¹ Conversely, the federal employees, of whom the State military employees are their immediate superiors, occupy positions which but for their conversion to federal status might well have been filled by State military personnel. Indeed, although technically civilians, the federal employees in fact operate as military people. Except for a handful of low level clerical employees, each federal employee is required by federal statute to be a member of the State national guard and of a specified military grade for the position he holds. Moreover, the federal employees, like their State military superiors, work in their military uniforms and are addressed at work by their military rank.

¹¹See footnote 1.

Of course, the number of State employees whose pay is automatically adjusted whenever there is a change in the pay of federal employees should be limited to a handful. Currently, such limitation in number is accomplished through the device of the active duty status. The use of active duty status should be abandoned. Besides its doubtful legality, the use of active duty status requires the application of the federal military pay schedules. If a federal-State consistency in pay is to be truly sought, the affected State employees should be compensated on the same pay schedules as the federal employees.

Since all military positions in the department are exempt from the State civil service system, there is no reason why, for those State military personnel whose pay ought to be made consistent with that of federal employees, there could not be pay schedules different from the pay schedules for all other military personnel, without resort to the fiction of active duty status. It may well be, of course, that a distinction between the two classes of military personnel need not be made at all. In the next section we note that, based on duties and responsibilities, the ten non-active duty and two of the seven active duty military positions may well be filled by civil servants. If the number of military positions can be drastically reduced, all persons occupying military positions may be treated for pay purposes as federal employees.

Recommendations. We recommend that:

1. *The adjutant general, the deputy adjutant general, and all State military personnel who are the immediate superiors of high level federal employees assigned to the department be paid on the same pay schedules as the federal employees.*

2. *The parity in the pay of these selected State military employees with that of federal employees be accomplished without resort to the device of active military duty status and without undue concern for consistency in their pay with that of other State employees.*

3. *HRS, sections 121-8 and 26-52 be amended to provide for the pay of the adjutant general which bears a reasonable relationship to the pay receivable by the federal civil servants.*

3. Excess number of military positions. Currently, a position in the department of defense is designated as a military position if in the judgment of the department the position requires the incumbent to have knowledge of military rules, regulations, policies, and procedures and work relationship with other military personnel and agencies. Such a criterion is irrelevant. There are other positions in the State government which require the incumbents to have knowledge of the rules and regulations and the policies and procedures of the federal government and work relationship with U.S. government personnel and agencies, but they are not set apart as a special class. Indeed, if the criterion currently used were literally applied,

more than the 19 positions would probably qualify as military positions.

It would appear that the more relevant criterion for determining whether a position should be a military position or a civilian position is whether the position directly commands high ranking federal civilian position or positions or whether the position requires the performance of duties and responsibilities which are substantially military in character. If this criterion were applied, the military status of at least 12 of the department's 17 military positions (other than the adjutant general and the deputy adjutant general) would be unjustified. Included in the 12 are all 10 of the non-active duty and two of the seven active duty positions. A brief description of the principal duties of the 12 positions as derived from departmental position descriptions is presented below.

Position Title	Principal Duties
<i>Non-Active Duty Positions</i>	
1. Building and Grounds Superintendent	Under the general supervision of the engineering officer, directs, coordinates, and supervises a program of repair and maintenance of buildings, grounds, and utility systems for Oahu installations of the department.
2. Public Affairs Officer	Develops, organizes, directs, and coordinates the public affairs policies, programs, and practices of the department.

Position Title	Principal Duties
<i>Non-Active Duty Positions</i>	
3. Assistant Military Personnel Officer	Under the direct supervision of the military personnel officer, disseminates and implements personnel directives; supervises personnel office staff and publications clerk; conducts security indoctrination and training of all office personnel; handles all personnel action matters pertaining to officers and warrant officers of the army national guard; assists units in recruiting officer personnel; supervises the preparation of required weekly and monthly personnel reports; coordinates and controls the registration of privately owned vehicles of army national guard personnel for operation on federal military installations; and arranges for physical examinations of officers and warrant officers.
4. Assistant Building and Grounds Maintenance Superintendent	Under the general supervision of the engineering officer, directs, coordinates, and supervises a program of repair and maintenance of buildings and grounds for all island of Hawaii installations of the department.
5. Administrative, Supply and Maintenance Officer	Responsible for the custodianship, inspection, and maintenance of all departmental facilities, real property, and equipment assigned to units on Kauai; functions as direct representative of U.S. property and fiscal officer as port transportation officer and ordering officer; prepares and maintains files on supplies and equipment inventory, personnel folders, and rental contracts; and represents the adjutant general in meeting visiting dignitaries and prepares yearly budget estimate for purchasing, replacing, and maintaining department of defense facilities and equipment on Kauai.

Position Title	Principal Duties
<i>Non-Active Duty Positions</i>	
6. Fiscal Officer	Under the general supervision of the administrative services officer, supervises and performs departmental fiscal and accounting activities; prepares and analyzes financial statements and reports; interprets and develops accounting procedures; and assists in the preparation of the departmental budget.
7. Public Information Technician	Under the general supervision of the public affairs officer, organizes, prepares, contributes, and disseminates informational material on the Hawaii national guard; assists in the planning and direction of community relations projects; and develops and maintains relationships with news media.
8. Supply and Maintenance Officer	Maintains organizational and installation property records and supply and maintenance publications; participates in overall planning of operations involving the repair, maintenance, and storage of equipment; conducts periodic inspections and inventories of equipment and supplies assigned to units; and conducts occupational specialty training of supply and maintenance personnel.
9. Purchasing Agent	Under the general supervision of the fiscal officer, plans, schedules, and directs the purchasing function of the department; maintains departmental operational and administrative cost ledger records and encumbrances ledgers; and maintains State equipment and property records and conducts periodic inventory inspections.
10. Clerk – Chauffeur	Assists the publications supply specialist in the requisitioning, receipt, storage, issue, and control of all publications and blank forms; transports the adjutant general on official business and functions; and maintains the vehicles assigned to the adjutant general.

Position Title	Principal Duties
<i>Active Duty Positions</i>	
11. Administrative Services Officer	Provides for the planning, coordination, execution, management, and supervision of fiscal, budget, and civilian personnel functions and activities of the department.
12. Military Administrative Assistant	Participates in a coordinate capacity in technical and administrative functions on protocol matters as prescribed and assigned by the governor or his representative.

The duties of none of the above 12 positions are essentially military in character. Rather, they appear to relate very closely to those of classified positions in other State agencies. Further, none of the positions commands or directly supervises high ranking federal civilian employees.

The reclassification of these military positions from an exempt to a classified status would have several advantages.

First, as pointed out in the previous section, the distinction between active duty and non-active duty positions can be readily abandoned, and all military positions be put on parity with the federal civilian positions for pay purposes, without resort to the device of active duty status.

Second, as State classified positions, they would be open to all qualified applicants, providing the department with a wider choice of applicants in filling vacancies.

Third, a classified civil service status would provide that job security to the incumbent that does not now exist. Each military position requires the incumbent to be a member of the national guard, which means that if his national guard membership is terminated for any reason, the incumbent must leave his job. And membership in the national guard can be terminated for many reasons, unrelated to job performance or beyond the control of the personnel involved. For example, an incumbent can lose his active military membership status for medical causes which do not in any way inhibit him from carrying out the duties of his position, although they may make him unfit for combat duty. Also a person can lose his national guard membership by failing to be promoted to the next higher grade within the maximum time allowed to remain in his current grade, simply because of the lack of openings in the next higher grade. The national guard has a limit on the number of authorized positions for each grade.

Fourth, a classified civil service status would enable an incumbent to remain on the job longer than the time permitted if the position were a military one. The federal regulations governing national guard membership require a mandatory retirement from active membership status at age 60 unless granted an exemption from this provision by the chief of the federal national guard bureau. The State's mandatory retirement age as established by statute is 70. Thus, an incumbent may face mandatory retirement from his departmental position at least ten years prior to the State's mandatory retirement age.

There are exceptions to the general rule that loss of an incumbent's active national guard membership status results in the automatic termination of his employment. Because of the dual, federal and State, missions of the Hawaii national guard, the adjutant general, at his discretion, may retain an incumbent who loses his federal active membership status on the premise that such an incumbent is authorized to continue to serve the State mission of the Hawaii national guard. Two examples of such action taken by the adjutant general are the present incumbents filling the positions of building and grounds maintenance superintendent and assistant building and grounds maintenance superintendent. Although these two incumbents do not attend drills and are not subject to any federal mission call-up, the special authorization of the adjutant general permits their continued membership in the Hawaii national guard for State mission purposes and thus, the retention of their State positions. However, since this kind of exemption is issued at the pleasure of the adjutant general, the national guard membership requirement still results in providing additional causes for involuntary termination of employment which are not applicable to other State employees.

Recommendation. We recommend that the department of defense limit its military positions only to those positions which directly command or supervise high level federal civil servants or whose duties and responsibilities are essentially military in character.

Claims for Federal Contract Reimbursements

The costs of the civil defense programs are reimbursable by the federal government under various contracts between the State and the federal government. The department currently processes cost reimbursement claims under Public Law 920 and Public Law 85-606 contracts on a quarterly basis, although it processes claims under other civil defense contracts (e.g., the shelter survey and advisory service contract and the radiological maintenance and calibration contracts) on a monthly basis. The difference in the treatment of the claims has been attributed by the department to heavy workload of the civil defense accountant. The department has stated that it is difficult for the accountant to prepare the reimbursement claims for all civil defense contracts on a monthly basis and as such, the claims under Public Law 920 and Public Law 85-606 contracts are prepared on a quarterly basis.

We think that efforts should be expended to process the claims under Public Law 920 and Public Law 85-606 contracts on a monthly basis in the same manner as all other claims for reimbursement of costs of the civil defense programs. The practice of filing reimbursement claims on a quarterly basis results in the receipt of federal monies many months after the State has paid for the costs. Reimbursements of the costs paid by the State at the beginning of a quarter are particularly long delayed since the claims for such reimbursements are not initiated until the end of the quarter. Reimbursements

have been delayed for as long as ten and one-half months. Table 4.1 contains illustrations of the long delays in receiving federal reimbursements because of the practice of filing claims on a quarterly rather than on a monthly basis.

The consequence of these delays in receiving reimbursements is that the State is prevented from utilizing or otherwise benefiting from these federal funds for undue periods of time.

***Recommendation.** We recommend that the department of defense transmit reimbursement claims to the federal agencies for the costs of the civil defense programs under Public Law 920 and Public Law 85–606 contracts on a monthly basis.*

Rental of Departmental Armories

Presently, the Hawaii national guard maintains approximately 24 armories throughout the State. Of the 24 armories, 19 armories are located on State property while the remaining 5 are situated on lands licensed to the State by the federal government. These armories are utilized by the various national guard units for drill assemblies on selected weekends and as storage areas for their equipment. In general, all of these armories contain classrooms, offices, assembly rooms, and storage areas, and four armories, in addition, have gymnasium facilities.

As mentioned before in this report, the department of defense permits various

organizations and groups to rent these armories for such functions as dances, parties, and athletic events. The department restricts the rental of these armories to community organizations and groups. It does not permit the renting of these armories to individuals for their own personnel purposes, such as weddings and baby luaus. Some of the organizations and groups who have been permitted to rent the armories in the past are shown in table 4.2.

The department's practice of renting the armories situated on State lands to community organizations and groups is in apparent violation of section 171–11, Hawaii Revised Statutes. Section 171–11 states in part:

“The governor may, with the prior approval of the board of land and natural resources, set aside public lands to any department or agency of the State, the city and county, county or other political subdivisions of the State for public use or purpose Such department, agency of the State, the city and county, county or other political subdivisions of the State in managing such lands shall be authorized to exercise all of the powers vested in the board in regard to the issuance of leases, easements, licenses, revocable permits, concessions, or rights of entry covering such lands for such use *as may be consistent with the purposes for which the lands were set aside....*” (Emphasis added.)

Table 4.1
Examples of Untimely Transmittals of Reimbursement Claims
For the Year Ended June 30, 1973

Vendor	Amount	(1) Date of Warrant	(2) Date of Reimbursement Billing	(3) Date Federal Reimbursement Received	(4) No. of Months Elapsed [(3) - (1)]
Hawaiian Telephone Company	\$800.00	2-18-73	7-05-73	9-05-73	6½
Heide & Cook, Ltd.	342.65	11-17-72	3-22-73	5-05-73	5½
Hawaiian Electric Co., Inc.	206.02	2-28-73	7-05-73	9-06-73	6
Elite Service Agency	134.53	10-10-72	5-08-73	6-29-73	9
Honolulu Electronics	128.38	8-14-72	5-08-73	6-29-73	10½

Table 4.2
Examples of Armory Rentals
During the 1972-73 Fiscal Year

Organization	Armory*	Date	Purpose
Maui Square Dancing	Wailuku	2/09/72	Dance
Maui Filipino Community Council	Kahului	12/27/72	Dance
Paauilo Catholic Church	Honokaa	4/29/73	Dance
Konawaena High School Senior Class	Kealakekua	5/26/73	Dance
Maui Portuguese Club	Kahului	9/16/72	Dance
Maui Jaycees	Wailuku	12/16/72	Christmas Party
Committee for McGovern	Keaukaha	10/22/72	Party for Workers
Anderson for Mayor Committee	Ruger	10/29/72	Party for Workers
Boy Scouts of America	Kapaa	4/28/73	Show
Ewa Hawaiian Civic Club	Wahiawa	5/12/73	Scholarship Benefit Luau
Co. B, 1st Battalion, 27th Infantry	Wahiawa	6/14/73	Unit Party
Honolulu Federal Savings and Loan Association	Ruger	Various	Basketball Games
Don's Basketball Team	Ruger	Various	Basketball Practice
Outrigger Canoe Club	Ruger	Various	Volleyball Practice
Hanapepe Pop Warner Football Team	Hanapepe	Various	Billeting
Boy Scouts - Troop 19	Kahului	5/28/73	Billeting

*All these armories are situated on State lands.

The State lands on which the 19 national guard armories are situated were set aside by executive orders only for purposes related to the major missions of the department of defense. The use to which the premises are put by the community organizations is unrelated to and thus not consistent with these purposes.

In January 1971, the department of defense sought to extend the rental of the armories to private individuals for private functions such as wedding receptions and baby luaus and asked the attorney general for an opinion as to the legality of such actions. In response, the attorney general in opinion no. 71-1, January 13, 1971, ruled that the armories situated on State lands could not be rented out and used for such private purposes since such use is inconsistent with the purposes for which the lands were set aside. In the opinion, the attorney general cited section 171-11 as his legal reference.

The State attorney general distinguished between those armories on State lands and those on federal lands under license to the State. He noted that the armories on federal lands are governed by HRS section 121-19, which states in part:

“The adjutant general may make regulations to establish procedures governing the care and custody of armories, rifle ranges, reservations, and installations on license from the federal government. He may permit

the use of or may temporarily rent such portions of armories, rifle ranges, reservations, and installations on license from the federal government as will not interfere with the military use thereof.”

In other words, armories on federal lands may be rented out for any use under section 121-19, so long as that use “will not interfere with the military use,” but armories on State lands may not be rented out for use “inconsistent with the purposes for which the lands were set aside.”

In its request for an opinion, the department of defense made reference to HRS section 298-23, relating to the use of school facilities. The attorney general in his opinion noted that section 298-23 specifically authorizes the department of education to permit the use of school facilities for other than the uses for which the lands were originally set aside, but that such similar authorization is not contained in section 171-11.

The department of defense did not agree with the attorney general's conclusion that section 121-19 applies only to national guard armories on license from the federal government and that section 171-11 applies to armories located on lands set aside by the governor's executive order. In a letter to the attorney general dated January 19, 1971, the then adjutant general requested a second opinion based on the historical intent of section 121-19. In this letter, the adjutant general stated:

“It appears that section 121–19, HRS, emanates from section 13050, Revised Laws of Hawaii 1945, as amended by Act 123 of Session Laws 1947 and Act 37 of Session Laws 1951. Although the construction of the amendments appears faulty, the amendments were intended to apply to the use or rental of armories, rifle ranges, and reservations located on territorial lands as well as those installations on license from the federal government. If you agree with the foregoing, then section 121–19 of the Hawaii Revised Statutes would apply to armories, rifle ranges, and reservations located on State lands.”

The department of defense has not yet received a response from the attorney general on its request for a reconsideration of opinion no. 71–1. On its face, however, section 171–11 is clear, and so is section 121–19. Under section 171–11, armories on State lands cannot be rented out and used for purposes other than those specified in the executive order, and section 121–19, which permits the renting of the armories for any purpose so long as it does not interfere with military uses, is applicable only to federal lands under license to the State.

Although the attorney general’s opinion was in direct response to the request of the department of defense for an opinion regarding the rental and use of the armories on State lands

for private functions such as wedding receptions and baby luaus, the rationale of the attorney general is equally applicable to the rental and use of the armories for the functions of community organizations. As section 171–11 is currently worded, all rentals and uses of the armories inconsistent with the purposes for which the lands were set aside are prohibited.

There is much to be said for maximizing the use of State facilities. We see no reason why the armories on State lands, as well as those on federal lands, could not be rented out for any use, so long as that use does not interfere with defense purposes. However, it appears that to enable the department of defense to do so, section 171–11 must be amended.

Recommendations. We recommend that:

1. *HRS section 171–11, be amended to permit the department of defense to rent its armories and facilities situated on State lands set aside by executive orders for defense purposes for uses which do not interfere with the defense purposes. The department of defense should prepare such legislation for introduction in the legislature.*

2. *Pending an amendment to section 171–11, the department discontinue its practice of renting its armories and facilities situated on State lands for uses inconsistent with the purposes for which the lands were set aside.*

PART III CIVIL AIR PATROL, HAWAII WING

Chapter 5

INTRODUCTION

The civil air patrol (CAP) was organized nationally as a corporation on July 1, 1946. It serves as a volunteer civilian auxiliary to the United States air force and, as such, its services may be used in fulfilling the noncombat missions of the department of air force.

Objectives and Purposes

The objectives and purposes of the CAP are as follows:¹

“To provide an organization to encourage and aid American citizens in the contribution of their efforts, services and resources in the development of aviation and in the maintenance of aerospace supremacy.

¹*Constitution of the Civil Air Patrol*, 1962, article VI, p. 3.

“To encourage and develop by example the voluntary contribution of private citizens to the public welfare.

“To provide aviation and aerospace education and training, especially to its senior and cadet members.

“To encourage and foster civil aviation in local communities.

“To provide an organization of private citizens with adequate facilities to assist in meeting local and national emergencies.”

Membership

Membership in the CAP is open to any citizen of the United States who meets the organization's prescribed qualifications. There are two membership categories: “cadets” who are members 13 through 17 years of age, and “seniors” who are members 18 years of age and older.

Organization Structure

The CAP is organized into the following organizational hierarchy:

1. **National CAP headquarters.** The national headquarters membership unit serves as the governing body of the CAP and is headed by a national board, a national executive committee, and a national commander. All rules, regulations, and directives governing the conduct of CAP affairs originate at this level.

2. **Regions.** The United States is divided geographically into regions, with each region governing all CAP wings existing within its established regional boundaries. Each region is headed by a regional commander appointed by the chairman of the national board.

3. **Wings.** Each of the regions is subdivided into areas known as wings. There is a wing headquarters in each state, the District of Columbia, and Puerto Rico. Each wing is headed by a wing commander who is elected by the national executive committee.

4. **Groups, squadrons, and flights.** If the geographic area of a wing and the number of members in the wing warrant, the wing may be subdivided into groups and groups into squadrons. Where the membership is insufficient to constitute a squadron, members are grouped into flights.

The Hawaii Wing

1. **Organization.** The Hawaii wing of the CAP is comprised of a wing headquarters unit and 19 squadrons. The geographic locations of the 19 squadrons are as follows:

<u>Island Location</u>	<u>Number of Squadrons</u>
Oahu	12
Hawaii	3
Maui	1
Kauai	<u>3</u>
Total	<u>19</u>

Currently, the Hawaii wing has 405 cadet members and 448 senior members for a total membership of 853.

2. **Financial support.** The Hawaii wing receives most of its financial support from the State through an annual grant of \$56,000. This annual sum is appropriated, under the provisions of HRS section 261-6, from the airport revenue fund.² Its other sources of finances include membership dues, sale of materials and supplies, flight activities, and private donations.

The amount of the annual State grant increased from \$30,000 to the current \$56,000 in 1970. Since this increase, the amounts from the other sources have decreased substantially.

²See footnote 1, chapter 1.

As reflected in table 5.1, during the three fiscal years (1967-68 through 1969-70) in which the State funding support was \$30,000 per year, the Hawaii wing generated from other sources on the average about \$22,260 per year. However, in the ensuing three fiscal years (1970-71 through 1972-73) in which the amount of State support was \$56,000 per year, the wing generated revenues from these other sources on the average about \$13,077 per year, or about \$9,000 less per year than during the previous three years. Viewed in another way, support from sources other than the State

Table 5.1
Hawaii Wing - Civil Air Patrol
Summary of Receipts for Six Fiscal Years

Fiscal year	Total	Wing funds		State funds	
		Amt	% of tot	Amt	% of tot
1967-68	\$52,496	\$22,496	43%	\$30,000	57%
1968-69	46,661	16,661	36	30,000	64
1969-70	57,625	27,625	48	30,000	52
1970-71	69,853	13,853	20	56,000	80
1971-72	72,564	17,418	24	55,146	76
1972-73	63,934	7,962	12	55,972	88

Table 5.2
Hawaii Wing - Civil Air Patrol
Detail of Receipts from Non-State Sources
For the Past Six Fiscal Years July 1, 1967 Through June 30, 1973

Type of receipt	Fiscal Year					
	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73
Membership dues	\$ 1,376	\$ 1,213	\$ 1,014	\$ 875	\$ 1,097	\$1,034
Private donations	2,031	4,204	6,460	6,635	4,014	127
Sales of materials and supplies	-	336	490	849	1,489	1,714
Income from flight instruction	-	4,118	4,202	4,174	7,635	1,821
Other*	19,089	6,790	15,459	1,320	3,183	3,266
Totals	\$22,496	\$16,661	\$27,625	\$13,853	\$17,418	\$7,962

*A breakdown of the amounts for each item included in "Other" was not available in the records. However, we were able to determine that the following types of receipts are included:

- Encampment receipts
- Sale of scrap, vehicles, and aircraft
- Reimbursements for USAF authorized missions
- Insurance proceeds (settlement of accident claims)
- Sale of CAP uniform items
- Senior and cadet activities
- Other miscellaneous income (coffee fund, gas sales, etc.)

constituted 43 percent of the wing's total resources in 1967-68, but only 12 percent in 1972-73.

Table 5.2 presents the wing's receipts during the six-year period by specific sources of non-state funding. As reflected in the table, private donations, receipts from flight instruction, and miscellaneous other income decreased significantly since 1970.

Chapter 6

FINANCIAL MANAGEMENT PRACTICES

Act 68, SLH 1971, the general appropriations act which appropriated monies for fiscal years 1971-72 and 1972-73, provided in a proviso that, "of the sum of \$56,000 authorized each fiscal year as a grant to the civil air patrol, not less than \$2,000 each fiscal year shall be allocated to each of the neighbor island Civil Air Patrol units." The intent of this proviso was to insure that the neighbor island units received an equitable share of the State monies provided the Hawaii wing.

Our examination on the allocation of State funds to the various civil air patrol units disclosed that:

It is impossible to determine the actual amounts made available to each

CAP unit because of deficiencies in the wing's system of accounting.

But based on the wing's estimate of the amount of funding support provided the neighbor island units, it appears that most of the neighbor island CAP units did not receive an equitable share of the State funds.

1. Inadequate system of accounting.

Currently, funding support to all squadron units is provided as follows. All State funds and funds raised by or contributed to the wing as a whole (as contrasted from funds raised by or contributed directly to a particular squadron) are controlled by the wing's headquarters. For any squadron to secure the use of these funds, it must submit a request to headquarters for authorization to incur expenses for a specific purpose, such as for repair and maintenance of aircraft or equipment or for the purchase of new equipment. If approved by the wing, the requesting squadron may then incur the expenses which are paid for directly by the wing. Thus, there is no outright allocation of funds to each squadron to be used exclusively by the squadron for its own purposes as it sees fit.

This system of fund allocation requires that adequate expenditure records by individual squadrons be maintained by the wing to serve as a basis for determining whether all squadrons received an equitable share of funding support. However, all expenditures from the funds controlled by the wing headquarters are

reflected on the wing's accounting records as expenditures of the wing. No identification of the squadron upon whose request any of the expenditures was made is recorded. Thus, the Hawaii wing is not able, as a matter of course, to ascertain the funding support provided each squadron and, more importantly, whether each neighbor island squadron received the minimum \$2,000 of State funding in any of the two fiscal years covered by the mandate of Act 68.

2. **Apparent inequity in allocation of funds to neighbor island units.** Due to the lack of adequate accounting records to enable us to ascertain whether the wing was in compliance with the proviso of Act 68, we requested the wing to provide us with as accurate an estimate as possible of the funding support provided each neighbor island unit during the fiscal year ended June 30, 1973. A summary of the wing's estimates is presented in table 6.1. These estimates were based principally on judgment. No documentation could be found to support these estimates.

The wing's estimates included two kinds of funding support purportedly rendered to the neighbor island units: out-of-pocket cash amounts and the value of labor and services. The out-of-pocket cash amounts were the amounts of money actually expended by the wing headquarters on account of the expenditures incurred (with the approval of headquarters) by the various neighbor island units. The value of labor and services was the estimated value of the labor and services (primarily for repairing and maintaining aircraft and equipment) provided

by the members of the wing headquarters unit on a voluntary basis to the various neighbor island units.

It is clear from the estimates that each neighbor island unit did not receive a minimum of \$2000 *in cash* during the fiscal year 1972-73. However, if the value of voluntary services rendered by the members of the wing headquarters unit to the various neighbor island units are considered, as the wing has done in its estimates, then each neighbor island unit received funding support in excess of \$2000. The wing justified the inclusion of the value of voluntary labor and services in calculating the amount of funding support received by each neighbor island unit on the basis that, but for the voluntary services, the neighbor island units would have had to expend cash to get their aircraft and equipment repaired and maintained. Our observations are as follows:

a. We do not believe that the legislature intended that the \$2000 to be allotted to each neighbor island unit was to be calculated in this manner. *First*, Act 68, SLH 1971, was quite explicit that the \$2,000 to each neighbor island unit was to be allotted out of the \$56,000 cash authorized to the wing as a whole.

Second, the civil air patrol is a voluntary, civic organization. Among its purposes are to encourage the voluntary contribution of its members and to provide aviation and aerospace education and training. The members' contributing their time and effort in repairing and maintaining aircraft and equipment is in

Table 6.1
Civil Air Patrol – Hawaii Wing
Wing's Estimate of Funding Support Provided Neighbor Island Units
For the Year Ended June 30, 1973

	Total	Hawaii			Maui	Kauai		
		Keahole	Waimea Kohala	Lyman Field		Kalawai	Kauai SAR	Port Allen
Parts and maintenance services								
Out-of-pocket costs ^a	\$13,930	\$ -	\$ 851	\$ 8,284	\$ 520	\$ -	\$4,275	\$ -
Volunteer services ^b	3,600	-	-	1,600	2,000	-	-	-
Communications equipment maintenance services ^c	14,784	2,112	2,112	2,112	2,112	2,112	2,112	2,112
	<u>32,314</u>	<u>\$2,112</u>	<u>\$2,963</u>	<u>\$11,996</u>	<u>\$4,632</u>	<u>\$2,112</u>	<u>\$6,387</u>	<u>\$2,112</u>
Volunteer services—unallocated ^d	50,000							
	<u>\$82,314</u>							

^aCash actually paid. Primarily for maintenance of the individual unit's vehicles and aircraft.

^bNo actual outlay of cash. Estimated value of voluntary aircraft maintenance labor and services performed for neighbor island units by CAP personnel attached to the wing headquarters units.

^cNo actual outlay of cash. Estimated value of voluntary communications equipment maintenance labor and services performed for neighbor island units by CAP personnel attached to the wing headquarters unit. The wing simply estimated that the equipment of each unit required the same amount of services.

^dNo actual outlay of cash. Same as c, but the wing could not provide a breakout by individual units. Value estimated on the basis of \$10 per manhour.

keeping with these purposes. The cash support provided by the State cannot be construed to be intended to pay for services which the members

voluntarily provide and, indeed, are expected to provide. That the members of the headquarters unit supplied a large amount of such voluntary

services to the various units is not surprising. The headquarters unit exists for the purpose of supporting all elements of the wing, and the personnel with the necessary expertise to perform these highly technical services are lodged mostly in the headquarters unit.

b. Even if the value of the labor and services provided by the personnel attached to the headquarters unit were properly includable, the allocation to the various neighbor island units was still unfair. Some of the labor and services performed by the headquarters personnel were those which costs, if any, were expected to be borne by the headquarters unit and not by the subordinate units. For instance, included in the \$2112 charged to each unit for the maintenance of communication equipment were the headquarters' administrative costs in preparing technical bulletins and the wing's newsletters and maintaining the wing's records. Preparing technical manuals of use to all units, issuing newsletters to keep the various units abreast of events in the civil air patrol, and maintaining the wing's records are the functions of the headquarters. These functions do not appear to be any different from the responsibility of having the headquarters' books audited annually, the actual, out-of-pocket cost of which the wing did not allocate to the various subordinate units in its estimates. Indeed, one wonders whether the maintenance of the entire communications network is not also the responsibility of the headquarters unit. If this is so, then the entire \$2112 charged to each unit was the cost of the headquarters unit, and not of the subordinate units.

Recommendations. Unlike Act 68, SLH 1971, Act 218, SLH 1973, appropriating monies for the biennium 1973-75, does not contain a proviso that a minimum of \$2,000 out of the \$56,000 State appropriation for civil air patrol be allocated to each neighbor island unit. However, the proviso in Act 68, SLH 1971, was worded in such a way that it appears to suggest that the requirement of allocating a minimum of \$2000 to each neighbor island unit was intended to guide the civil air patrol in future years as well as the 1971-73 years covered by the act. It is in that spirit that the following recommendations are made.

We recommend that the Hawaii wing:

1. *Begin maintaining accounting records of wing expenditures by individual CAP units. Each unit's account should show the actual amount of wing and State funds expended by the wing in support of the unit. In this way, the actual funding support provided by the wing to each individual unit can be easily ascertained.*

2. *Provide a minimum support of \$2000 of State funds in cash to each neighbor island unit.*¹

¹In 1974, in H.B. No. 2374-74, H.D. 1, S.D. 1, C.D. 1, amending the 1973 general appropriations act for the 1973-75 biennium, the legislature appropriated an additional \$19,000 per year to the CAP and provided that "not less than \$3000, *in cash*, shall be allocated to each of the neighbor island Civil Air Patrol Units." [Emphasis added.]

PART IV RESPONSES OF AFFECTED AGENCIES

In accordance with our usual practice, on May 7, 1974, we transmitted copies of the preliminary draft of this report to the department of defense and the Hawaii wing of the civil air patrol. We asked the agencies to comment on the audit recommendations and to indicate what specific actions they have taken or intend to take with respect to the recommendations. A copy of the transmittal letters sent to the agencies is attached as attachment no. 1. The adjutant general's response is attached as attachment no. 2. The Hawaii wing commander's comments are contained in attachment no. 3.

The Hawaii wing of the civil air patrol (CAP) concurs with all of our recommendations. The department of defense also agrees with our recommendations, except as follows.

1. **Compensation of top-level State military employees.** We recommended that the problem of disparity in the pay of State military personnel and the pay of top level federal civil servants assigned to the department, whom these State employees directly command or supervise, be resolved by compensating these State employees on the federal civil service pay schedules applicable to the federal civil servants. The adjutant general agrees that an alternate pay schedule other than that of the State must be utilized for these State employees if the desired federal-State consistency in pay is to be achieved. However, he prefers the use of the federal military pay schedules instead of the federal civil service schedules due to the department's military mission and requirements. The federal military schedules do bear some relationship to the federal civil service schedules and, thus, the use of the military schedules makes for some federal-State consistency in pay. However, for a true and complete consistency, the federal civil service schedules used to pay the federal civil servants in the department would be more appropriate. We might note here that the federal military pay schedules are geared to military rank, and not to the job requirements of positions. Thus the use of the military schedules may result in inequities rather than equity if job responsibilities are considered.

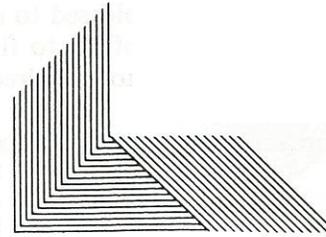
2. **Rental of departmental armories.** We reported that under current statute, the department is prohibited from renting its facilities located on State lands for purposes other than those related to the missions of the department and that, thus, its practice of renting the facilities to community groups is illegal. However, we stated that there is much to be

said for maximizing the use of State facilities and saw no reason why the defense department's facilities could not be rented out for any use, so long as such use does not interfere with departmental programs. We recommended that the department prepare necessary legislation to amend the statute so as to allow such use of the facilities.

The adjutant general, while agreeing that legislation may be necessary, does not believe that amendment to the current statute is the preferable course of action. Instead, he prefers "to continue to pursue resolution of this problem with the attorney general and the department of land and natural resources." Apparently, he is of the belief that the existing statute does not preclude the department from renting out its facilities for any purpose. This is contrary not only to the attorney general's opinion rendered in 1971, but also to the clear wording of the statute. In any event, we find it curious that the department should prefer to resolve the problem through negotiation when all doubts as to the authority of the department to rent out its facilities can easily be resolved through an amendment of the statute.

We further recommended that until the current statute is amended, the department should discontinue its practice of renting its departmental facilities. The adjutant general disagrees and justifies the practice on the grounds that the department "do[es] not consider such use as being inconsistent or interfering [sic] with the purposes for which the lands were set aside" and that the department is confident "the problem will be resolved in [its] favor." No State agency is free to disregard the law simply because it does not agree with the law's merits.

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



CLINTON T. TANIMURA
AUDITOR
YUKIO NAITO
DEPUTY AUDITOR

May 7, 1974

C
O
P
Y

Major General Valentine A. Siefermann
Adjutant General
Department of Defense
State of Hawaii
Honolulu, Hawaii

Dear General Siefermann:

Enclosed are four copies of our preliminary report of the *Financial Audit of the State Department of Defense and the State Grant for Civil Air Patrol*. The term "preliminary" indicates that the report has not been released for general distribution. However, copies of this report have been forwarded to the acting governor, the presiding officers of both houses of the legislature, and other agencies affected by the audit.

Part II of the report, which relates to the department of defense, contains a number of recommendations. I would appreciate receiving your written comments on them, including information as to the specific actions that have been taken or will be taken with respect to the recommendations. Please have your written comments submitted to us by May 17, 1974. Your comments will be incorporated into the report and the report will be finalized and released shortly thereafter.

If you wish to discuss the report with us, we will be pleased to meet with you, at our office, on or before May 15, 1974. Please call our office 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 by your department's staff to our auditors.

Sincerely,

A handwritten signature in cursive script, appearing to read "Clinton T. Tanimura".

Clinton T. Tanimura
Legislative Auditor

Encl.

Note: A similar letter was sent to the wing commander, Hawaii wing, civil air patrol.



RECEIVED

MAY 17 1974

OFFICE OF THE AUDITOR
STATE OF HAWAII

STATE OF HAWAII
DEPARTMENT OF DEFENSE
OFFICE OF THE ADJUTANT GENERAL
FORT RUGER, HONOLULU, HAWAII 96816

HIDAG

May 17, 1974

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

Dear Mr. Tanimura:

Thank you for your letter of May 7, 1974 and for the opportunity to review and comment on your preliminary report of the "Financial Audit of the State Department of Defense and the State Grant for Civil Air Patrol." Our comments are keyed to the sequence of the recommendations made in Part II of the report.

PERSONNEL PAY POLICIES

1. RECOMMENDATION: The adjutant general, the deputy adjutant general, and all State military personnel who are the immediate superiors of high level federal employees assigned to the department be paid on the same pay schedules as the federal employees.

COMMENTS: The audit findings in arriving at this recommendation are not inconsistent with my own considerations of an equitable and just compensation for the principal members of my staff. The report recognizes that the State compensation schedule cannot achieve the desired consistency between State employees and Federal technicians and that an alternate pay schedule must be utilized. Appropriate alternatives may include an entirely independent pay system separate from the State and Federal pay plans, adoption of the Federal pay schedule as proposed by the audit, or the military pay schedule. I believe that any one of these proposals would perhaps solve the problem; however, I believe the military pay schedule to be the most appropriate solution under the circumstances. I believe this because the Department of Defense is essentially a military organization which must be responsible to military missions and requirements. The key staff members must be military members of the Department and have been designated as such because I need the flexibility which the State active duty status affords to call upon them to perform their duties on a 24-hour day and 7-day week basis if we are to meet the State and Federal emergency missions of the Department. The adoption of the military pay schedule for the Adjutant General and his key staff members is a common practice of many states. I strongly feel that continuance under the military pay schedule is more than adequately justified as substantiated by the joint memorandum of June 28, 1973 from the Director of Personnel Services and the Adjutant General to the Governor, subject "Study of the Pay Systems Within the Hawaii Department of Defense."

2. RECOMMENDATION: The parity in the pay of these selected State military employees with that of federal employees be accomplished without resort to the device of active military duty status and without undue concern for consistency in their pay with that of other State employees.

COMMENTS: As stated in the comments to the foregoing audit recommendation, there is more than one device to achieve parity in the pay of certain employees of the Department. The device of active military duty status does certainly achieve similar results as the device of using the pay schedules for Federal employees. For the reasons stated earlier, I feel that the military pay system is best suited to the purposes of the Department with due concern for parity and consistency in pay with that of all other employees in the Department, both State and Federal employees.

3. RECOMMENDATION: HRS, Sections 121–8 and 26–52, be amended to provide for the pay of the adjutant general which bears a reasonable relationship to the pay receivable by the federal civil servants.

COMMENTS: My comments on the foregoing recommendations are also applicable to this recommendation. Further, I believe it is paramount, for obvious reasons, that the salary of the Adjutant General bears a reasonable relationship to other State officials and military counterparts and not so much to the Federal civil servants. This will accomplish about the same end results as suggested in the report. For these reasons, we see no requirement to amend Sections 121–8 and 26–52 HRS.

4. RECOMMENDATION: We recommend that the Department of Defense limit its military positions only to those positions which directly command or supervise high level Federal civil servants or whose duties and responsibilities are essentially military in character.

COMMENTS: We are in agreement with the audit findings that the number of exempt positions can be reduced from its present level. While we do not agree with all of the 12 positions cited in the audit report, we do agree that a lesser number of positions could be placed under the merit system without seriously affecting the mission and objectives of the Department. A study will be made to determine which positions should be retained as exempt positions because of the requirement for military membership.

CLAIMS FOR FEDERAL CONTRACT REIMBURSEMENTS

RECOMMENDATION: We recommend that the Department of Defense transmit reimbursement claims to the Federal agencies for the costs of the civil defense programs under Public Law 920 and Public Law 85–606 contracts on a monthly basis.

COMMENTS: We are in agreement with your recommendation except as applied to certain project applications under Public Law 920 wherein the monthly reimbursements would be so small or insignificant to justify the increased administrative costs and workload which would be generated if the project

application and reimbursement claims were processed on a monthly basis. Exception should also be provided for claims processed under Public Law 920 and Public Law 85-606 for the County civil defense agencies. The Federal Defense Civil Preparedness Agency regulations allow reimbursement claims to be processed no less than once quarterly. The manner in which claims are to be processed by the counties should be left to their discretion because the State is not familiar with their internal procedures or the capabilities of the counties to absorb the additional workload and costs associated with the monthly processing of reimbursement claims. Effective July 1, 1974, action will be taken and procedures established to transmit reimbursement claims on a monthly basis with the exceptions noted above. Project applications for significant recurring cost items under Public Law 920 applicable to State civil defense will be revised to provide for monthly reimbursement of authorized costs.

RENTAL OF DEPARTMENTAL ARMORIES

1. RECOMMENDATION: We recommend that HRS, Section 171-11, be amended to permit the Department of Defense to rent its armories and facilities situated on State lands set aside by executive orders for defense purposes for uses which do not interfere with the defense purposes. The Department of Defense should prepare such legislation for introduction in the legislature.

COMMENTS: We tend to agree with the audit report that legislation may be necessary to resolve the problem on the use and rental of armories or other facilities by community organizations and groups or by other governmental agencies. However, we would prefer to continue to pursue resolution of this problem with the Attorney General and the Department of Land and Natural Resources. If the latter course of action is unsuccessful, we will then submit legislation to amend Section 121-19 HRS rather than Section 171-11.

2. RECOMMENDATION: We recommend that pending an amendment to Section 171-11, the Department discontinue its practice of renting its armories and facilities situated on State lands for uses inconsistent with the purposes for which the lands were set aside.

COMMENTS: We do not agree with this recommended action because we are confident that the problem will be resolved in our favor with the Attorney General and the Department of Land and Natural Resources. Further, it would be an injustice at this time to deny community organizations and groups or other governmental agencies the continued use of our armories and facilities for public purposes. We do not consider such use as being inconsistent or interfering with the purposes for which the lands were set aside. We have discontinued the rental of armories to individuals for personal or private purposes and will continue to do so.

Again, thank you for the opportunity to review the audit report and to submit our comments with respect to the recommendations contained in the report. We regret that the short response time established by your letter of May 7 does not allow us sufficient time to provide more detailed comments to the findings and recommendations of the report.

We appreciate the comments and recommendations made in the report and we would be happy to further discuss our comments with you if you so desire.

Sincerely,

/s/ Valentine A. Siefermann
VALENTINE A. SIERFERMANN
Major General, HANG
Adjutant General

cc: Acting Governor

HEADQUARTERS
HAWAII WING, CIVIL AIR PATROL
P. O. Box 9417, Honolulu, Hawaii 96820

May 29, 1974

C
O
P
Y

Mr. Wilbert Sakamoto
Office of the Auditor
State of Hawaii
State Capitol
Honolulu, Hawaii 96813

Dear Mr. Sakamoto:

We have received and noted your well prepared and excellently presented legislative audit of the Hawaii Wing Civil Air Patrol. I am in complete concurrence with the document and wish to advise you that steps have already been taken within the Wing to comply with your recommendations.

As you know, it appears presently that the financial support to the Neighbor Islands' units will now amount to \$3,000 per unit rather than \$2,000 as outlined in your recommendations. Aside from this minor difference, I believe we are in complete agreement.

Sincerely,

/s/ Thomas S. Evans
THOMAS S. EVANS
Lt. Col., CAP
Commander

TSE:tk

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**LEGISLATIVE AUDITOR
STATE CAPITOL
HONOLULU, HAWAII 96813**