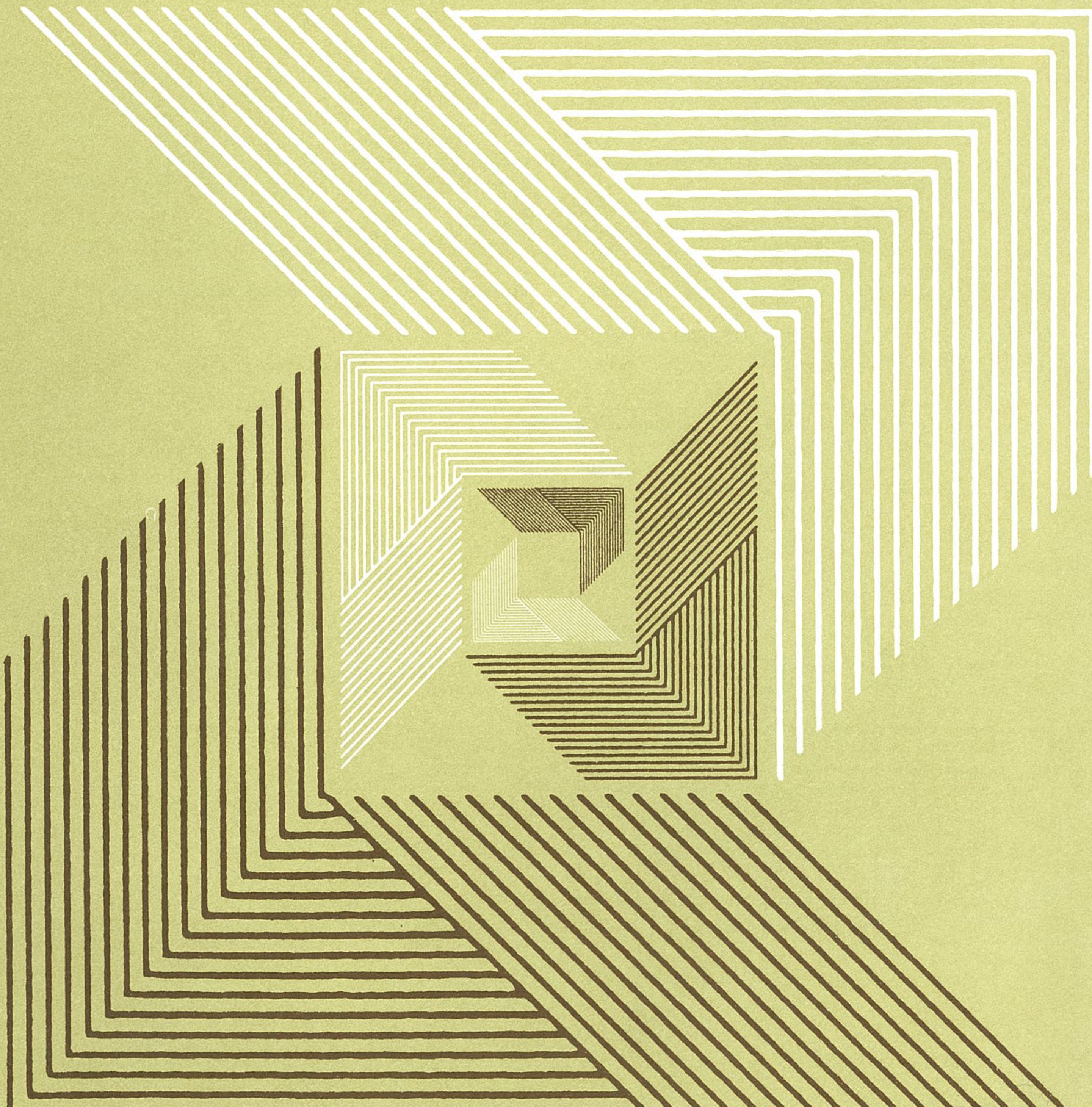
AUDIT REPORT NO. 75-1

JANUARY 1975

FINANCIAL AUDIT OF THE HAWAII HOUSING AUTHORITY

A REPORT TO THE GOVERNOR AND THE LEGISLATURE 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

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STATE CAPITOL
HONOLULU, HAWAII 96813

FINANCIAL AUDIT OF THE HAWAII HOUSING AUTHORITY

Conducted by the

Office of the Legislative Auditor
State of Hawaii

and

Coopers and Lybrand
Certified Public Accountants

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

Submitted by the
Legislative Auditor of the State of Hawaii

Audit Report No. 75—1
January 1975

FOREWORD

This financial audit report is the result of an examination of the financial statements and records of the Hawaii housing authority for the fiscal year ended June 30, 1973. The audit was conducted by the office of the legislative auditor and Coopers and Lybrand, certified public accountants.

This report is divided into three parts. Part I contains introductory information and a brief description of the programs of the Hawaii housing authority and its organization and functions. Part II contains our findings, comments, and recommendations regarding the authority's financial and management practices and displays the authority's financial statements, including the audit opinion of the CPA firm on the accuracy of the financial statements.

There are serious deficiencies in the financial accounting and internal control systems of the authority. The deficiencies were found to be so significant that Coopers and Lybrand could not attest to the accuracy of the authority's financial statements. Numerous other deficiencies were found with respect to the authority's financial and management practices. Our findings and recommendations are contained in chapters 3 to 7 of Part II of this report.

It is our practice to request the agencies affected by the audit to submit in writing their comments on the findings and recommendations and to indicate what actions have been or will be taken. The responses from the affected agencies are included in Part III of this report entitled, "Comments by Affected Agencies."

We wish to express our sincere appreciation for the excellent cooperation and assistance extended by the officials and staff of the Hawaii housing authority.

Clinton T. Tanimura
Legislative Auditor
State of Hawaii

Table of Contents

PART I

INTRODUCTION AND SOME BACKGROUND

Chapter 1

INTRODUCTION

This is a report on our examination of the transactions, books, and accounts of the Hawaii housing authority. The audit was conducted pursuant to Hawaii Revised Statutes, section 23–4, which requires the state auditor to conduct post-audits 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. The audit was conducted by the office of the legislative auditor and by Coopers and Lybrand, an independent certified public accounting (CPA) firm.

Objectives of the Audit

The audit had the following objectives:

1. To provide a basis for an opinion as to the reasonable accuracy of the financial statements of the Hawaii housing authority.

2. To ascertain whether or not expenditures and other disbursements have been made and all revenues and other receipts to which the State is entitled have been collected and accounted for in accordance with state and federal laws, rules and regulations, and policies and procedures.

3. To assess the adequacy, effectiveness, and efficiency of the systems and procedures for financial accounting and reporting, internal and operational controls, and recommend improvements to such systems and procedures.

Scope of the Audit

The audit examined the financial statements of the Hawaii housing authority covering the fiscal year July 1, 1972 to June 30, 1973. It included tests of the financial and related records and an examination of the existing systems and procedures of accounting, reporting, and operational and internal controls.

Organization of the Report

This report is organized into three parts. Part I consists of this introduction (chapter 1) and some background on the Hawaii housing authority (chapter 2).

Part II (chapters 3 through 7) contains our findings, comments, and recommendations regarding the financial and management practices and financial statements of the Hawaii housing authority.

Part III contains the response of the authority and our comments on the response.

Chapter 2

SOME BACKGROUND

The Hawaii housing authority[1] was established by Act 190, SLH 1935, as a public corporate body with perpetual existence and operated as a separate agency under the executive branch until 1959. Under section 20 of Act 1 (the Hawaii State Government Reorganization Act of 1959), Second Special Session Laws of Hawaii 1959, the authority became a constituent corporate unit of the department of social services and housing and subject to the administrative controls of the director of that department.

The Hawaii housing authority has the responsibility for providing adequate housing for low and moderate income families and the elderly throughout the State. The authority is vested with, among other things, the power to lease, rent, own, develop, and administer housing and to obtain financial assistance and cooperation from the federal government in the planning, construction, and operating of housing projects. In addition, the authority may, with the approval of the governor, issue bonds for any of its corporate purposes. Chapters 356 through 360 of the Hawaii Revised Statutes contain the powers and functions of the authority.

Housing Programs

The authority is responsible for administering a variety of housing programs which may be grouped into five categories: public housing, state rent supplement, teacher housing, residential housing development and financing assistance, and conversion of residential leasehold tracts to fee simple.

Public housing. The authority manages three types of public housing projects: federally aided projects, state-nonsubsidized and emergency projects, and Navy-leased projects. These projects provided a total of 5554 rental units throughout the State as of June 30, 1973 as shown below.[2]

Projects	Total	Oahu	Hawaii	Maui	Kauai
Federally aided . .	4953	4152	434	239	128
State non-subsidized and emergency	562	480	30	52	--
Navy-leased	39	39	--	--	--
Total	5554	4671	464	291	128

1. Federally aided projects. The federal government, through the Department of Housing and Urban Development (HUD),

[1]The Hawaii housing authority is referred to in this audit report also as the "authority" or "HHA."

[2]*Hawaii Housing Authority Annual Report, Timeframe: July 1, 1972 through June 30, 1973, Timeframe 11.*

furnishes financial assistance to the authority for the development and maintenance of public housing projects for persons of low income and the elderly. Under annual contracts with HUD, the authority receives funds to pay the debt service (that is, the principal and interest) on bonds issued for the construction of housing projects. The contracts also provide a subsidy to the authority for operating and maintenance costs. In addition to housing projects constructed with federal funds, the authority is authorized under one of its contracts with HUD to lease existing housing units from private owners and sublease the units to eligible low income families. HUD pays for the difference between the rent charged by the landlord and the rent paid by the tenant.

2. State-nonsubsidized and emergency projects. There are six state housing projects–four projects on Oahu, one project on the island of Hawaii, and an emergency housing project on Maui. The projects house a total of 562 units. Rentals for the units are required to be set at rates sufficient to pay at least for operating, maintenance, and administrative expenses. Tenants of the projects who meet certain requirements can participate in a voluntary savings plan called "downpayment reserve plan." The plan is intended to provide incentive to the tenants to accumulate a downpayment toward the purchase of a home.

3. Navy-leased projects. Under a revocable permit with the Navy, the authority manages 39 rental units located in the vicinity of Pearl Harbor. These units are gradually being phased out. Tenant rental payments finance the operating and maintenance costs. Residual receipts, if any, are required to be returned to the federal government.

State rent supplement. This program provides financial assistance to low and moderate income families who rent private rental units. The State pays the difference between the rent charged by the landlord and 20 percent of the tenant's income. The State's supplement, however, is limited to $70 per month for each qualified tenant. During 1972–73, approximately 900 families were assisted by the rent supplement program.

Teacher housing. In 1967, the authority assumed from the state department of education the responsibility of furnishing housing to teachers who teach in remote areas where adequate housing is not available. At June 30, 1973, the authority administered 250 housing units throughout the State.

Residential housing development and financing assistance. In recent years, the state legislature has enacted several bills in an attempt to meet pressing needs for housing. Act 25, SLH 1968, authorizes the authority to provide "seed" money to nonprofit groups or associations for the development of housing units for low or moderate income families. The "seed" money is intended to pay for costs preliminary to the securing of federal funds by the developer for the construction of a project.

Act 239, SLH 1969, allows the authority to make long-term mortgage loans to governmental agencies and others for developing and constructing housing for those elderly persons displaced by governmental action, and for low and moderate income persons.

The major legislation on housing is Act 105, the omnibus housing act enacted in 1970. The act authorizes the State to issue state general obligation bonds totaling $100 million for the development and financing of housing projects. Under the act, the authority is empowered, among other things, to do the following:

1. Dwelling unit construction and sale. The authority is authorized to acquire and develop land and construct dwelling units for sale to qualified residents in fee simple, or leased or rented to qualified residents. The authority may join in partnership with private developers and contractors to develop and construct a project. If a purchaser is unable to secure private financing, the authority may loan to the purchaser up to 100 percent of the purchase price. A loan may extend over a period not exceeding 40 years at an interest rate of 1 percent more than that paid by the State for the general obligation (g.o.) bonds issued for the project. The director of finance is authorized to issue $60 million of g.o. bonds for this purpose.

*2. **Guarantee mortgage.*** The state director of finance, at the request of the authority, may guarantee the top 25 percent of privately financed mortgages. In return for the guarantee, the State receives an insurance fee from the financial institution. The State's guarantees cannot exceed $10 million.

*3. **Downpayment loans.*** The authority may make loans to qualified borrowers for the downpayment required toward the purchase of residential property. The downpayment loan is limited to an amount not exceeding 30 percent of the purchase price or $15,000, whichever is lower. The loan bears interest at a rate not less than 1 percent higher than the interest rate of the g.o. bonds issued for this purpose. Twenty million dollars of g.o. bonds is authorized for downpayment loans.

*4. **Participation in loans.*** The authority may participate with private lenders in providing loans to qualified borrowers for the purchase of residential property. The authority's share of the loans is limited to an amount not exceeding 50 percent of the amount of the loans. The State's share of a loan bears interest at a rate not less than 1 percent higher than the g.o. bond interest rate, and the private lender's share of the loan bears interest at a rate not more than 1½ percent higher than the interest charged by the State. The State's share of loans outstanding is limited to no more than $10 million.

In 1971 and 1972, the state legislature enacted several bills expanding the sources of financing housing projects and amending previously enacted bills.

Conversion of residential leasehold tracts to fee simple. In 1967, the state legislature enacted Act 307 which has come to be known as the "Land Reform Act of 1967." The act vests in the authority the power to condemn residential leasehold tracts for the purpose of making the land available for purchase by the resident lessees. To initiate condemnation, more than 50 percent of the lessees in a tract five acres or more in size must express their interest in acquiring the land. Where a purchaser is unable to secure sufficient funds at reasonable rates from private lenders, the authority may loan the purchaser up to 90 percent of the purchase price. The state director of finance is authorized to issue $5 million of g.o. bonds to finance the purchase of development tracts. This program has not yet been implemented by the authority.

Organization and Activities

The authority is subject to general administrative controls of the director of social services and housing and its activities are under the control of a commission and an executive director. A brief description of the organizational makeup of the authority follows.

Commission. The commission is comprised of six members: two from at-large, one from the city and county of Honolulu, and one each from the counties of Hawaii, Maui, and Kauai. The members of the commission are appointed by the governor with the consent of the Senate, and not more than three of the commissioners may be from the same political party. In addition to the six commissioners, the director of the department of social services and housing and the special assistant appointed by the governor serve as ex-officio voting members of the commission.

Executive director. The executive director serves as the treasurer and administrator of the authority and is appointed by the commissioners. As treasurer, the executive director is responsible for the care and custody of all funds of the authority. Under the direction of the authority he executes contracts for the procurement of goods and services and signs and disburses all orders and checks for the payment of money. In addition, the executive director is charged with the management of the office of the authority and has general supervision over the administration of the authority's business and affairs, including the books of accounts for receipts and expenditures.

Assisting the executive director are the assistant executive director, the office of finance and accounting services, office of purchasing and stores, office of development and engineering services, office of land reform services, office of teacher housing services, and area management offices.

1. The office of finance and accounting services provides administrative support services and assistance to the authority in the areas of budgeting, financial reporting, and recordkeeping for payroll, purchasing, construction, and maintenance of housing units.

2. The office of purchasing and stores is responsible for purchasing all goods, including equipment and supplies, required by the authority. In addition, the office maintains a central store of frequently needed items.

3. The office of development and engineering services provides engineering services for the development and maintenance of housing projects.

4. The office of land reform services provides services to promote the State of Hawaii land reform program of converting leasehold interests to fee simple ownership for homeowners.

5. The office of teacher housing services administers the State of Hawaii teacher housing program to develop, construct, and maintain housing for teachers in areas where adequate housing is unavailable.

6. The area management offices are responsible for the operation and maintenance of low income housing projects and all tenant-related functions.

PART II

FINDINGS AND RECOMMENDATIONS

Chapter 3

FINANCIAL ACCOUNTING AND INTERNAL CONTROL

This chapter contains our findings and recommendations regarding the authority's financial accounting practices and internal control system in general. Our findings and recommendations with respect to financial and operational management practices are noted in the subsequent chapters.

The term, "system of internal control," means the plan of organization and methods and measures adopted within an agency to ensure the accuracy and reliability of accounting data, to promote operational efficiency, and to assure adherence to prescribed laws, policies, and rules and regulations of the agency and the State of Hawaii. A sound system of internal control includes two basic elements: (1) the adoption of procedures requiring prior authorization for expenditures, prompt collection of revenues, accurate and timely recording of transactions and control of assets and liabilities; and (2) the assignment of duties in such a manner that no one individual controls all phases of a transaction without a cross-check by some other individual.

Summary of Findings

There are serious deficiencies in the authority's method of financial accounting and system of internal control. The audit disclosed numerous errors in the recording of financial transactions. In addition, violations of several generally accepted accounting principles were noted. Finally, the authority did not reconcile its 1972–73 records with the State's official accounting records maintained by the state comptroller. The purpose of reconciliation is to ascertain the accuracy of an agency's financial records. The comparison enables an agency to detect any errors made in recording financial transactions so that adjustments can be made to correct the records.

The specific deficiencies discussed in detail in this chapter are as follows:

1. Financial transactions recorded in the wrong fund, or transactions of one fund recorded in two separate funds.

2. Records not reflecting a land purchase and moneys held in escrow.

3. Fixed assets incorrectly shown as assets of the state bond fund and the general fund.

4. Records being maintained for an excessive number of funds.

5. Revenue and expenses accounted for incorrectly.

6. Non-cash amounts recorded as expenditures.

7. Depreciation of authority-owned facilities and equipment not being recorded as expenditure.

Most of these accounting deficiencies concern the financial transactions of several relatively new state housing programs. These programs include the interim financing of construction loans, the purchase of dwelling units and the development of housing projects, and the issuance and collection of mortgage loans. The root of much of the difficulties in accounting for the transactions of these new programs is that the HHA has utilized the authority's traditional accounting system to record the transactions of the new programs. The traditional accounting system may have been sufficient to account for the receipts and expenses of rentals, the function with which HHA was primarily concerned before the advent of the new programs. However, this traditional accounting system is inadequate to satisfy the accounting requirements of the new state housing programs.

The number and types of errors made in recording financial transactions strongly suggest that the fiscal staff of the authority lacks some fundamental understanding of governmental fund accounting and basic principles of accounting.

Consequences of Deficiencies, Generally

Wrong management decisions. Financial statements should provide information necessary for management to evaluate the financial performance of programs and to plan for the future. Inaccurate financial statements can and often do lead management to err in its planning decisions. As an illustration, the authority's management is required to set rentals for state public housing at amounts sufficient to cover operating expenses. The audit disclosed that for years an amount was shown as an expenditure in the financial statements when in fact there was no valid expense to support the amount. To have considered and included such an amount as expense naturally led to the setting of rentals at rates in excess of those sufficient to cover operating expenses. This is not to imply necessarily that the rentals should have been lower. Indeed, as pointed out later in this report, although the statute authorizes HHA in its discretion to consider amortization of the cost of housing projects in setting rentals, the HHA has not done so. It could not do so because it has not kept records of depreciation of its buildings and equipment. However, to the extent that the rentals were not intended to cover any more than the operating expenses, they were excessive.

Misrepresentation. Inaccurate financial statements not only can cause management to err in its planning decisions, but they can also adversely affect third parties. To illustrate, the HHA incorrectly recorded $20.5 million of assets in the bond fund rather than in the dwelling unit revolving fund (DURF). This resulted in an overstatement of assets in the bond fund and a corresponding understatement of assets in the DURF. Among the parties who can be expected to rely on the DURF financial statements are the potential participants in the development of dwelling units and the state legislature. An understatement of the assets in the DURF can discourage a potential participant and can lead the legislature to conclude that little is being done to implement the dwelling unit construction program. Of course, either or both could prod the HHA and secure from it further information which will reveal the true picture. However, such prodding ought not to be necessary.

Denial of audit opinion. One of the basic purposes of a financial audit is the issuance of an audit opinion on the financial statements of the organization being examined. An audit opinion is a statement of the auditor's conclusion regarding the reasonable accuracy of the organization's financial statements. Often, the auditor's opinion is relied upon by third parties. In most cases, the auditor is able to attest to the accuracy of the organization's financial statements. However, in the audit of the Hawaii housing authority, the accounting and internal control systems of the agency were so inadequate that, in the professional judgment of Coopers and Lybrand, no audit opinion could be issued for the authority's 1972–73 financial statements.[1]

Fund Accounting Deficiencies

Unlike commercial businesses which operate generally with a single set of financial accounts, a governmental accounting system is organized according to the several funds generally created by law and at the disposal of the government. Each fund accounts for specific kinds of revenue and is used for specific programs and activities. Each fund is an independent financial and accounting entity which means that all financial transactions relating to the purpose for which the fund was created are recorded and accounted for by the fund. It is therefore imperative that financial transactions be accounted for in the proper fund.

The audit revealed many errors in the recording of transactions. These include the recording of the same transaction in two separate fund accounts, the recording of transactions in the wrong fund account, and the failure to even record some transactions. It was also noted that the authority is maintaining records for an excessive number of funds. These findings are discussed in detail in this section.

Transactions incorrectly recorded in the bond funds and/or dwelling unit revolving fund. Under Act 239, SLH 1969, and Act 105, SLH 1970, the state legislature authorized the issuance of state general obligation bonds to finance interim construction loans to developers, mortgage loans to homeowners, and construction of housing projects to be developed by the authority. The mortgage loan bond fund (under Act 239) and the Act 105 bond fund were established by the authority to account for the proceeds of general obligation bonds.

According to the principles of fund accounting, a bond fund is used to account for the proceeds and disbursements of bonds. It is normally not the purpose of a bond fund to account for the operating activities, e.g., loan repayments, accrual of revenue, etc., of the programs. Rather, its primary purpose is to serve as the financing intermediary of the operating programs and to account for expenditures on capital improvement projects.

All financial transactions relating to the operational activities of the programs authorized by Acts 239 and 105 are required to be accounted for in a fund known as the dwelling unit revolving fund. This includes the transfer of bond proceeds from the bond fund, collections on repayments received from construction and mortgage loans, and dwelling unit expenditures and sales.

The audit disclosed that the authority has made many incorrect entries in the accounts of the mortgage loan bond fund, the Act 105 bond fund, and the dwelling unit revolving fund. The following are the deficiencies noted:

- Assets totaling $20.5 million, revenues totaling $3.5 million, and expenses totaling $3.4 million were recorded in the bond fund accounts instead of in the dwelling unit revolving fund account.

- Duplicate entries were recorded in the bond fund account and the dwelling unit revolving fund account.

- Transactions were incorrectly classified in the accounts of the funds.

1. Transactions recorded in the wrong fund. The authority erroneously recorded $20.5 million as assets of the mortgage loan bond fund (Act 239) and the Act 105 bond fund. Of the

[1] See chapter 7 for the auditor's opinions on the financial statements of the agency.

$20.5 million, $8.5 million was recorded in the mortgage loan bond fund account, and $12 million was recorded in the Act 105 bond fund account. The $20.5 million includes promissory notes received from purchasers of housing units developed by the authority and construction loans made to developers. These promissory notes and loans represent assets which should have been recorded in the dwelling unit revolving fund account. Failure to correctly record the assets resulted in a gross overstatement of assets in the bond funds ($8.5 million in the mortgage loan bond fund and $12 million in the Act 105 bond fund) and a corresponding understatement of assets in the dwelling unit revolving fund ($20.5 million).

In addition, $3.5 million received from sales of dwelling units and $3.4 million in costs related to the sales and other operating expenses were incorrectly recorded in the mortgage loan bond fund account. These transactions also should have been recorded in the dwelling unit revolving fund account. Further, the cost related to dwelling unit sales and other expenses is overstated. Included in the $3.4 million is the sum of $9400 representing the cost of eight dwelling units which were not yet sold at the end of the fiscal year. The cost of these unsold units should have been recorded as assets. Failure to remove the cost of these units resulted in an overstatement of costs by approximately $9400 and an understatement of assets by the same amount in the dwelling unit revolving fund account.

Recommendation. *We recommend that the authority examine the transactions in the accounts of the mortgage loan bond fund, the Act 105 bond fund, and the dwelling unit revolving fund and make the necessary adjustments to correct the balances in each of the respective funds.*

2. ***Duplication of entries.*** The audit revealed several instances where the same transactions were recorded in the accounts of two different funds. To illustrate, $768,822 in interest earned, but not yet collected at June 30, 1973, was recorded as assets of the dwelling unit revolving fund as well as of the bond funds ($585,426 was recorded in the mortgage loan bond fund account and $183,396 in the Act 105 bond fund account). The $768,822 represents interest earned on promissory notes and loans received from the purchasers of dwelling units and developers. The interest should have been accounted for only in the dwelling unit revolving fund.

Then, the cost of 20 dwelling units, purchased through the Act 105 bond fund, was also recorded as assets of two funds: the Act 105 bond fund and the dwelling unit revolving fund. The 20 dwelling units located in the Kawaihae Village on the island of Hawaii were purchased from the developer at a cost of $518,600. The purchase cost of the units should have been recorded only in the dwelling unit revolving fund account.

Recommendation. *We recommend that the authority correct the improper entries in the accounts of the mortgage loan bond fund and the Act 105 bond fund.*

3. ***Incorrect classification of transactions.*** The authority enters into several contracts annually with the U.S. Department of Housing and Urban Development (HUD). The financial records maintained by the authority on one of its contracts (Contract No. SF–181) shows at June 30, 1973 the authority was owing HUD $610,797. This is incorrect. Actually that amount represents the contribution made by HUD in August 1971 for the payment of the authority's debt service.[2] The transaction should have thus been classified as a contribution from HUD rather than as a liability to HUD. This incorrect classification resulted in an overstatement of the authority's liabilities and a corresponding understatement of the contributions made by HUD.

[2]Under the contract, HUD guarantees payment of principal and interest through what is called an annual contributions contract. The principal and interest are for low-rent public housing projects financed through the issuance of bonds.

Recommendation. We recommend that the authority make the necessary correcting entries to the accounting records on Contract No. SF–181.

Failure to record financial transactions. There were several instances where the authority failed to record financial transactions. Two such instances are discussed below.

1. ***Failure to record purchase of land.*** In October 1970, the state board of land and natural resources, by a land patent, conveyed to the authority title to 34.627 acres of land in Waimanalo, Oahu, to be used for the development of a housing project called the Banyan Tree. The land was purchased by the authority for $603,133. However, this cost and the related liability to the State were not recorded in the financial accounts of the authority. This means that, as of June 30, 1973, the assets and liabilities of the dwelling unit revolving fund were understated by $603,133.

Recommendation. We recommend that the authority properly record the land purchase and the related liability to the State.

2. ***Trust fund for mortgagors not recorded.*** Mortgage loans were made to 112 purchasers of units in the Tropicana Village housing project located in Aiea, Oahu. One of the major local banks acts as the agent to collect the principal and interest on the mortgage loans. It also acts as the escrow to collect from the mortgagors additional amounts needed to pay for insurance, real property taxes, and lease rents and to make such payments in their behalf. At June 30, 1973, the balance in the bank's escrow account totaled $21,253. This sum should have been but was not recorded in the authority's trust fund account. As a result, the assets and liabilities of the authority's trust fund as of June 30, 1973 were understated by $21,253.

Recommendation. We recommend that the authority record the cash balance and related liability in the mortgagors trust fund account in order to properly reflect the authority's obligation as mortgagee.

In this connection, we note that the servicing arrangement between the authority and the bank is based on an oral agreement. No written agreement stipulating the terms of the arrangement and the responsibilities of each party exists. There are no written specifications, for example, as to who has the responsibility to review the adequacy of fire insurance coverage or the adequacy of amounts collected for real property taxes and lease rents. A written servicing agreement is necessary in order to minimize or avoid any misunderstanding or future conflicts between the bank and the authority.

Recommendation. We recommend that a written servicing agreement be executed by the bank and the Hawaii housing authority, specifying the terms of the arrangement and the responsibilities of the respective parties.

Fixed assets shown in the state bond fund and the general fund. Over the years, the authority has expended funds from the state bond fund and the general fund for construction of capital improvement projects and for equipment purchases. These expenditures are classified as fixed assets[3] and are recorded as assets of either the state bond fund or the general fund. Specifically, the following amounts are shown as fixed assets in the accounts of the respective funds.

Fund	Amount as of June 30, 1973
Bond fund	
Teacher housing	$508,199
Capital improvements program	473,081
	$981,280
General Fund	
Rent supplement program	$ 3,714
Public housing program	5,076
	$ 8,790

[3]Fixed assets are defined as "assets of a long-term character which are intended to be held or used, such as land, buildings, machinery, furniture, and other equipment"; National Committee on Governmental Accounting, *Governmental Accounting, Auditing and Financial Reporting,* 1968, p. 160.

While the objects of these expenditures may be considered to be in the nature of fixed assets, the recording of the expenditure amounts as assets in the state bond fund and general fund accounts is incorrect. Fund accounting principles prescribe that, except in the case of certain self-sustaining activities, fixed assets should be recorded in a separate set of accounts known as the general fixed asset group of accounts, and not in the expending fund. Recording the expenditures as assets in the expending funds serves no useful purpose. It does not aid an agency in fund management. To the contrary, including these expenditure amounts as assets in the funds may mislead the readers of the funds' financial statements; they may view the amounts as being available resources rather than as money spent.

In addition, the inclusion of the amounts spent for teacher housing as assets in the bond fund account violates the law. Section 359A–2 of the Hawaii Revised Statutes requires the recording of teacher housing units in the teacher housing revolving fund. The revolving fund was established in 1969 to account for rental and other receipts and disbursements in connection with the authority's functions relating to the planning, construction, repair, maintenance, and operation of housing for teachers.

Recommendation. *We recommend that the authority delete as assets from the state bond fund and general fund accounts the amounts expended from these funds for capital improvements and equipment purchases and record them as assets in the general fixed assets group of accounts. In addition, we recommend that the authority adhere to the statute with respect to the recording of teacher housing units.*

Excessive number of funds. The authority is currently maintaining 27 complete sets of accounts or general ledgers. The maintenance of this many general ledgers is unnecessary and contrary to proper fund accounting practices. Several of these accounts should be consolidated.

To illustrate, a separate ledger is maintained for each of the five bond funds listed below:

- Mortgage loan bond fund (Act 239, SLH 1969)
- Act 105, SLH 1970, bond fund
- Acquisition of development tracts bond fund (Act 215, SLH 1971)
- Capital improvement programs bond fund
- Teachers' housing bond fund

A single account is all that is necessary to record the proceeds from all of these various bond sales and the distribution of the proceeds. While it is necessary to maintain an accurate accounting of the bond proceeds for different specified purposes, this can be accomplished without creating a separate bond fund ledger for each appropriation or authorized program. The maintenance of separate bond fund ledgers is time-consuming and results in an inefficient use of fiscal personnel.

There are other fund accounts which should be consolidated into a single fund. For example, the authority maintains a "special account number 2." This account is used to record the deposits made by potential buyers of dwelling units developed by the authority. Since the authority holds these deposits in escrow or in trust for the buyers and the money is not available for the authority's use, this fund account should be included as part of the trust fund account rather than as a separate account.

Recommendation. *We recommend that the authority review its 27 fund accounts to identify those accounts which should be consolidated. In effecting the consolidation, the authority should keep in mind that the number of funds actually maintained must be consistent with legal specifications and operational requirements.*

Nonconformity with Accounting Principles

The audit noted several instances of accounting practices by the authority which are not considered to be in accordance with the standards of accounting known as "generally accepted accounting principles." The following deficiencies are discussed in detail in this section:

- Revenue and expenses not recognized in the proper period
- Improper recording of operating reserve charge
- Depreciation not recorded as expenditure

Revenue and expenses not recognized in the proper period. Under the accrual method of accounting, revenues are recognized as they are earned and expenses are recognized as liability to pay them arises. The audit disclosed that incorrect accounting for revenues and expenses resulted in an overstatement of net income in excess of $600,000 for fiscal year 1972–73. The incorrect accounting consisted of the following:

*1. **Revenues and expenses of a housing development project.*** For the year 1972–73, the authority reported as revenue $3.5 million on account of the sale of 136 dwelling units in the Mohouli development project. It also reported as expenditures costs totaling $3.4 million, applicable to these 136 dwelling units. In fact, however, the 136 dwelling units had been sold over the course of several years. Of the 136 units, 126 units had been sold in prior fiscal years, and only ten had been sold in fiscal year 1972–73. The costs of these 126 dwelling units totaled $3.1 million.

Under the accrual method of accounting, the revenues and costs of the 126 dwelling units should have been recognized in the prior fiscal years as each unit was sold. The authority's improper recognition of the revenues and expenses of these 126 units in fiscal year 1972–73 resulted in an overstatement of income for 1972–73 by approximately $120,000.

*2. **Interest receipt.*** The authority recorded in the account of the dwelling unit revolving fund approximately $500,000 as interest earned. In fact, the interest had been earned before fiscal year 1972–73, and thus should not have been recorded in the dwelling unit revolving fund account as interest earned in 1972–73. This error in recording apparently occurred as follows.

Prior to Act 105, SLH 1970, the Omnibus Housing Act, interest derived from loans and investments on housing development projects were recorded in two funds, the mortgage loan program bond fund and the special account number 2 fund. The mortgage loan program bond fund was established to account for loans made under the mortgage loan program of Act 239, SLH 1969. Special account number 2 was created by the authority to serve as a depository for interest income from the mortgage loan program of Act 239. With the adoption of Act 105, the dwelling unit revolving fund (DURF) was established as the principal depository for interest income from loans under both Acts 239 and 105. With the establishment of the DURF, the authority determined that all interest earned on housing development loans and investments in previous years should be reflected in the dwelling unit revolving fund. As a result, approximately $500,000 ($430,000 from special account number 2 and $70,000 from the bond fund account) was transferred to the DURF. This was accomplished in fiscal year 1972–73. However, in recording this amount in the DURF, the authority entered the figure as revenue earned in fiscal year 1972–73.

Since the $500,000 in interest had been earned and recorded in prior years, the authority should have recorded the entry as a transfer of funds from the two Act 239 accounts. Failure to properly effect the transfer resulted in an overstatement of interest revenue by approximately $500,000 for fiscal year 1972–73.

Recommendation. *We recommend that the authority adhere to generally accepted principles of accounting in recognizing revenues and costs.*

Improper recording of operating reserve charge. Among the expenditures recorded in the state housing revolving fund's statement of revenue and expenditures is the item, "reserve for operation" of $26,015. "Reserve for operation" is a non-cash expenditure; that is, no funds are actually disbursed from the housing revolving fund. It is simply a bookkeeping entry. This reserve was established by the authority pursuant to Resolution No. 822, dated November 1, 1963, adopted by the commissioners of the authority. The resolution states in part:

> "... commencing with the fiscal period 1965–66, an operating reserve be established .... At the end of each fiscal year a sum equal to 1/20 of the operating expenses for that year shall be added to the operating reserve ...."

As of June 30, 1973, the total amount recorded as reserve stood at $150,564. The recording of the reserve as an expenditure item serves no useful purpose to the authority. In fact, it is misleading since no cash outlay is ever made for the reserve.

The apparent but mistaken reason for the commissioners' establishment of the reserve is that this practice is allowed in federal housing contracts. In the federal situation, there is a justifiable reason for recording a reserve. Under federal contracts, the federal government pays the State the annual amount charged as operating reserve. This reserve is intended to assist the State in financing any deficit that may be incurred in any fiscal year. That is, should the operating expenditures exceed the operating revenues in any year, the difference or deficit is paid through the operating reserve fund. There is thus a basis for recording the operating reserve amount as an expenditure under the federal contracts. There is, however, no basis for recording a similar entry under the State's housing program.

Recommendation. *We recommend that the authority remove the accumulated reserve amount from the accounting records and cease to record a percentage of each year's operating expenses as a reserve.*

Depreciation not recorded as an expenditure. With only some minor exceptions, the authority does not depreciate the cost of buildings, furniture, and equipment. This practice violates a well established principle of governmental accounting that self-supporting governmental entities must record depreciation.[4] Depreciation is generally not recorded in governmental accounting because the assets and activities of governmental units are usually not directly related to the revenues collected. However, in the case of self-supporting governmental activities, the assets usually play a significant part in and are directly related to the production of revenue. And since a self-supporting enterprise is one where the revenues generated should be sufficient to recover all expenditures, depreciation is a proper item of expenditure. Only through an accurate determination of total costs, including depreciation, is it possible for the authority to determine whether the operations have resulted in a surplus or a deficit, or whether the enterprise has broken even during a particular period.

That the HHA is intended to be self-supporting in the operation of housing facilities owned by the authority is clear from the statute. Section 359–38(a), HRS, states in part that:

[4]Depreciation is a cost item just as salaries and supplies are cost items. Depreciation, however, differs from salaries and supplies in that it represents a portion of the total cost of an asset which is prorated or amortized over a period of years. Salaries and supplies, on the other hand, are out-of-pocket expenditures which are incurred each year.

> "... dwelling accommodations and other facilities in the housing project or projects provided for by this part, ... will produce revenues that will be sufficient to pay all expenses of management, operation, and maintenance, including the cost of insurance, a proportionate share of the administrative expenses of the authority to be fixed by it, and the costs of repairs, equipment, and improvements, to the end that the housing project or projects shall be and always remain self-supporting."

The law further provides for including depreciation as a cost item as follows:

> "The authority may, in its discretion, ... produce additional revenues ... sufficient out of which to amortize the cost of the housing project or projects, including equipment over such period or periods of time as the authority may deem advisable."

Since buildings and equipment constitute a significant portion of the total assets, the authority's failure to record depreciation presents a misleading picture of its financial position and results of operations. To illustrate, fixed assets in the housing revolving fund alone is overstated by approximately $3,000,000 at June 30, 1973 because of the nonrecognition of depreciation over the years. For the year 1972–73, the expenditures are understated by approximately $100,000, representing the depreciation for the fiscal year.

The authority's failure to account for depreciation of fixed assets, and its consequence in terms of the authority's present financial statements constitute one of the major reasons Coopers and Lybrand was unable to attest to the accuracy of the authority's 1972–73 financial statements.

Recommendation. *We recommend that the authority depreciate its fixed assets in order to obtain an accurate determination of costs of operations.*

Chapter 4

FUND MANAGEMENT

This chapter contains findings relating to the financial management practices of the Hawaii housing authority. The audit revealed the following deficiencies:

1. Special fund cash balances in the state treasury are not productively managed.

2. Moneys are left in a fund which has no activities.

3. Moneys collected by the authority are not all being deposited into the state treasury.

4. Several instances of illegal expenditures were noted.

5. Federal funds were not fully utilized.

Poor Financial Management of Special Fund Cash Balances

At June 30, 1973, the special funds administered by the authority showed a total of $6,259,255 in cash balance. Table 4.1 below shows the total cash balance segregated between the balance in noninterest-bearing demand deposits and the balance in interest-bearing investments.

Table 4.1 shows that, at June 30, 1973, $5,974,950 or 95.5 percent of the total cash balance ($6,259,255) was on deposit with the state treasury and $63,576 or 1.0 percent was in bank accounts maintained by the authority outside of the state treasury. Only $220,729 or 3.5 percent of the total cash balance was in interest-bearing securities and savings accounts. All of the investments were made directly by the authority through transfers from the authority's bank accounts into interest-bearing securities and accounts. None of the cash balance with the state treasury ($5,974,950) was invested.

Table 4.1
Table of Cash Balances in Special Funds
At June 30, 1973

Cash in state treasury	$5,974,950	95.5%
Cash in banks	63,576	1.0
Savings certificates and investments .	220,729	3.5
Total	$6,259,255	100.0%

It is prudent financial management to maintain cash balances in demand accounts at a level only sufficient to meet immediate financial obligations. Any cash in excess of that dollar level should be placed in interest-bearing investments until such time as the cash is needed. To leave any of the excess cash in demand accounts means a loss of interest income on the excess amount. With regard to its effect on tenants and on other affected programs, this means that, to the extent of the revenue lost, a greater financial dependence must be placed on rentals paid by the tenants of public housing and other programs of the authority.

While the appropriate level of cash balance in demand accounts depends on the immediate or short-term cash requirements of the program, it is not uncommon for governmental jurisdictions to leave from zero to 5 percent of the total cash balance in demand accounts. This means that 95 to 100 percent of the cash balance can be invested in interest-bearing securities. We note that, with regard to the state general fund, \$54.5 million, or approximately 98 percent of the total cash balances deposited in the state treasury (\$55.7 million) at June 30, 1974 was deposited in interest-bearing securities. At a 6 percent rate of return, if 98 percent of the authority's cash balance at June 30, 1973 were invested, it would have commanded an additional annual yield of approximately \$355,000.

The noninvestment of the special fund cash balance held in the state treasury apparently resulted from the authority's failure to request the state director of finance to invest such portion of the cash balance in excess of the authority's immediate needs. Procedurally, the authority, like any other state agency, is required to submit an application to the department of budget and finance requesting the purchase of interest-bearing securities. The amount and term or period of the investment are specified in the application.

Since the authority does invest the amounts maintained in its own bank accounts, it is incomprehensible that it would leave the much larger cash balance in the state treasury uninvested. Information on the balance maintained in the state treasury is contained in cash reports submitted periodically to the executive director of the authority.

As the manager of state funds, the state director of finance should also have been aware of the noninvestment of the authority's cash balance. The director of finance should as a matter of practice maintain continuous statewide cash forecasts for cash resources and demands to be placed on the state treasury. With a continuous update of cash forecasts, the programs and agencies that have not furnished data on future cash requirements can be easily and quickly identified.

Even without a sophisticated cash planning system, the director of finance should be able to identify, albeit less accurately, the programs that are accumulating cash balances beyond what might reasonably be considered to be immediate cash requirements. With regard to the authority, the accumulation of nearly \$6 million of cash balance in the state treasury without any inquiry by the director of finance reflects the relative inattention given to the cash management program.

Recommendations. *We recommend that the Hawaii housing authority prepare cash forecasts, including the short- and long-term cash requirements of the special funds and develop an investment program for the cash not needed for immediate financial obligations. We further recommend that the authority coordinate its cash management program with the department of budget and finance to assure maximized investment of the authority's funds.*

Inactive Special Fund

In 1957, the authority established a special fund called, "housing development fund—Part II," to account for the financial operations of a housing project known as the Kalihi war homes. The housing project was turned over to the authority by the Federal Housing Administration in January 1953. The operations of the project were terminated in 1971 and the fund has been inactive for many years. The only activity in the fund during fiscal year 1972–73, other than the recording of interest earnings from investments, was the payment of the cost of a seminar attended by several employees of the authority.

At June 30, 1973, the fund had a fund balance of $120,621, most of which was deposited in savings accounts and time certificates of deposit. The authority maintains a bank account under its own name for this fund. This means that the moneys in the fund can be used by the authority at its discretion. None of the moneys in this fund are deposited with or included as part of the state treasury. The practice of leaving moneys in an inactive fund such as this unnecessarily allows opportunities to misappropriate the moneys or to use the moneys imprudently.

The state comptroller conducted an audit of the authority covering the period July 1, 1960 to June 30, 1969. In his audit report, he reported the inactivity of the fund and recommended that the "fund be closed and its resources be transferred to the Housing revolving fund." In response to the audit report, the authority's commission took the following action at its meeting on October 1, 1971:

> "Recommendation should be accepted and the Executive Director should be requested to merge this fund by including the fund in the accounting statement of the Housing Revolving Fund, with control of the resources to remain with the Hawaii Housing Authority for benefit of investment income."

Despite the adoption of the state comptroller's recommendation by the commission, the executive director of the authority has taken no action to merge this fund with the housing revolving fund.

Recommendation. *We recommend that the executive director of the authority comply forthwith with the action taken by the commission in 1971.*

Questionable Legality of Maintaining State Funds Out of the State Treasury

The authority maintains bank accounts under its own name for several state-funded programs and federal-funded projects.[1] The bank accounts are used to account for: tenant security deposits, rental income from the Navy-leased housing project, moneys accumulated in connection with the former Kalihi war homes housing projects, deposits by potential buyers of authority-developed dwelling units, repayment collections on interim and mortgage loans, tenants' contributions to the downpayment reserve plan, and disbursements to vendors for expenditures.

The maintenance of funds (other than federal aid moneys required by the federal government to be so deposited) in bank accounts under the authority's own name violates section 37–54, HRS, which states that "all state funds shall be deposited in the State treasury."[2] This statutory provision was part of Act 320, SLH 1957, which established budgetary controls over special funds. The act made specific reference to the authority wherein it stated that the provisions of the act shall apply to the authority as of July 1, 1959.

That the authority is in violation of section 37–54 may be disputed by the authority. *First,* section 356–17, HRS, seemingly implies that the authority may maintain moneys out of the state treasury. That section states, "The Hawaii housing authority may by resolution provide that all moneys deposited by it shall be secured . . ." and enumerates the kinds of security that the authority may require for its

[1] Federal funds received by the authority are maintained in local banks in conformance with the terms and conditions of the annual contributions contract between the authority and the federal government. Section 29–16, HRS, provides that "All federal-aid moneys received by the State, *except as otherwise provided for by the federal government* shall be deposited with the director of finance . . . ." [Emphasis added.]

[2] Section 40–34, HRS, allows state funds to be deposited in banks and in the name of a particular agency, but only as a transitory deposit until the amounts are transferred to the state treasury.

deposits. Section 356–17 was initially enacted in 1935. There has been no change in substance to the provision since that year. If indeed section 356–17 implies an authority in the HHA to maintain bank accounts outside of the state treasury, we believe that such authority was superseded by Act 320.

Second, Act 320 was principally concerned with placing special funds under the control of the legislature and the executive. A section of the act required the then bureau of the budget (the predecessor of the present department of budget and finance) to submit to the legislature at its 1959 session a proposed legislation abolishing all special funds except those the bureau considered to be in the public interest to warrant continuation as special funds. At the 1959 session, the bureau did submit a proposed legislation which was enacted as Act 265, SLH 1959. The special funds of the authority were not among those abolished by Act 265. It might thus be argued that the provisions of Act 320, 1957, did not apply to the authority, including that provision relating to maintenance of accounts outside the state treasury. However, the provision of Act 320 requiring that all state funds be deposited in the state treasury was independent of the provisions relating to the abolishment of special funds. Thus, it appears that the authority, like other state agencies, were required since July 1, 1959 to deposit all state moneys into the state treasury.

Recommendation. *We recommend that all state funds presently being maintained in banks be transferred to the state treasury and that all state funds hereafter collected by the authority be deposited into the state treasury.*

Illegal Expenditures

In our sample examination of financial transactions, we noted two instances of illegal expenditures. In both instances, a fund known as the disbursing fund was used. The disbursing fund is used by the authority as a central disbursing account to pay for expenses. Payments to vendors for the expenditures of the various housing programs are made from this account. At a subsequent date the respective programs reimburse this account for their share of the expenses.

The audit revealed that the disbursing fund was used by the authority to circumvent state statutes relating to lapsing of unexpended appropriations and to limitations on expenditures.

Violation of lapsing requirement. Before the end of the 1972–73 fiscal year, the authority submitted summary warrant vouchers[3] totaling about $15,000 to the state comptroller to reimburse the disbursing fund for expenditures purportedly made for the rent supplement program. The summary warrant vouchers were signed by an employee of the authority certifying the validity of the vouchers and were approved by the authority's comptroller. In fact, however, no expenditures or purchase commitments had been made to justify asking for reimbursement to the disbursing fund. The $15,000 was asked for to simply avoid the lapsing of that sum on June 30, 1973. The $15,000 approximated the unexpended balance in the general fund allotment account for the rent supplement program, which would have lapsed at June 30, 1973. Indeed, upon receipt of the $15,000, the authority recorded it in the disbursing fund as "advances" from the rent supplement program, a clear admission that the sum was not intended as a reimbursement for any expenditure made. The $15,000 was expended by the authority in the subsequent fiscal year.

This scheme to avoid the lapsing of unexpended funds was in direct violation of section 40–66, HRS:

> "Unless otherwise provided by law all sums of money which are

[3] A summary warrant voucher is a document authorizing the state comptroller to make payment on the claims listed on the voucher.

appropriated to the public service for any fiscal period, and which are not expended during the period, shall lapse, and shall not be issued or applied in any future fiscal period to the particular service for which the appropriation has been so made, unless a contract of engagement has been made and entered into before the expiration of the fiscal period by which a liability so to issue or apply the same has been incurred, and a certified copy of which contract or engagement has been deposited with the comptroller."

While the authority was at fault for submitting the request, the department of accounting and general services should have exercised greater care in processing the summary warrant vouchers. Proper review by the department of accounting and general services would have revealed the impropriety of the claims, for the claims were without any supporting documents. The law (section 40–56, HRS) provides that warrants are to be prepared by the state comptroller only upon the submission of proper supporting documents. Section 40–56 states:

> "Warrants for bills of materials, supplies, and incidentals of every kind and character, shall be made payable to the order of each individual person to whom the State is indebted, except as provided in section 40–58, *and only after a detailed statement of all the bills shall have been presented to the comptroller accompanied by all original vouchers.* The statement shall have indorsed thereon the approval of the officer in whose department the liability or expense has been incurred, and the appropriation to which it is chargeable; and further, each original voucher shall be specially certified to by the subordinate officer of the State directly incurring the liability or expense that all the materials, supplies, and incidentals have been received in good order and condition." [Emphasis added.]

The observance of the above statute would have quickly identified the authority's improper claim.

Recommendations. *We recommend that the Hawaii housing authority observe section 40–66, HRS, relating to the lapsing of unexpended balances at the end of a fiscal year. In addition, we recommend that the authority attach the documents supporting cash claim for payment made to the state comptroller.*

We further recommend that the state comptroller observe section 40–56, HRS, relating to the submission of documents supporting a claim for payment.

Overexpenditure. The authority overexpended the 1971–72 fiscal year allotments for the rent supplement program by more than $5,800. The amount of the overexpenditure was initially paid out of the disbursing fund in fiscal year 1971–72 and then charged to the 1972–73 fiscal year appropriation. This overexpenditure violated section 37–42, HRS, which states in part:

> "No department or establishment shall expend or be allowed to expend any sum or incur or be allowed to incur any obligation in excess of an allotment."

The occurrence of improper claims for payment and overexpenditure of allotments show that internal reviews and approvals over expenditures were performed perfunctorily by the authority's staff. The seriousness of the violations cannot be overemphasized.

Recommendations. *We recommend that the authority adhere to the requirements of section 37–42, HRS, limiting expenditures to the allotment amounts. In addition, we recommend that the authority institute* *procedures for periodic special reviews by the authority's commissioners of the financial transactions in the disbursing fund.*

Federal Funds

The federal government, through the Department of Housing and Urban Development (HUD), provides a variety of housing subsidies to local housing authorities. These subsidies are provided through what is known as annual contracts.

The Hawaii housing authority receives federal funds under four such contracts. The contracts and the amounts received under each contract during FY 1972–73 are shown below.

government covers the full debt service on any federally funded housing project and the excess of expenditures over revenue. In addition, Contracts 181, 371, and 394 include funds for upgrading the physical condition and management of the housing projects.

Under Contract No. 298, federal funds enable the authority to lease from the private sector dwelling units in the community and sublease the units to low income households.

The examination of the books and accounts relating to the federal contracts revealed that the authority has failed to utilize fully the available operating subsidies.

Schedule of Subsidies Received
By Contract Number

	Contract Number				Total
	181	*371*	*394*	*298*	
Debt service	$3,190,326	$50,358	$158,114	$	$3,398,798
Basic annual contribution . . .	–	–	–	663,678	663,678
Operating subsidy	474,284	10,919	43,107	48,708	577,018
Total	$3,664,610	$61,277	$201,221	$712,386	$4,639,494

Contract No. 181 is for the development and operation of low income housing projects. Under the agreement, the federal government guarantees the payment of the principal and interest on the bonds issued to finance the construction of housing projects. The federal government makes annual contributions to HHA, who in turn applies these contributions to interest payments. In addition, an operating subsidy is provided to cover any deficits incurred by the authority in the operation of the projects.

Under Contracts Nos. 371 and 394, funds are provided for the development and operation of housing for the low income elderly. The terms of the contracts are similar to those contained in Contract No. 181, i.e., the federal

The extent of failure to fully utilize federal funds. As shown in the schedule below, as of June 30, 1973, the "residual receipts" from Contracts 181, 371, and 394 totaled $238,165. Most of this ($231,537) was on account of Contract 181. "Residual receipts" represents the excess of HUD's annual contribution over the amount of the subsidy actually used by the authority during the year. In the case of Contract 181, the $231,537 was the excess of HUD's contribution over HHA's operating deficit. Under the annual contracts, residual receipts must either be returned to the federal government or applied against the subsequent year's federal contribution.

The loss of the residual receipts of $231,537 under Contract 181 resulted when the

Schedule of Residual Receipts
For the Year Ended June 30, 1973

	Contract Number 181	371	394	Total
Operating deficit	($242,747)	($ 7,625)	($39,773)	($290,145)
HUD contributions–operating subsidy ...	474,284	10,919	43,107	528,310
Residual receipts	$231,537	$ 3,294	$ 3,334	$238,165

authority was unable to fully utilize an additional operating subsidy (over and above the subsidy initially received or receivable) of $382,841 which became available in fiscal year 1972–73 by a change in HUD policy.

Causes of non-use. When HUD announced the availability of the additional subsidy for Contract 181, the authority revised its budget for the Contract 181 program for the fiscal year so as to reflect an operating deficit of $474,284, or $382,841 over that initially contemplated. The deficit amount was increased by including, among other operating expenses, the costs of extraordinary maintenance, equipment replacement, and minor additions to buildings. (See schedule below.) The federal government made payments to HHA based on this revised estimated deficit figure. However, the authority used only $196,508 of the available $390,331 federal subsidy for nonroutine operating costs, leaving $193,823 unused at June 30, 1973.

Schedule of Budgeted and Actual Expenditures
For 1972–73 for Nonroutine Operating Costs

Nonroutine Operating Costs	*Revised Budget*	*Actual Expend-tures*	*Differ-ence*
Extraordinary maintenance ...	$284,684	$141,068	$143,616
Replacement of equipment	85,624	41,831	43,793
Betterments and additions	20,023	13,609	6,414
Total	$390,331	$196,508	$193,823

It appears that the authority could have used the full $390,331. The maintenance, equipment replacement, and betterments and additions included in calculating the revised deficit figure were those which the authority had long wanted to do but could not accomplish in the past for lack of funds. It appears that the authority did not fully utilize the $190,331 because of its own administrative insufficiencies. Note the following. HUD had informed HHA in November 1972 that additional subsidies for operations would be forthcoming. However, it was not until February 1973 that the authority's project managers were asked to submit their listings of extraordinary maintenance job priorities. Then, it was not until April that the project managers were asked to submit their equipment purchase requisitions. Why there was such a long time delay from November to April is not at all clear. Further, over $86,000 of the revised deficit figure intended for items costing $3000 or less was never used. Since the purchase of items costing $3000 or less is not required to go through the time-consuming process of bidding and contracting procedures, there appears to be little reason why this $86,000 could not have been profitably used. Apparently, the fiscal office was delinquent in informing the supervising public housing manager in a timely fashion of the increase in available funds, and the supervising housing manager appears to have failed to transmit to the fiscal office with reasonable speed the information gathered from project managers regarding the need for extraordinary maintenance job priorities and equipment purchases.

Recommendation. *We recommend that the authority review and improve its internal procedures to speed up communication and action between and among its units.*

Chapter 5

PURCHASING AND INVENTORY CONTROL PRACTICES

This chapter covers the audit findings relating to the authority's purchasing policies and practices and controls over property inventory. The audit disclosed that the purchasing policies of the authority are incomplete and inadequate and that the authority maintains poor control over its property inventory.

Purchasing Practices

The weaknesses in the authority's purchase order system relate to both its purchasing policies and its purchasing procedures. With respect to its policies, there are gaps in controlling the use of blanket purchase orders and the use of confirming purchases.

Lack of controls over blanket purchase orders. Blanket purchase orders are commitments to purchase from a specific vendor a specific monetary amount of goods during a specified or unspecified period of time. They are normally used to acquire frequently used, low-cost items without the necessity of incurring the administrative expense of processing numerous purchase orders. Under this procedure, only one purchase order is issued to a vendor to cover the purchase of a specified commodity or service at various times during a given period, thus eliminating the need to issue separate purchase orders for each purchase.

The specific deficiency in the authority's use of blanket purchase orders is that these orders are being used without adequate guidelines spelling out the specific commodities and services that may be purchased by blanket purchase orders and prescribing the limits of such purchases. Without these guidelines, blanket purchase orders are subject to abuse and misuse.

The policies of the department of education (DOE) are instructive of the kind of guidelines that the authority ought to have. (Other state agencies have adopted similar policies.) The department of education's purchasing policies enumerate the specific kinds of goods which may be purchased by blanket purchase orders as follows: shop supplies for industrial arts classes, repairs to equipment, and fuel, oil, and service for vehicles. The DOE's policies also specifically limit each blanket purchase order to a sum not in excess of $300 and prohibit the use of blanket purchase orders for items having a unit cost in excess of $10. These limitations reduce the possibility of unauthorized purchases. Without such limitations, it is conceivable that equipment purchases for items such as typewriters could be made under a blanket purchase order and thus bypass the normal review and approval process.

Recommendation. *We recommend that the authority establish a formal policy restricting the use of blanket purchase orders. Among other things, the policy should specify the types and kinds of items which may be purchased, the dollar ceiling of such purchases, and the unit cost limit.*

Excessive use of confirming purchases. The Hawaii housing authority makes an excessive number of confirming purchases. A confirming purchase is one in which a commitment to purchase is made (often the goods are also received) before the purchase is authorized. A confirming purchase is technically an illegal purchase since the purchase is unauthorized. It should be used only in cases of emergency when time does not permit the prior preparation, approval, and issuance of a purchase order.

A review of the purchase orders issued by the authority revealed that more than 50 percent of all purchase orders issued in fiscal year 1972–73 were issued to confirm purchases already made. In addition, several of the confirming purchases included the purchases of items for which there appears to have been no reason why purchase orders could not have been secured first (e.g., construction material, air fare, and water heater).

Recommendation. *We recommend that the Hawaii housing authority establish a formal policy whereby all confirming purchases are prohibited except in clearly defined situations.*

Procedural deficiencies. Among the procedural deficiencies in the authority's purchase of goods and services are the following.

1. ***Failure to verify availability of funds.*** The authority's informal purchasing procedure requires that all purchase requisitions be submitted to the fiscal and accounts office for certification. Certification means determining whether the fund balance of a particular account is sufficient to cover the cost of the purchase. This procedure is necessary to prevent the overexpenditure of funds.

However, an examination of purchase requisitions revealed that approximately 88 percent of the requisitions sampled had not been reviewed for certification. The probable consequence of failure to verify the availability of funds is an overexpenditure of funds such as that experienced at June 30, 1972. At that time, the rent supplement fund had an overexpenditure of more than $5800.

We understand that, as a result of the auditors' inquiry into this area, the authority has established a formal policy requiring that the availability of funds be certified to by the fiscal and accounts office prior to making purchase commitments.

Recommendation. *We recommend that the authority take the steps necessary to ensure compliance with its policy of requiring the certification of available funds prior to making purchase commitments.*

2. ***Improper processing of vendors' invoices.*** In processing vendors' invoices for payment, the authority does not indicate on the invoices whether the prices and the arithmetical accuracy of the invoices have been verified and checked. Without such indications, there is no assurance that the invoices have in fact been checked for possible errors before payment is made.

In addition to the above, "xerox" copies of vendors' invoices are processed for payment. To prevent the possibility of duplicate payments, only original invoices should be processed for payment.

Recommendations. *We recommend that all invoices be stamped with a marking for the staff to indicate that the prices and arithmetical accuracy of the invoices have been verified. In addition, we recommend that the authority prohibit the processing of "xerox" copies of invoices for payment unless such copies contain a certification by the vendor that the original invoice has not been presented or paid.*

Control over Property Inventory

An effective internal control system over property inventory is necessary to ensure that governmental assets are adequately safeguarded and accounted for. To accomplish this, a physical inspection should be made and a count of all inventory items should be taken periodically, complete inventory records be maintained, and custodial responsibility be assigned to appropriate officials.

Our review of the HHA's internal control system revealed the following weaknesses: (1) failure to take periodic inventory of property, (2) deficiencies in inventory recordkeeping procedures, and (3) noncompliance with inventory filing requirements.

Failure to take physical inventory. Every governmental department or agency should have a physical inventory taken of all property, at least once annually, to verify the existence and working condition of each property item under its custody. This is done by making an actual physical inspection of the property and comparing what was found against the property records which list all of the property items that the agency is supposed to have under its control. Without a physical inspection, there is no assurance that all assets under the custody of the agency exist.

We find that the authority does not, as a regular practice, take a physical inventory of property under its jurisdiction. In an audit report issued by the state comptroller in 1971, the authority was cited for its failure to take physical inventories. Similar comments were also contained in an audit report issued by the federal Department of Housing and Urban Development (HUD) in August 1972. According to HUD, the authority failed to take a physical inventory of its federal property in 1972. No physical inventory was taken for 1973. With millions of dollars of property under its custody, we are unable to understand why the authority has taken its responsibility over this phase of property management so lightly.

Recommendation. *We recommend that the authority immediately take a physical count of all property and continue to take a physical inventory of its property at least annually.*

Deficient inventory recordkeeping procedures. Inventory records should be accurate and reliable. However, the authority's recordkeeping procedures contain deficiencies which detract from the accuracy and reliability of its inventory records. Note the following.

1. The authority's detailed property records, i.e., its lists of property items, are not reconciled with the general ledger control account. Such reconciliation is necessary to safeguard against the possible omission of items in the detailed property records. During the audit we noted that the detailed property records and the general ledger control account for the equipment rental and vehicle rental funds were not in agreement.

2. There are no detailed property records for the teacher housing program. This means that there are no records to account for the individual property items used in the teacher housing program.

3. Disposals of property are not always recorded. Disposals can occur through various means such as by trading-in to acquire new property and scrapping obsolete items. In addition, when a property is lost or stolen, the property is considered as having been "disposed of." We find that disposals are recorded only when they arise from trade-ins.

Recommendation. *We recommend that the HHA take the steps necessary to ensure that property records are properly maintained. Such steps should include the periodic reconciliation of the detailed property records with the general ledger control account, the maintenance of detailed property records of all property, and the recording of all disposals of property.*

Noncompliance with inventory filing requirements. Under section 106–1, HRS, the heads of the executive departments and other specified persons are required to file annually with the state comptroller a sworn return or inventory containing a full, true, and correct list of all state property in their possession, custody, or control as of July 1. However, the state attorney general ruled in his opinion dated November 12, 1971 that HHA is excluded from the provisions of section 106–1. The Hawaii housing authority in December 1971 entered into an agreement with the state comptroller whereby HHA agreed to submit an annual inventory report of its property with the state comptroller.

We find that the HHA has not complied with the above agreement. Inventory reports as of July 1, 1972 and 1973 were not filed with the state comptroller.

Recommendation. *We recommend that the HHA take the steps necessary to ensure compliance with the inventory filing requirements as agreed upon by the HHA and the state comptroller.*

Chapter 6

HOUSING MANAGEMENT

This chapter covers those programs relating specifically to public housing and is primarily concerned with the management practices of the HHA as they relate to the administration of these programs.

In general, the examination of the authority's housing management practices revealed deficiencies in the procedures for determining eligibility for housing, in the requirements for participation in the downpayment reserve plan, and in maintenance operations.

Eligibility for Admission and Continued Participation in Public Housing Program

The Hawaii housing authority administers a variety of housing programs. For each of these programs, the rules of the HHA establish asset and annual family income limits for persons to become eligible (1) for admission to a housing project and (2) for continued occupancy. The asset and income limits differ from one housing program to another. They are the lowest for the federally subsidized low-rent housing program, slightly higher for the federally subsidized leased housing and the state housing programs, and the highest for the state rent supplement program. Within each program, the limits also differ depending on the size of the person's family. (See exhibit I for the annual income limits for each program and the limits within each program by size of family.)

For all programs, in determining the annual family income and thus a person's eligibility for admission to or continued occupancy of a public housing dwelling unit, the HHA rules provide for certain deductions[1] and exemptions[2] from the family's aggregate income. "Aggregate family income" is all income from any source whatsoever anticipated to be received during the 12-month period following eligibility by all persons in the family, including the minor children who occupy or will occupy the housing unit.[3] After subtracting the deductions and exemptions from the aggregate family income, the resulting family income must be within the allowable limit.

The authority's practices in applying its rules for determining eligibility for admission and continued occupancy have resulted in inconsistencies in the treatment of applicants. These practices include:

[1]"Deductions" include such items as: special occupational expenses necessary to employment and for which no reimbursement is made by the employer; amounts paid for the support of a person not residing with the family but for whose support one or more members of the family are legally or morally responsible; and amounts paid for the care of children or aged or incapacitated family members in order to permit family members to engage in a gainful occupation outside the home. "Aggregate family income" less deductions produces a "net family income."

[2]"Exemptions" include $100 per family member other than the head of the family and his spouse and all receipts from the federal government on account of death or disability incurred in the military service. Exemptions are applied against the "net family income."

[3]In the case of a head of the family, his income is included even though he may be temporarily separated from his family.

- The use of varying formulas by staff interviewers in calculating "aggregate family income"; and

- The lack of adequate supervision of staff interviewers.

The use of varying formulas. For all programs, the determination of eligibility for admission and continued occupancy is made, with few exceptions, by staff interviewers at the Oahu central office. The staff interviewers calculate "aggregate family income" in a variety of ways. Among the ways in which "aggregate family income" is calculated include:

- Actual income earned in the previous year, regardless of whether or not the applicant worked the full year;

- Actual income earned in the past year divided by the number of months actually worked by the applicant times 12;

- Average hourly rate actually earned in the previous year times 40 (hours), times the number of weeks that others of similar skill or occupation generally work in a year; and

- Actual income earned in the previous year adjusted for certain employee benefits such as sick leave and vacation pay.

Which method is used is totally within the discretion of each staff interviewer. There are no written standards to guide the interviewer as to which method to employ in a given situation.

Which method of calculation is used can make a difference. Under one method, an applicant may be eligible for public housing or for continued occupancy and under another method he may not. To illustrate, one of the interviewers in determining the family income of an hourly wage earner-tenant determined the tenant's annual income to be that which he actually realized during the previous year. On this basis the tenant was found to be eligible for continued occupancy. However, since the tenant had not worked in the previous year for as many weeks as others of similar skill or occupation normally work in a year, if the interviewer had calculated the tenant's income by multiplying his hourly wage earned the previous year by 40 and multiplying that result by the number of weeks normally worked in a year by others of similar skill or occupation, the tenant would have been found ineligible since his income, calculated in this way, would have exceeded the maximum limit set forth for his family size.

Maximum income allowed for eligibility	$8,400
Actual income earned during previous year	7,504
Income based on equivalent work week method . .	8,806

From this example, one may see that the current system does not guarantee equal treatment to all applicants. Moreover, the example points out the distinct possibility that applicants who are in fact eligible may be found ineligible, and applicants who are in fact ineligible found eligible. To avoid these inequities, specific standards are required which reduce or eliminate the discretion of the staff interviewers as to the method to be employed in calculating "aggregate family income." This is not necessarily to say that only one method of calculation is to be prescribed, but if more than one method is to be used, the conditions which allow the use of one over another should be specified.

Recommendation. *We recommend that the authority develop standards for calculating "aggregate family income" and where more than one mode of calculation is prescribed, specify the conditions under which each may be used.*

Lack of adequate supervision. Not only do the staff interviewers use their own discretion in deciding how to calculate "aggregate family income," but their judgments are never reviewed. Thus, the decisions made by the individual interviewers are, in essence, final.

Our review of some of the cases indicated that the judgment of the staff interviewers are sometimes subject to serious question. For example, in one case sampled, there appeared to be some question as to the reasoning of the interviewer in arriving at his decision regarding the eligibility of an applicant. The interviewer had failed to document his reasoning. When the assistant manager was queried, he simply stated that this was a "borderline case," that in "borderline cases" interviewers consider the "individual situation," and that he would abide by the interviewer's decision.

Staff interviewers' decisions on admission to housing should be systematically monitored and regulated by supervisors to ensure consistency in the decisions, fairness and equity in the treatment of applicants, and adherence to established standards and policy. But such monitoring does not take place. Not even a spotcheck is conducted by supervisors or other responsible persons.

Recommendation. *We recommend that the findings and decisions of the interviewers be systematically and periodically reviewed to ensure that all applicants are properly evaluated, that the appropriate criteria are being applied, and that all applicants are accorded fair and equal treatment.*

Downpayment Reserve Plan

The downpayment reserve plan[4] enables a resident of a state permanent, nonsubsidized public housing project to participate in a plan whereby a portion of his monthly rent is set aside by the HHA to his credit in a reserve fund. In addition, the HHA makes a contribution to each participating tenant's account in the reserve fund. The accumulated reserve is to be used by the tenant as a downpayment on the purchase of a home. The intent of the plan, enacted into law during the 1964 session of the state legislature, is designed to encourage public housing residents to move into their own homes through a voluntary savings plan and also to free housing units to other tenants who are in need of them.

Under section 359–102, HRS, every present and future tenant in each of the Hawaii housing authority's permanent nonsubsidized housing projects has an opportunity to participate in the plan, provided he is eligible on the standards set by the authority. The statute requires that eligibility standards be based on income.[5]

Under the authority's rules, a tenant is eligible to participate if his income is such as to indicate potential financial ability to purchase a $15,000 – $20,000 home.[6] In addition, under the rules, participants are expected to be able to purchase a home within four years. To this end, participants are allowed to accumulate $5500, the reserve limit set by the authority, to use as a downpayment on a home.

[4] "Tenant savings" is the difference between 20 percent of the tenant's net income and the regular monthly rental the tenant pays for the unit he occupies. This difference is credited in a reserve account to the tenant. In effect, the downpayment reserve plan reduces the regular monthly rental to 20 percent of the tenant's income, and the tenant is "forced" to save that portion of the regular rental over 20 percent of his income which he would otherwise have had to pay to HHA as rental. The HHA contribution is the difference between the regular rent and the current adjusted monthly operating costs applicable to the unit occupied by the tenant.

[5] The exact wording of section 159–102, HRS, is that "eligibility standards are to be . . . based on proof of sufficient income." "Effective income" is defined in section V of HHA's rules and regulations relating to voluntary downpayment reserve plan for home ownership as "stable income" including "the income of a spouse of whose employment is either permanent or is expected to continue for a reasonably long duration, but shall exclude all income of minors. Effective income shall not include income from secondary employment unless such employment has been over a long period and is expected to continue for a reasonably long duration. In addition, the following deductions from the participants net take home pay are made: alimony and child support payments, separate maintenance and support payments to a wife and children, life insurance payments, payments on loan accounts and payments made on consumer loan purchases or installment plan purchases and other recurring payments."

[6] As calculated by HHA, a $15,000 to $20,000 home is all that a person with an income such as that being earned by tenants of public housing would be able to afford, considering the monthly mortgage payments that he would have to make over a period of 30 years with a downpayment of $5,500. See HHA's Home Purchase Feasibility Table, June 1, 1966 (based on FHA section 203(b) Mortgage Amortization Schedule for a $15,000–$20,000 home with a 30-year payment period).

The downpayment reserve plan has a number of deficiencies:

- The current requirements for participation and withdrawal from the downpayment reserve plan are inappropriate. Indeed, there are some questions as to the viability of the plan to enable tenants of public housing to become homeowners.
- Noncompliance with rules and regulations has resulted in an overcredit to participants in the downpayment reserve plan.

Inappropriate requirements. There are five nonsubsidized permanent housing projects[7] in the State which have a combined resident population of 750 families. Of the 750 resident families, only 50 are currently participating in the downpayment reserve plan. Of these 50 families, nine have been in the plan for more than four years. Of the nine, seven have accumulated reserves in excess of $5500. Several of these seven families have been in the plan for seven to eight years and are no longer contributing to savings nor are they being credited with HHA contributions.

Those who have participated for more than four years and accumulated more than $5500 are still in the plan (although some are no longer contributing to savings) and still tenants in public housing because they have been unable to purchase homes suited to their needs and income levels. This is not surprising, for the plan is based on the premise that the participating tenants will eventually purchase homes priced between $15,000 to $20,000, and such homes are nonexistent in today's real estate market. Further, the reserve limit is set at $5500, which is insufficient in today's market to serve as a downpayment, and the saving period is four years, a span within which real estate prices have had a tendency in the past to increase greatly. The fact that HHA has permitted residents to participate in the plan for more than four years and to accumulate reserves in excess of $5500, contrary to established rules and regulations, indicates that the housing administrators themselves realize that the requirements relating to participation in and withdrawal from the plan are grossly inappropriate in today's market.

It appears that the downpayment reserve plan, in and of itself, lacks that viability which it once may have had. The plan operates within severe constraints which make it impossible for a tenant to become a homeowner through the plan. On the one hand, the income level of the tenants are too low. On the other, the price of housing is at astronomical levels. At their income level, it would take the tenants too long to save up enough for a downpayment and make it possible for the tenants to make the monthly mortgage payments. Increasing the amount of the reserve the tenants may accumulate or lengthening the period of saving would do very little, in light of these income and market constraints, to assist the tenants realize homes of their own under the downpayment reserve plan alone.

A possible recourse open to these individuals is through state and federally sponsored home ownership programs as those offered under Act 105, SLH 1970, and other subsidized nonpublic housing programs which offer the federal housing administration's section 235 subsidy and lower interest rates to low and moderate income families. But even then, whether tenants of public housing, at their income levels, would be able to become homeowners is very much in doubt.

As an example, the HHA is presently selling leasehold units in the Uluwehi project in Waianae, Oahu, a development sponsored under Act 105. The units range in price from $29,750 for a three-bedroom unit to $37,900 for a four-bedroom duplex. The terms of the mortgage loan contract stipulate an annual interest rate of 8 percent for a 30-year period.

[7]The five state nonsubsidized permanent housing projects are Puahala, Hauiki, Palolo Homes I, Palolo Homes II, and Lokehi.

Assuming that a family of four, occupying a unit in one of the State's permanent housing projects has accumulated $5500 in the downpayment reserve plan and wishes to purchase a three-bedroom unit in the Uluwehi project for $29,750, the monthly mortgage payment (including principal, interest, property tax, and lease rent) would be $208.[8] This amount is $117 per month more than the $91 per month the family is presently paying for its three-bedroom unit in a state public housing project. This additional financial burden may be more than what the family is able to bear. Thus, with real estate costs continually increasing and in light of the annual income limit allowed for occupancy in a state public housing project, it is doubtful that state housing tenants would be capable of becoming homeowners without some additional assistance from the State.

Recommendation. *We recommend that the legislature reassess the viability of the downpayment reserve plan and evaluate other possible options, either by themselves or in conjunction with the downpayment reserve plan, to assist public housing tenants acquire homes of their own.*

Noncompliance with rules and regulations. The HHA, in direct violation of established rules and regulations of the downpayment reserve plan, is presently using past operating cost data as the basis for computing HHA's contribution to the reserve. As a result, HHA overcontributed to the plan for 1972–73 fiscal year.

The rules and regulations state that "The Hawaii Housing Authority shall contribute into the down payment reserve plan, as a credit to the account of each participant, a monthly sum equal to the difference between the monthly rent that the tenant would have paid if he were not a participant in the down payment reserve plan and the current adjusted monthly operating cost applicable to the type of unit occupied by the tenant . . . ." The rules further state that "Operating costs . . . include all costs of administration, maintenance, utilities, equipment, capital improvements and additions and provisions for reserves."[9] Operating costs for any given year are estimated and included in the budget for the fiscal year. They are "adjusted" at the close of the year when the actual costs are determined.

For the fiscal year 1972–73, HHA's contributions to the downpayment reserve was inappropriately based on the authority's operating budget for 1971–72 rather than the current (1972–73) adjusted costs. As a result, HHA overcontributed to the reserve plan. Table 6.1 below shows the overcontribution for each size of rental unit.

Table 6.1
Amount Overcontributed per Rental Unit by HHA For FY 1972–73

Bedroom size	*Actual cost for 1973*	*Cost used by authority*	*Over-contri-bution*
1	$69	$62	$7
2	73	68	5
3	80	75	5
4	86	82	4
5	93	90	3

Recommendation. *We recommend that the authority adhere to the rules and regulations which require the use of actual current operating costs in computing HHA's contribution to the reserve. Estimated operating costs for the ensuing fiscal year should be used as a basis for estimating HHA's portion of the reserve. However, at the end of each fiscal year when actual costs are realized, the necessary cost adjustments should be made so that HHA's contribution to the individual reserve accounts does in fact reflect current adjusted operating costs for that particular year.*

[8] The monthly mortgage payment would be as high as $281 for a four-bedroom duplex costing $37,900.

[9] Hawaii Housing Authority, *Rules and Regulations Relating to Voluntary Down Payment Reserve Plan for Home Ownership*, Section II(C).

Maintenance Operations

Maintenance operations are of two types: ordinary maintenance and extraordinary or nonroutine maintenance. Ordinary maintenance consists primarily of janitorial services, extermination of rodents and household pests, and rubbish and garbage collection. Minor repairs of dwelling units, appliances, and grounds are also considered to be a part of the ordinary maintenance operations. All routine repair and maintenance work is performed by the authority's own staff located at each of the four area offices. In addition, the central maintenance section provides services requiring specialized skills and equipment (namely plumbing services) upon request from the area offices.

Extraordinary maintenance is work of such a substantial nature that it is clearly not a part of routine maintenance. Examples of this are the replacement of all or a substantial portion of gas or electric lines, regrading and rehabilitation of the grounds, and the replacement of a substantial portion of a roof structure. Extraordinary maintenance is usually performed under contract or by a special labor crew.

The examination of the authority's maintenance operations disclosed the following deficiencies:

- The length of time to prepare vacated units for occupancy is excessive.
- Time standards for ordinary maintenance tasks performed by staff personnel are lacking.

Excessive length of time to prepare vacated units for occupancy. The U.S. Department of Housing and Urban Development (HUD) in its audit report dated August 15, 1972 stated that the authority takes an excessive length of time to prepare vacated units for occupancy. According to the HUD report, during the 15-month period, January 1, 1971 through March 31, 1972, the average number of vacant days per vacated unit was 12.7. The report further stated that this average (12.7) was excessive and that a more reasonable average number of vacant days per vacated unit should be no more than seven calendar days.

This audit revealed that, from January 1, 1973 to September 30, 1973, the average number of vacant days per vacated unit was 10.9 days, a decrease of 1.8 days or 14 percent from the 12.7 average mentioned in the HUD report. This decrease, however, was more than offset by the decrease in average number of units vacated per month from 105 to 60.

The HUD report indicated as one possible reason for the high average number of vacant days per vacated unit the inefficient distribution of available maintenance personnel among the various project areas. HHA had represented to HUD that a reassignment of maintenance personnel would be made during October 1973 in the hope of reducing the average number of vacant days. However, at the time of this audit, HHA had yet to initiate action.

Recommendation. *We recommend that the authority immediately reassign its maintenance staff and continue to explore possible means of reducing the time it takes to prepare vacated units for occupancy.*

Lack of time standards for maintenance tasks. The authority does not maintain time standards for maintenance tasks performed by its own maintenance personnel. A time standard is a predetermined length of time in which a particular job or task is expected to be completed under normal circumstances. Such time standards are essential for the purpose of evaluating the performance and productivity of maintenance personnel.

A study conducted by a private management consultant firm[10] indicated that it

[10] *Comprehensive Public Housing Management System Demonstration Program*, Volume C–1, "Maintenance and Modernization," April 22, 1973, p. 21.

takes the authority's maintenance personnel an average of 1.06 hours to complete certain typical repair jobs as compared with the time standards of 0.74 hours used by the U.S. Army Engineers; and 0.79 hours used by the New Orleans Housing Authority; thus suggesting that the productivity of HHA's maintenance personnel is significantly lower than that of work forces in comparable organizations.

Recommendation. *We recommend that the authority establish time standards for the various maintenance tasks performed by its maintenance personnel.*

Exhibit I

Annual Income Limits by Number of Persons for Admission and Continued Occupancy In Federally Subsidized Low Rent and Leased Housing, and State Nonsubsidized Permanent Housing with Accompanying Rent Schedules

No. of Persons	*Low Rent*		*Federally Subsidized Leased Housing and State Nonsubsidized Permanent Housing*	
	Admission	*Continued Occupancy*	*Admission*	*Continued Occupancy*
1	$5,150	$ 6,200	$ 6,200	$ 7,450
2	5,350	6,400	6,400	7,700
3	6,100	7,300	7,300	8,750
4	6,550	7,850	7,850	9,400
5	7,000	8,400	8,400	10,100
6	7,500	9,000	9,000	10,800
7	7,950	9,550	9,550	11,450
8	8,250	9,900	9,900	11,900
9	8,600	10,300	10,300	12,350
10	8,900	10,700	10,700	12,850

Rent

The fixed rents for federally subsidized low rent and leased housing projects and the state nonsubsidized housing projects are as follows:

No. of Bedrooms	*Low Rent and Leased Housing**		*State Permanent Housing*	
	Oahu	*Hawaii, Maui, Kauai*	*Oahu*	*Hawaii Maui, Kauai*
0 (studio)	$43.00	$37.50	$ –	–
1	48.00	43.00	76.00	–
2	59.00	53.50	83.50	$69.50
3	69.50	64.00	91.00	80.50
4	80.50	75.00	99.00	–
4½	86.00	–	–	–
5	91.00	–	106.50	–

*The rent for a *non-elderly* family in the Low Rent projects is the lesser amount of rent either as listed in the above schedule, or rent based on 25% of a family's income as defined in Section 208 of the Housing and Urban Development Act of 1970. The rent for an *elderly* person or family in the Low Rent projects is the lesser amount of rent either as listed in the above schedule, or rent based on 20% of a family's net annual income, or rent based on 25% of a family's income as defined in Section 208 of the Housing and Urban Development Act of 1970 with a minimum rent set at $32 per month.

Chapter 7

FINANCIAL STATEMENTS AND ACCOUNTANTS' OPINIONS

This chapter reports the results of the examination of the financial statements of the Hawaii housing authority for the fiscal year July 1, 1972 to June 30, 1973 conducted by Coopers and Lybrand. This chapter contains the opinion of Coopers and Lybrand regarding the accuracy of the authority's financial statements; displays of the various financial statements: general fund, federal funds, special funds, bond funds, and trust and other funds administered by the Hawaii housing authority; and explanatory notes to the financial statements.

Summary of Findings

Due to significant weaknesses in the authority's system of internal control, Coopers and Lybrand could render no opinion as to the fairness with which the financial statements of the various funds administered by the Hawaii housing authority represent the financial position of the funds, except that, with regard to the following funds, Coopers and Lybrand stated that the financial statements of the funds *do not* present fairly the financial position and results of operations of the funds for the fiscal year: housing revolving fund; teachers' housing revolving fund; dwelling unit revolving fund; teachers' housing bond fund; mortgage loans bond fund; Act 105, SLH 1970, bond fund.

Accountants' Opinions

Coopers and Lybrand's statement filed with the legislative auditor is as follows:

"To the Legislative Auditor
State of Hawaii
Honolulu, Hawaii

We have examined the following financial statements of the Funds of the Hawaii Housing Authority, State of Hawaii, as of June 30, 1973 and for the year then ended:

Exhibit A – General Fund
Exhibit B – Federal Funds
Exhibit C – Special Funds
Exhibit D – Bond Funds
Exhibit E – Trust and Other Funds

In accordance with the terms of our engagement, the scope of our examination did not include the verification of the land, structure and equipment accounts of the Funds, where applicable, as of June 30, 1973.

Our examination disclosed variances from requirements of State statutes and from generally accepted accounting principles as follows:

Housing Revolving Fund (Part of Exhibit C – Special Funds)

The Hawaii Housing Authority does not depreciate fixed assets in accordance with generally accepted practice for self-supporting enterprise funds. If depreciation was provided for the year ended June 30, 1973, and the previous years, the Authority's fixed assets would be overstated by approximately $3,000,000 and the excess of revenue over expenditures would be overstated by approximately $100,000 for the current year.

Teachers' Housing Revolving Fund (Part of Exhibit C – Special Funds)

Teachers' Housing Bond Fund (Part of Exhibit D – Bond Funds)

Under Section 359A–2 of the Hawaii Revised Statutes, the Teachers' Housing Bond Fund should have been transferred to the Teachers' Housing Revolving Fund. The two funds reflect separate operating expenditures and significant assets in their respective funds.

Dwelling Unit Revolving Fund (Part of Exhibit C – Special Funds)

Mortgage Loan Bond Fund (Part of Exhibit D – Bond Funds)

Act 105, SLH 1970 Bond Fund (Part of Exhibit D – Bond Funds)

The Mortgage Loan Bond Fund and the Act 105, SLH 1970 Bond Fund reflect transactions which are not in accordance with the purpose of the funds which were to account for the issuance of general obligation bonds. These transactions relate to loans receivable and the development and sale of housing units in the Mortgage Loan Bond Fund and loans receivable and purchase of housing units in the Act 105, SLH 1970 Bond Fund. The transactions should have been recorded in the Dwelling Unit Revolving Fund which was created to account for the monies received or collected under the Act 105, SLH 1970 housing programs. In addition, the Dwelling Unit Revolving Fund reflects interest income of approximately $500,000 for the year ended June 30, 1973, which represents revenue recorded in previous years in another fund. As a result, the assets and fund balance are overstated by $9,000,000 and revenue and expenditures are overstated by $3,000,000 for the Mortgage Loan Bond Fund; assets and fund balance are overstated by $12,000,000 in the Act 105, SLH 1970 Bond Fund; and assets are understated by $21,000,000 and the excess revenue over expenditures is overstated by approximately $500,000 in the Dwelling Unit Revolving Fund.

As a result of the matters discussed in the foregoing paragraphs, we are of the opinion that the financial statements of the following funds do not present fairly the financial position at June 30, 1973, and the results of operation for the year then ended:

Housing Revolving Fund (Part of Exhibit C – Special Funds) Teachers' Housing Revolving Fund (Part of Exhibit C – Special Funds) Dwelling Unit Revolving Fund (Part of Exhibit C – Special Funds) Teachers' Housing Bond Fund (Part of Exhibit D – Bond Funds) Mortgage Loans Bond Fund (Part of Exhibit D – Bond Funds) Act 105, SLH 1970 Bond Fund (Part of Exhibit D – Bond Funds)

Our examination also revealed significant weaknesses in the system of internal control and it was not practicable to extend our testing to a complete verification. Because of these weaknesses and the omission of the verification of the land, structure and equipment accounts, we were unable to conduct our examination of accompanying financial statements in accordance with generally accepted auditing standards. Therefore, we do not express an opinion on the General Fund, Federal Funds, Special Funds (other than Housing Revolving Fund, Teachers' Housing Revolving Fund and Dwelling Unit Revolving Fund), Bond Funds (other than Teachers' Housing Bond Fund, Mortgage Loan Bond Fund and Act 105, SLH 1970 Bond Fund) and Trust and Other Funds.

/s/ *Coopers and Lybrand*
Coopers and Lybrand
Certified Public Accountants

Honolulu, Hawaii
November 15, 1973"

Descriptions and Definitions

Description of financial statements. The financial statements for each of the funds administered by the HHA consist of several parts. These parts are:

1. A *balance sheet* which discloses the assets, liabilities, reserves, and fund balances of the fund as of a specified date.

2. A *statement of changes in fund balance* which summarizes the resources, appropriations, and expenditures of the fund for the year, including the increase or decrease in the fund balance during the year.

3. A *statement of appropriations, allotments, and expenditures (general fund)* which notes the moneys authorized, made available, expended, obligated, and lapsed for the fiscal year.

4. A *statement of detail expenditures (general fund)* which summarizes the current year expenditures by the type of expenditure.

5. A *statement of revenue, expenditures, other, and changes in fund balance* which summarizes the results of the financial transactions during the year.

For each of the funds, there are notes to the financial statements which are intended to furnish the reader with a better understanding of the financial statements and which are necessary to ensure against a misreading of the financial statements.

Definition of terms. Technical terms are used throughout the financial statements. The more common terms and their definitions are as follows:

1. ***Allotment*** – Authorization by the director of budget and finance to a state agency to incur obligations and to make expenditures pursuant to the appropriation made by the state legislature.

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

3. ***Encumbrance*** – The earmarking or setting aside of certain sums of money from an appropriation for payment at a future date.

4. ***Expenditure*** – The actual disbursement of funds for the payment of goods delivered or services rendered which are incurred against authorized funds.

5. ***Fund balance*** – The excess of a fund's assets over its liabilities and reserves which is available for future appropriation unless restricted to a specific purpose.

6. ***Lapsed balance*** – The balance of funds authorized, which is unexpended and uncommitted at the end of a prescribed time period. This balance is available for appropriation by the state legislature in the ensuing fiscal year.

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

8. ***Transfers*** – Transfer of amounts from one fund to another.

General Notes to the Financial Statements

Explanatory notes which are pertinent to an understanding of the financial statements and financial condition of the funds administered by the authority are discussed below.

Accounting principles. The accounts of the Hawaii housing authority are maintained and the accompanying financial statements have been prepared on the accrual basis of accounting except for vacation pay which is recorded when paid. Generally, under the accrual basis of accounting, revenue is recognized when earned 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 for equipment and construction. These commitments are represented as encumbrances in the accompanying financial statements and are necessary to reflect obligations against appropriations. Appropriations for the state general fund generally lapse at the end of the fiscal year to the extent that the appropriations have not been expended or encumbered.

Capital assets, such as land, structure, and equipment, purchased or constructed by the authority, are recorded as expenditures of the various funds. These assets are reflected in the accompanying balance sheets of the funds and are not depreciated.

Fund categories and description. The accounting system is characterized by the use of separate funds. These funds are established by administrative and legislative actions and are structured to conform to the requirements of the commissioners' resolutions, appropriations and allotments authorized by law, and the rules and regulations of contracts with the U.S. Department of Urban and Housing Development. Major categories of funds administered by the Hawaii housing authority are briefly described below.

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

2. ***Federal funds*** were created to account for individual annual contribution contracts which the authority entered into with the U.S. Department of Housing and Urban Development whereby the U.S. Government through annual contributions assist the authority in developing and/or maintaining low rent public housing for low income families. The funds reflect the accounting requirements of the U.S. Department of Housing and Urban Development.

3. ***Special funds*** are operated to account for revenue and expenditures designated for particular purposes. These funds are usually of the same nature as the general fund; however, they are distinguishable from the general fund in that special funds have legislative or other limitations imposed upon their use. A description of the authority's special funds is presented below:

a. Housing revolving fund. The Housing Act of 1947 authorized this revolving fund out of moneys appropriated for the purpose of developing and administering state housing projects. All moneys received by the authority under or pursuant to this act and the Housing Act of 1949 are deposited in this fund, and the moneys are expended for the development, operation, and maintenance of all state housing projects.

b. Hawaii development revolving fund for housing. Act 261, SLH 1969, amending Act 25, SLH 1968, created the fund and authorized the Hawaii housing authority to loan out "seed money" to finance preliminary costs in connection with developing low and moderate cost housing under federal programs.

c. Fee simple residential revolving fund. Section 516–44 of the Hawaii Revised Statutes created this fund and authorized the Hawaii housing authority to deposit all monies received or collected in connection with the State's land reform programs. The State's land reform programs are aimed at promoting fee simple ownership of residential lots in order to ease the inflation of prices for both fee simple and leasehold residential lots and to disperse ownership of fee simple residential lots to as large a number of people as possible. To administer the programs, the Hawaii housing authority may utilize funds provided by the State through the issuance of general obligation bonds. There was no activity in this fund during the 1972–73 fiscal year.

d. Teachers' housing revolving fund. Section 359A–1, Hawaii Revised Statutes, created the fund to account for all receipts and disbursements in connection with the Hawaii housing authority's functions of planning, construction, maintenance, and operations of housing for teachers employed and assigned by the department of education.

e. Dwelling unit revolving fund. This fund was established in accordance with Act 105, SLH 1970. Funds of $105,000,000 were authorized for housing programs with the monies received or collected under these programs to be accounted for in this fund. These housing programs consist of the dwelling unit development, the interim and mortgage loan, the downpayment loan, and the loan participation programs and are funded through the sale of state general obligation bonds.

f. Housing development fund, part II. This fund was established in 1957 by the commissioners' Resolution No. 569. The fund's original purpose was to record the operation of Kalihi war homes which was relinquished to the authority by the Federal Housing Administration in January 1953. The fund's current income consists solely of interest income from its investments in savings accounts.

g. Vehicle rental fund. The authority's commissioners by Resolution No. 427 established this revolving fund in 1954. Its function is to amortize the cost of motor vehicles purchased by the fund among the various housing projects for which the vehicles are used. The vehicles are generally amortized over an estimated life of seven and one-half years.

h. Equipment rental fund. This fund was originally established in 1951 with money donated by the county of Hawaii and subsequently renamed by the authority's commissioners by Resolution No. 570 in 1957. The fund is used to amortize the cost of equipment used by the authority's central office and central maintenance among the various housing projects through quarterly charges.

i. Special account no. 2. This fund was originally established to account for receipts of loan repayment under the interim and mortgage loan program of Act 239, SLH 1969. Currently the purpose of this fund is to account for deposits by potential buyers of developed dwelling units.

j. Kalihi-Palama neighborhood facilities fund. This fund was established to account for activities relating to a HUD grant under section 703 of the Housing and Urban Development Act of 1965 to establish a neighborhood community center in the Kalihi-Palama area. The department of accounting and general services of the State of Hawaii was engaged to develop such a community center to be administered by the authority. There was no activity in this fund during the 1972–73 fiscal year.

4. ***The bond funds*** are used to account for proceeds of bonds issued by the State of Hawaii for programs administered by the Hawaii housing authority. A description of the bond funds is presented below:

a. Teachers' housing bond fund. This fund was established to account for bond funds appropriated for the planning and construction of teachers' cottages in the remote or isolated areas of the State.

b. Capital improvement programs bond fund. This fund was established to account for appropriations from the state general obligation fund for capital improvement programs for various housing projects.

c. Mortgage loan program bond fund. This fund was established to account for the appropriation of $15,000,000 under Act 239, SLH 1969, to be funded by the sale of state general obligation bonds and advances from the state general fund prior to the sale of bonds. The fund is also used to account for loans made under the interim and mortgage loan program.

d. Acquisition of development tracts bond fund. This fund was established to account for the issuance of general obligation bonds of the State in the amount of $5,000,000 for the purpose of acquiring fee simple title on development tracts and promote ownership by lessees of leased land developed for residential use.

e. Act 105, SLH 1970, bond fund. This fund was established to account for the issuance of state general obligation bonds of $90,000,000 under Act 105, SLH 1970, for the purpose of developing low and moderate price housing and providing downpayment and participation loans. The fund is also used to account for transactions made under these programs.

5. ***Trust and other funds.*** A description of the funds included in this category is presented below:

a. Downpayment reserve plan fund. This fund was established in accordance with Act 22, SLH 1964, which authorized the establishment of a downpayment reserve plan whereby a portion of the rent paid by participating tenants in the authority's permanent state-subsidized housing projects would be placed in this fund to be used by the participants as a downpayment on the purchase of a home.

b. Disbursing fund. This fund serves as a clearing fund to facilitate central purchasing and disbursements. It pays all operating expenses such as payrolls, utilities, and maintenance charges for all housing projects operated by the authority. The projects in turn reimburse this fund for their share of expenses. Inventory of supplies and unexpired insurance are also maintained in this account.

c. Rental clearance fund. This fund was created for the purpose of facilitating lease rent payments to landlords participating in either the federal leased housing program or the state rent supplement program.

Commitments. In accordance with the general practice followed by other state agencies, the authority does not reflect accrued and potential liability for earned vacation and sick leave credits. As of June 30, 1973, the employees' earned vacation leave amounted to approximately $530,000. Within certain limitations, the employees are entitled to receive cash payments for accrued vacation upon the termination of their employment. The policy of the authority is to record the expenditure for vacation leave when paid from current appropriations.

Sick leave can accumulate at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of an illness and is not convertible to pay upon the termination of employment.

All full-time employees of the authority are required by section 88 of the Hawaii Revised

Statutes to become members of the employees' retirement system of the State of Hawaii, a contributory retirement system. The authority's and other state agencies' share of the retirement expense for the fiscal year ended June 30, 1973 is included in the general appropriation bill as an item to be expended by the department of budget and finance and is not reflected in the authority's accompanying financial statements. The accrued liability contribution, which includes prior service cost, is being funded over a 50-year period from July 1, 1964.

Pending litigation. At the time of the audit, the authority was involved in five litigations or disputes involving tort cases, property damage claims, and excess rent collection claims. These pending cases were before the First Circuit Court, Second Circuit Court, or the Supreme Court of Hawaii. According to the deputy attorney general for the authority, these claims were covered by insurance except for the excess rent collection claims of which the amount was not determinable.

Legislative appropriations. Act 68, SLH 1971 (as amended by Act 202, SLH 1972) appropriated to the Hawaii housing authority $7,976,130 for the 1972–1973 fiscal year to be financed from the following sources:

General revenues	$ 34,289
Special funds	7,941,841
	$7,976,130

Act 68, SLH 1971, (amended by Act 202, SLH 1972), Act 197, SLH 1971, (effective July 1, 1971), and Act 176, SLH 1972, also appropriated to the Hawaii housing authority the following sums for capital improvement projects for the 1971–72 and 1972–73 fiscal years. The appropriations for these projects are being expended principally by the department of social services and housing.

	1971–1972	1972–1973
Act 68, SLH 1971*	$4,600,000	$7,475,000
Act 197, SLH 1971	150,000	
Act 176, SLH 1972		910,000
	$4,750,000	$8,385,000

*As amended by Act 202, SLH 1972.

The Financial Statements

The financial statements of the funds of the Hawaii housing authority are displayed in exhibits A to E.

There are several items in the financial statements which require special explanation. These explanations are contained in the notes which follow. They are necessary for a complete presentation of the financial statements of the various funds.

Notes to Financial Statements of Federal Funds (Exhibit B)

1. ***Debt amortization funds.*** These funds account for monies held by fiscal agents for debt services. To the extent that moneys are not immediately required to retire debt and interest due, the fiscal agent is authorized to invest these moneys in savings accounts with banks or other institutions.

2. ***Notes payable.*** Notes payable are "project notes" for temporary financing of housing development projects bearing interest at the rate of 4.07 percent per annum. The notes are due October 6, 1973 and are secured by HUD's annual contributions payable to the authority and residual receipts of the projects after providing for the payment of bonds issued in respect to such projects.

3. ***Bonds payable.*** The Hawaii housing authority bonds consisted of the following at June 30, 1973.

New housing authority bonds	Interest rate	Issue date	Final Maturity date	Issued	Outstanding	Current
First issue	2-1/8%	8/1/50	8/1/91	$ 6,050,000	$ 3,442,000	$152,000
Second issue	2-3/8%	8/1/53	8/1/91	5,775,000	3,541,000	155,000
Third issue	2-3/8%	8/1/55	8/1/96	1,345,000	953,000	30,000
Fourth issue	3%	8/1/57	8/1/98	1,195,000	921,000	25,000
Fifth issue	3-1/2%	8/1/58	8/1/98	2,085,000	1,659,000	40,000
Sixth issue	3-1/2%	8/1/59	8/1/98	2,025,000	1,631,000	40,000
Seventh issue	3-1/8%	8/1/61	8/1/02	525,000	450,000	10,000
Eighth issue	3-3/8%	8/1/64	8/1/05	8,235,000	7,435,000	130,000
Ninth issue	3-5/8%	8/1/64	8/1/05	1,600,000	1,455,000	25,000
Tenth issue	3-5/8%	8/1/65	8/1/06	3,355,000	3,135,000	50,000
Eleventh issue	3- 5/8%	8/1/66	8/1/07	1,805,000	1,695,000	25,000
Twelfth issue	4-1/2%	8/1/66	8/1/07	3,605,000	3,375,000	45,000
Thirteenth issue	5-1/8%	8/1/68	8/1/09	2,855,000	2,795,000	30,000
Fourteenth issue	5-3/4%	8/1/70	8/1/09	14,595,000	14,280,000	120,000
				$55,050,000	$46,767,000	$877,000

These bonds were issued to permanently finance the cost of the housing units developed by the authority. They are callable after 15 years from the date of issue. They are secured by a pledge of HUD's annual contribution for debt service and by rents, revenue fees, and income of the authority.

4. ***Reserve for operations.*** This reserve is available to offset a deficit in operations under the terms of the annual federal contracts. The maximum amount that may be reserved at the close of any fiscal year for projects owned by the authority is 40 percent of the normal maximum reserve which must be equal to one-half of the routine expenditures.

For units leased by the authority, the reserve of $25 per dwelling unit may be charged.

5. ***Prior year adjustments.*** Prior year adjustments consist of writeoffs of nonexpendable properties which originally cost less than $50 and which were previously capitalized by the authority as a result of the commissioners' resolution to increase the capitalization of nonexpendable property from $25 to $50 during the current year.

6. ***Commitments.*** Under the terms of the annual contribution contracts with the federal government, the authority is obligated to maintain the low rent character of the housing developed or leased under the contracts in order for the authority to qualify for continuing financial and other assistance from the U.S. Department of Housing and Urban Development. Present contracts on the housing projects have varying expiration dates from 1990 through 2012 at which time all residual receipts are to be paid to HUD and other local contributors.

Notes to Financial Statements of Special Funds (Exhibit C)

1. ***Inventory of dwelling units.*** At June 30, 1973, the authority had acquired 20 dwelling units for $518,600 from the developer of the Kawaihae Village project under an agreement between HHA and the developer whereby the authority accepted conveyance to it of these dwelling units in lieu of the payment of a portion of the principal due from the developer on account of a construction loan made by the authority to the developer. The

purchase price of these units was recorded in both the dwelling unit revolving fund and the Act 105, SLH 1970, bond fund.

2. *Reserve for operations.* Pursuant to the commissioners' Resolution No. 882, an "operating reserve" for state projects was established in the 1965–66 fiscal year. The resolution provided that a sum equal to 5 percent of the operating expenses be added to the operating reserve until a maximum of one-half of the routine operating expenditures for the preceding year is attained.

3. *Transfer of interest revenue.* Included in the interest revenue of the dwelling unit revolving fund is approximately $500,000. This sum was transferred from special account no. 2 and the mortgage loan program bond fund where they had been recorded as revenue in prior years.

4. *Recording of loan principal repayments.* The principal payments received during the fiscal year on account of the loans recorded in the Act 105, SLH 1970, bond fund were recorded in the dwelling unit revolving fund. These repayments amounted to $4,558,895.02. Of this amount, $4,040,295.02 was received in cash and $518,600 in 20 dwelling units from the developer of the Kawaihae Village project (see note 1). The $518,600 was not shown as a transfer in the bond fund. Accordingly, the interest revenue is also recorded in the dwelling unit revolving fund although the fund does not reflect the mortgage loans.

5. *Prior year adjustments.* The authority records revenue and expenditures that are applicable to prior years as a prior year adjustment. During the year, the authority recorded as accrued revenue, interest on mortgage loans to the department of Hawaiian home lands. Approximately $270,000 of the total amount recorded was for revenue earned in previous years and was thus recorded as prior year adjustments.

Notes to Financial Statements of Bond Funds (Exhibit D)

1. *Unallotted appropriation.* Unallotted appropriation represents the amount of general obligation bonds authorized by the legislature less the amounts already issued and the amounts allotted (or cleared) by the administration for issuance.

2. *Mortgages and notes receivable.* Mortgages and notes receivable consist of construction and home mortgage loans made by the authority. The loans bear interest at rates ranging from 6½ to 7½ percent. The construction loans are due at various dates through 1993, the loans made to the department of Hawaiian home lands are due in September 1991, and the home mortgage loans are generally due within 30 years.

3. *Inventory of dwelling units.* At June 30, 1973, the authority had acquired 20 dwelling units for $518,600 from the developer of the Kawaihae Village project under an agreement between the authority and the developer. The purchase price of these units was recorded in both the Act 105, SLH 1970, bond fund and the dwelling unit revolving fund.

4. *Sale of dwelling units.* The authority recognizes sales and the related cost of sales for development projects at the time the entire project is sold. For the year ended June 30, 1973, the authority recorded sales and the related cost of sales of $3,551,166.34 and $3,425,066.64, respectively. Of the total sales recorded, approximately $3,200,000 was for sales closed in prior years.

5. *Transfers to other funds.* The authority transfers all loan principal and interest payments received on loans reflected in the Act 105, SLH 1970, bond fund to the dwelling unit revolving fund. Accordingly no interest income is reflected in the bond fund.

Downpayment reserve plan. The authority contributes into the downpayment reserve plan, as a credit to the account of each participant, a sum equal to the difference between the rental that the tenant would have paid if he were not a participant under the plan and the current adjusted operating costs applicable to the type of unit occupied by the tenant.

A participant is entitled to the authority's contribution only if he purchases a home under the plan. If a participant withdraws from the plan, the authority's contribution will revert back to the housing revolving fund.

EXHIBIT A

STATE OF HAWAII
HAWAII HOUSING AUTHORITY

GENERAL FUND

Balance sheet - June 30, 1973

	RENT SUPPLEMENTS	ASSISTANCE TO DISPLACED PERSONS AND FAMILIES	FEE OWNERSHIP ACQUISITION	ACT 105 SLH 1970 PROGRAMS	PUBLIC HOUSING
ASSETS					
CASH IN STATE TREASURY	$ 248.27	$ -	$1,082.75	$4,516.31	$ 9,737.88
UNALLOTED APPRORIATIONS	-	4,161.57	-	-	-
RECEIVABLES:					
Inter-fund	15,654.98	-	-	-	-
Other	2,986.26	-	-	-	-
LAND, STRUCTURE AND EQUIPMENT	3,714.20	-	-	-	-
CONSTRUCTION IN PROGRESS	-	-	-	-	5,076.00
	$22,603.71	$4,161.57	$1,082.75	$4,516.31	$14,813.88
LIABILITIES AND FUND BALANCE					
PAYABLES:					
Accounts	-	-	-	-	5,485.68
Inter-fund	-	-	851.04	3,000.00	-
INVESTMENT IN FIXED ASSETS	3,714.20	-	-	-	5,076.00
FUND BALANCE	18,889.51	4,161.57	231.71	1,516.31	4,252.20
	$22,603.71	$4,161.57	$1,082.75	$4,516.31	$14,813.88

The accompanying notes are an integral part of the financial statements.

EXHIBIT A
(cont'd.)

STATE OF HAWAII
HAWAII HOUSING AUTHORITY

GENERAL FUND

Statement of changes in fund balance
for the year ended June 30, 1973

	RENT SUPPLEMENTS	ASSISTANCE TO DISPLACED PERSONS AND FAMILIES	FEE OWNERSHIP ACQUISITION	ACT 105 SLH 1970 PROGRAMS	PUBLIC HOUSING
FUND BALANCE, JULY 1, 1972	$ -	$4,266.07	$ -	$ 547.07	$ -
APPROPRIATIONS/ALLOTMENTS	773,164.00	-	34,456.00	152,321.00	34,289.00
Total Balance and Appropriations/ Allotments	773,164.00	4,266.07	34,456.00	152,868.07	34,289.00
DEDUCTIONS:					
Expenditures for operating purposes	754,274.49	104.50	34,224.29	150,804.69	30,036.80
Prior year adjustments	-	-	-	547.07	-
Total Deductions	754,274.49	104.50	34,224.29	151,351.76	30,036.80
FUND BALANCE, JUNE 30, 1973	$ 18,889.51	$4,161.57	$ 231.71	$ 1,516.31	$ 4,252.20

The accompanying notes are an integral part of the financial statements.

EXHIBIT A
(cont'd.)

STATE OF HAWAII
HAWAII HOUSING AUTHORITY

GENERAL FUND

Statement of appropriations,
allotments and expenditures
for the year ended June 30, 1973

	AUTHORIZATIONS					
	BALANCE CARRIED FORWARD	APPROPRIATIONS/ ALLOTMENTS	TOTAL	EXPENDITURES	TRANSFERS	LAPSED BALANCES
RENT SUPPLEMENTS						
Administration	$ -	$773,164.00	$773,164.00	$ -	$ -	$ 248.27
Personal services	-	-	-	110,188.03	-	-
Other current expenses	-	-	-	643,855.27	-	-
Equipment	-	-	-	231.19	-	-
Transfers	-	-	-	-	18,641.24	-
TOTAL - RENT SUPPLEMENTS	$ -	$773,164.00	$773,164.00	$754,274.49	$18,641.24	$ 248.27
ASSISTANCE TO DISPLACED PERSONS AND FAMILIES						
Other current expenses	$4,266.07	$ -	$ 4,266.07	$ 104.50	$ -	$ -
FEE OWNERSHIP ACQUISITION						
Administration	$ -	$ 34,456.00	$ 34,456.00	$ -	$ -	$ 231.71
Personal services	-	-	-	31,745.31	-	-
Other current expenses	-	-	-	2,478.98	-	-
TOTAL - FEE OWNERSHIP ACQUISITION	$ -	$ 34,456.00	$ 34,456.00	$ 34,224.29	$ -	$ 231.71
ACT 105 SLH 1970 PROGRAMS						
Administration	$ -	$152,321.00	$152,321.00	$ -	$ -	$1,516.31
Personal services	-	-	-	124,168.77	-	-
Other current expenses	-	-	-	26,635.92	-	-
TOTAL - ACT 105 SLH 1970 PROGRAMS	$ -	$152,321.00	$152,321.00	$150,804.69	$ -	$1,516.31
PUBLIC HOUSING						
Administration	$ -	$ 34,289.00	$ 34,289.00	$ -	$ -	$4,252.20
Personal services	-	-	-	259.18	-	-
Other current expenses	-	-	-	24,701.62	-	-
Construction in progress	-	-	-	5,076.00	-	-
TOTAL - PUBLIC HOUSING	$ -	$ 34,289.00	$ 34,289.00	$ 30,036.80	$ -	$4,252.20

The accompanying notes are an integral part of the financial statements.

EXHIBIT A
(cont'd.)

STATE OF HAWAII
HAWAII HOUSING AUTHORITY

GENERAL FUND

Statement of detail expenditures
for the year ended June 30, 1973

	RENT SUPPLEMENTS	ASSISTANCE TO DISPLACED PERSONS AND FAMILIES	FEE OWNERSHIP ACQUISITION	ACT 105 SLH 1970 PROGRAMS	PUBLIC HOUSING
PERSONAL SERVICE:					
Nontechnical salaries	$107,787.21	$ -	$31,737.08	$124,127.26	$ 218.29
Other	2,400.82	-	8.23	41.51	40.89
TOTAL - PERSONAL SERVICES	110,188.03	-	31,745.31	124,168.77	259.18
OTHER CURRENT EXPENSES:					
Legal expense	2,338.07	-	-	10,554.22	-
Travel	310.87	-	80.00	3,236.62	-
Publications	440.95	-	-	1,309.41	-
Membership dues and fees	17.03	-	-	54.49	-
Telephone and telegraph	845.74	-	-	2,527.06	-
Sundry administration expense	5,566.15	-	1,008.69	2,494.47	-
Contract costs	1.94	-	932.75	-	-
Water	11.94	-	-	31.75	-
Electricity	244.78	-	-	682.07	-
Materials - ordinary maintenance	998.67	-	-	726.15	409.68
Contract costs - ordinary maintenance	-	-	-	2,857.44	-
Insurance	1,490.40	-	357.54	959.72	2.94
Extraordinary maintenance	-	-	-	-	24,289.00
Other general expenses	564.70	104.50	100.00	1,202.52	-
Rent supplement payments	631,024.03	-	-	-	-
TOTAL - OTHER CURRENT EXPENDITURES	643,855.27	104.50	2,478.98	26,635.92	24,701.62
LAND, STRUCTURE AND EQUIPMENT:					
Equipment	231.19	-	-	-	-
Construction in progress	-	-	-	-	5,076.00
TOTAL - LAND, STRUCTURE AND EQUIPMENT	231.19	-	-	-	5,076.00
TOTAL - EXPENDITURES	$754,274.49	$104.50	$34,224.29	$150,804.69	$30,036.80

The accompanying notes are an integral part of the financial statements.

EXHIBIT B

STATE OF HAWAII
HAWAII HOUSING AUTHORITY

FEDERAL FUNDS

Combined balance sheet - June 30, 1973

	ANNUAL CONTRIBUTION CONTRACTS				
ASSETS	SF-181	SF-298	SF-371	SF-394	TOTAL
CASH IN BANKS	$ 232,212.75	$ 68,181.94	$ 1,268.48	$ 2,276.33	$ 303,939.50
RECEIVABLES:					
Tenant accounts	108,921.68	9,175.84	-	393.93	118,491.45
HUD	-	-	1,937.76	313.23	2,250.99
Inter-funds	470,000.00	34,934.34	5,069.93	8,363.49	518,367.76
Accrued interest on general fund investments	25,665.79	-	180.07	268.83	26,114.69
Other	-	799.50	-	-	799.50
	604,587.47	44,909.68	7,187.76	9,339.48	666,024.39
PREPAID EXPENSE	2,756.04	-	-	-	2,756.04
INVESTMENTS OF OPERATING FUNDS, AT COST:					
Time certificates of deposit	1,040,000.00	-	5,000.00	-	1,045,000.00
United States government obligations	614,404.50	-	-	24,207.19	638,611.69
Other	110,375.00	-	-	-	110,375.00
	1,764,779.50	-	5,000.00	24,207.19	1,793,986.69
DEBT AMORTIZATION FUNDS (Note 1):					
Debt service fund	36,382.88	-	-	-	36,382.88
Advance amortization fund	33.85	-	-	-	33.85
Investment in time certificates of deposit	197,100.00	-	-	-	197,100.00
Annual contributions receivable from HUD	5,028,639.74	-	50,357.80	158,113.59	5,237,111.13
	5,262,156.47	-	50,357.80	158,113.59	5,470,627.86
PROPERTY AND EQUIPMENT:					
Land, structures and equipment	62,208,518.85	2,547.01	832,767.25	2,265,650.64	65,309,483.75
Construction in progress	124,635.50	-	-	-	124,635.50
	62,333,154.35	2,547.01	832,767.25	2,265,650.64	65,434,119.25
Total Assets	$70,199,646.58	$115,638.63	$896,581.29	$2,459,587.23	$73,671,453.73

The accompanying notes are an integral part of the financial statements.

EXHIBIT B
(cont'd.)

STATE OF HAWAII

HAWAII HOUSING AUTHORITY

FEDERAL FUNDS

Combined balance sheet - June 30, 1973

	ANNUAL CONTRIBUTION CONTRACTS				
	SF-181	SF-298	SF-371	SF-394	TOTAL
LIABILITIES, CONTRIBUTIONS, RESERVE AND FUND BALANCE (DEFICIT)					
NOTES PAYABLE, DUE WITHIN ONE YEAR (Note 2)	$ 5,493,829.82	$ -	$736,259.09	$2,198,911.09	$ 8,429,000.00
ACCOUNTS PAYABLE:					
Vendors and contractors	48,562.33	-	-	-	48,562.33
Contract retentions	10,378.87	-	-	-	10,378.87
Tenant security deposits	100,175.00	14,100.00	1,050.00	3,100.00	118,425.00
HUD	610,797.74	-	-	-	610,797.74
Inter-funds	192,746.09	83,129.74	-	-	275,875.83
Other	-	5,211.53	-	-	5,211.53
	962,660.03	102,441.27	1,050.00	3,100.00	1,069,251.30
ACCRUED LIABILITIES:					
Accrued interest on bonds and notes payable	873,283.17	-	6,659.05	19,887.93	899,830.15
Payments in lieu of taxes	183,799.86	-	911.64	3,729.80	188,441.30
Utilities	87,855.00	-	1,136.00	1,636.00	90,627.00
Salaries and wages	76,048.72	3,019.34	530.57	2,180.79	81,779.42
	1,220,986.75	3,019.34	9,237.26	27,434.52	1,260,677.87
BONDS PAYABLE (Note 3)	46,767,000.00	-	-	-	46,767,000.00
PREPAID TENANT RENTS	6,539.87	2,815.49	141.60	510.26	10,007.22
Total Liabilities	54,451,016.47	108,276.10	746,687.95	2,229,955.87	57,535,936.39
CONTRIBUTIONS:					
Cumulative HUD contributions	27,447,172.51	2,402,337.82	236,463.93	409,012.00	30,494,986.26
Contributions from local governmental units	513,458.56	-	-	-	513,458.56
Contribution from State-aided projects	192,127.46	-	-	-	192,127.46
Total contributions	28,152,758.53	2,402,337.82	236,463.93	409,012.00	31,200,572.28
RESERVE - OPERATIONS (Note 4)	645,835.55	4,815.52	4,974.36	16,590.00	672,215.43
FUND BALANCE (DEFICIT)	(13,049,963.97)	(2,399,790.81)	(91,544.95)	(195,970.64)	(15,737,270.37)
	15,748,630.11	7,362.53	149,893.34	229,631.36	16,135,517.34
Total Liabilities, Contributions, Reserve and Fund Balance	$ 70,199,646.58	$ 115,638.63	$896,581.29	$2,459,587.23	$ 73,671,453.73

The accompanying notes are an integral part of the financial statements.

EXHIBIT B
(cont'd.)

STATE OF HAWAII
HAWAII HOUSING AUTHORITY

FEDERAL FUNDS

Combined statement of revenue, expenditures, other and changes in fund balance for the year ended June 30, 1973

	ANNUAL CONTRIBUTION CONTRACTS				
	SF-181	SF-298	SF-371	SF-394	TOTAL
OPERATING REVENUE:					
Dwelling rental	$2,556,388.51	$ 371,271.79	$17,695.00	$ 52,070.12	$ 2,997,425.42
Excess utilities	127,284.23	-	-	-	127,284.23
Interest on general fund investments	79,397.86	110.14	204.52	268.83	79,981.35
Other	58,540.19	1,854.38	690.08	479.54	61,564.19
	2,821,610.79	373,236.31	18,589.60	52,818.49	3,266,255.19
EXPENDITURES:					
Ordinary maintenance and operation	1,163,504.62	6,498.22	6,573.23	32,056.14	1,208,632.21
Rent to owners of leased dwellings	-	982,139.69	-	-	982,139.69
Utilities	853,830.33	226.91	8,578.56	14,772.12	877,407.92
Administration	568,209.40	61,214.18	4,000.00	13,955.05	647,378.63
General	556,119.50	12,787.67	3,213.98	14,846.39	586,967.54
Nonroutine maintenance	141,067.52	-	-	-	141,067.52
Tenant services	9,903.46	1,240.12	-	371.69	11,515.27
	3,292,634.83	1,064,106.79	22,365.77	76,001.39	4,455,108.78
EXPENDITURES OVER OPERATING REVENUE	$(471,024.04)	$(690,870.48)	$(3,776.17)	$(23,182.90)	$(1,188,853.59)

The accompanying notes are an integral part of the financial statements.

EXHIBIT B
(cont'd.)

STATE OF HAWAII
HAWAII HOUSING AUTHORITY

FEDERAL FUNDS

Combined statement of revenue, expenditures, other and changes in fund balance for the year ended June 30, 1973

	ANNUAL CONTRIBUTION CONTRACTS SF-181	SF-298	SF-371	SF-394	TOTAL
BALANCE BROUGHT FORWARD	$(471,024.04)	$(690,870.48)	$(3,776.17)	$(23,182.90)	$(1,188,853.59)
OTHER REVENUE (EXPENDITURES):					
Interest on debt amortization fund investments	13,414.39	-	-	-	13,414.39
Interest on notes and bonds payable	(2,117,695.41)	-	(27,398.58)	(74,501.31)	(2,219,595.30)
Loss from disposition of nonexpendable equipment	(20,043.89)	-	-	-	(20,043.89)
Provision for operations (Note 4)	270,757.00	8,484.48	(3,849.00)	(16,590.00)	258,802.48
	(1,853,567.91)	8,484.48	(31,247.58)	(91,091.31)	(1,967,422.32)
EXPENDITURES OVER REVENUE	(2,324,591.95)	(682,386.00)	(35,023.75)	(114,274.21)	(3,156,275.91)
OTHER					
Prior year adjustments (Note 5)	(42,568.09)	-	(422.51)	(1,354.31)	(44,344.91)
EXPENDITURE AND OTHER OVER REVENUE	(2,367,160.04)	(682,386.00)	(35,446.26)	(115,628.52)	(3,200,620.82)
FUND BALANCE (DEFICIT), July 1, 1972	(10,682,803.93)	(1,717,404.81)	(56,098.69)	(80,342.12)	(12,536,649.55)
FUND BALANCE (DEFICIT), June 30, 1973	$(13,049,963.97)	$(2,399,790.81)	$(91,544.95)	$(195,970.64)	$(15,737,270.37)

The accompanying notes are an integral part of the financial statements.

STATE OF HAWAII
HAWAII HOUSING AUTHORITY

SPECIAL FUNDS

Balance sheets - June 30, 1973

	HOUSING REVOLVING FUND	HAWAII DEVELOPMENT REVOLVING FUND FOR HOUSING	FEE SIMPLE RESIDENTIAL REVOLVING FUND	TEACHERS' HOUSING REVOLVING FUND	DWELLING UNIT REVOLVING FUND	HOUSING DEVELOPMENT FUND, PART II	VEHICLE RENTAL FUND	EQUIPMENT RENTAL FUND	SPECIAL ACCOUNT NO. 2	KALIHI-PALA NEIGHBORHOO FACILITIES FUND
ASSETS										
CASH AND INVESTMENTS:										
Cash in State treasury	$ 164,001.38	$211,664.06	$10,088.74	$222,378.21	$5,366,818.42	$ -	$ -	$ -	$ -	$ -
Cash in banks and on hand	60,033.53	-	-	-	-	1,310.04	96.93	25.19	2,109.81	-
Savings certificates and investments	14,500.00	-	-	-	-	115,438.14	71,938.12	10,984.08	7,868.59	-
RECEIVABLES:										
Inter-fund	171,337.54	-	-	15,000.00	768,822.89	-	4,918.82	1,446.75	-	-
Interest	-	-	-	-	-	3,872.92	1,210.75	-	133.34	-
Other State agencies	29,844.79	-	-	-	-	-	-	-	-	-
Mortgages and notes	-	8,175.00	-	-	-	-	-	-	-	-
Other	15,396.86	-	-	495.00	873.22	-	-	-	-	-
INVENTORY OF DWELLING UNITS (Note 1)	-	-	-	-	518,600.00	-	-	-	-	-
LAND, STRUCTURE AND EQUIPMENT	6,445,736.14	-	-	29,087.72	37,592.70	1,827.41	202,623.22	83,978.50	-	18,240.06
DEFERRED CHARGES	90,967.85	-	-	380.00	6,450.77	-	-	-	-	-
Total Assets	$6,991,818.09	$219,839.06	$10,088.74	$267,340.93	$6,699,158.00	$122,448.51	$280,787.84	$96,434.52	$10,111.74	$18,240.06
LIABILITIES, RESERVES AND FUND BALANCE										
PAYABLES:										
Accounts	$ 47,337.05	$ -	$ -	$ 9,839.59	$ 1,070.27	$ -	$ -	$ -	$ -	$ -
Inter-fund	120,822.12	-	-	19,810.40	7,604.31	-	167,614.24	8,392.90	-	-
Other	88,015.48	-	-	-	-	-	-	-	9,802.43	-
DEFERRED CREDITS	11,501.10	-	-	-	203.35	-	-	-	-	-
RESERVES:										
Replacement of vehicles	-	-	-	-	-	-	113,173.60	-	-	-
Operation (Note 2)	150,564.21	-	-	-	-	-	-	-	-	-
INVESTMENT IN FIXED ASSETS	6,445,736.14	-	-	29,087.72	37,592.70	1,827.41	-	83,978.50	-	18,240.06
FUND BALANCE	127,841.99	219,839.06	10,088.74	208,603.22	6,652,687.37	120,621.10	-	4,063.12	309.31	-
Total Liabilities, Reserves and Fund Balance	$6,991,818.09	$219,839.06	$10,088.74	$267,340.93	$6,699,158.00	$122,448.51	$280,787.84	$96,434.52	$10,111.74	$18,240.06

The accompanying notes are an integral part of the financial statements.

EXHIBIT C
(cont'd.)

STATE OF HAWAII
HAWAII HOUSING AUTHORITY
SPECIAL FUNDS

Statement of revenue, expenditures, transfer and changes in fund balance
for the year ended June 30, 1973

	HOUSING REVOLVING FUND	HAWAII DEVELOPMENT REVOLVING FUND FOR HOUSING	FEE SIMPLE RESIDENTIAL REVOLVING FUND	TEACHERS' HOUSING REVOLVING FUND	DWELLING UNIT REVOLVING FUND	HOUSING DEVELOPMENT FUND, PART II	EQUIPMENT RENTAL FUND	SPECIAL ACCOUNT NO. 2
REVENUE:								
Interest (Notes 3 and 4)	$ 861.22	$ 4,307.60	$ -	$ -	$1,707,616.64	$ 6,384.65	$ 1,080.73	309.31
Rental	640,557.40	-	-	186,650.90	-	-	3,827.53	-
Other	20,141.51	-	-	126.00	120.00	-	-	-
Total Revenue	661,560.13	4,307.60	-	186,776.90	1,707,736.64	6,384.65	4,908.26	309.31
EXPENDITURES:								
Personal Services	279,509.93	-	-	99,980.84	10,099.50	-	-	-
Other current expenditures	315,597.44	-	-	112,124.60	16,818.05	450.00	-	-
Reserve for operation (Note 2)	26,015.33	-	-	-	-	-	-	-
Land, structure and equipment	3,784.69	-	-	3,183.14	-	-	10,641.98	-
Total Expenditures	624,907.39	-	-	215,288.58	26,917.55	450.00	10,641.98	-
Revenue over (under) expenditures	36,652.74	4,307.60	-	(28,511.68)	1,680,819.09	5,934.65	(5,733.72)	309.31
TRANSFER FROM OTHER STATE FUNDS (Note 4)	4,947.05	-	-	-	4,558,895.02	-	-	-
Revenue and transfer over (under) expenditures	41,599.79	4,307.60	-	(28,511.68)	6,239,714.11	5,934.65	(5,733.72)	309.31
FUND BALANCE - JULY 1, 1972	65,139.74	215,531.46	10,088.74	237,114.90	143,807.15	114,686.45	9,796.84	428,901.59
Transfer to Dwelling Unit Revolving Fund (Note 4)	-	-	-	-	-	-	-	(428,901.59)
Prior year adjustments (Note 5)	21,102.46	-	-	-	269,166.11	-	-	-
FUND BALANCE - JUNE 30, 1973	$127,841.99	$219,839.06	$10,088.74	$208,603.22	$6,652,687.37	$120,621.10	$ 4,063.12	$ 309.31

The accompanying notes are an integral part of the financial statements.

EXHIBIT D

STATE OF HAWAII
HAWAII HOUSING AUTHORITY
BOND FUNDS

Balance sheet - June 30, 1973

	TEACHERS' HOUSING BOND FUND	CAPITAL IMPROVEMENT PROGRAMS BOND FUND	MORTGAGE LOAN BOND FUND	ACQUISITION OF DEVELOPMENT TRACTS BOND FUND	ACT 105 SLH 1970 BOND FUND
ASSETS					
CASH AND INVESTMENTS:					
Cash in state treasury	$ 16,488.14	$ 99,272.71	$ 3,286,669.48	$ -	$ 5,119,444.01
Cash in banks and on hand	-	-	38,183.85	-	-
Savings certificates and investments	-	-	52,565.13	-	-
UNALLOTED APPROPRIATION (Note 1)	5,000.00	928,800.00	6,947.387.97	5,000,000.00	64,485,117.00
RECEIVABLES:					
Inter-fund	-	-	37,145.57	-	3,748.636.50
Interest	-	-	562,914.14	-	183,396.31
Mortgages and notes (Note 2)	-	-	8,514,937.19	-	11,991.392.69
Other	279.94	1,075.00	-	-	-
INVENTORY OF DWELLING UNITS (Note 3)	-	-	34,358.44	-	593,136.36
LAND, STRUCTURE AND EQUIPMENT	508,199.77	473,081.38	-	-	-
DEVELOPMENT IN PROGRESS	-	-	-	-	24,700.00
DEFERRED CHARGES	-	-	9,620.91	-	-
	$529,967.85	$1,502,229.09	$19,483,782.68	$5,000,000.00	$86,145,822.87
LIABILITIES, RESERVE AND FUND BALANCE					
PAYABLES:					
Accounts	$ -	$ 13,663.50	$ 25,000.00	$ -	$ -
Inter-fund	9.94	2,565.59	4,334,063.08	-	183,879.67
Other	270.00	-	760.00	-	-
RESERVE:					
Inventory of dwelling units	-	-	-	-	593,136.36
Development in progress	-	-	-	-	24,700.00
INVESTMENT IN FIXED ASSETS	508,199.77	473,081.38	-	-	-
FUND BALANCE	21,488.14	1,012,918.62	15,123,959.60	5,000,000.00	85,344,106.84
	$529,967.85	$1,502,229.09	$19,483,782.68	$5,000,000.00	$86,145,822.87

The accompanying notes are an integral part of the financial statements.

EXHIBIT D
(cont'd.)

STATE OF HAWAII
HAWAII HOUSING AUTHORITY
BOND FUNDS

Statement of changes in fund balance
for the year ended June 30, 1973

	TEACHERS' HOUSING BOND FUND	CAPITAL IMPROVEMENT PROGRAMS BOND FUND	MORTGAGE LOAN BOND FUND	ACQUISITION OF DEVELOPMENT TRACTS BOND FUND	ACT 105 SLH 1970 BOND FUND
FUND BALANCE, JULY 1, 1972	$136,078.57	$ 639,747.74	$15,071,325.72	$5,000,000.00	$90,000,000.00
ADDITIONS:					
Sale of dwelling units, current and prior years (Note 4)	-	-	3,551,166.34	-	-
Appropriations	-	576,000.00	-	-	-
Other	-	-	-	-	2,238.22
Total Balance and Additions	136,078.57	1,215,747.74	18,622,492.06	5,000,000.00	90,002,238.22
DEDUCTIONS:					
Cost of dwelling units sold, current and prior years (Note 4)	-	-	3,425,066.64	-	-
Expenditures -					
Current operating expenses	43,322.34	-	5,490.47	-	-
Purchase of dwelling units	-	-	-	-	593,136.36
Land, structure and equipment	2,258.07	202,829.12	-	-	-
Development costs	-	-	-	-	24,700.00
Transfers to other funds (Note 5)	69,000.00	-	67,975.35	-	4,040,295.02
Total Deductions	114,590.41	202,829.12	3,498,532.46	-	4,658,131.38
FUND BALANCE, JUNE 30, 1973	$ 21,488.16	$1,012,918.62	$15,123,959.60	$5,000,000.00	$85,344,106.84

The accompanying notes are an integral part of the financial statements.

EXHIBIT E

STATE OF HAWAII
HAWAII HOUSING AUTHORITY
TRUST AND OTHER FUNDS

Balance sheet - June 30, 1973

	DOWN PAYMENT RESERVE PLAN TRUST FUND	DISBURSING FUND	RENTAL CLEARANCE FUND
ASSETS			
CASH AND INVESTMENTS -			
Cash in banks and on hand	$ 1,975.88	$ 3,247.91	$1,369.50
Savings certificates and investments	202,336.87	-	-
RECEIVABLES -			
Inter-fund	5,202.00	411,731.80	-
Interest	3,947.14	-	-
Other	6,414.00	51,145.71	-
SUPPLIES INVENTORY	-	36,535.28	-
PREPAID EXPENSES	-	11,347.75	-
	$219,875.89	$514,008.45	$1,369.50
LIABILITIES			
PAYABLES -			
Accounts	$ -	$ 13,339.08	$ -
Inter-fund	88,968.89	404,207.71	1,369.50
Other	-	87,889.16	-
OTHER LIABILITIES -			
Down payment reserve plan participants -			
Tenants' savings	103,623.00	-	-
Authority's contribution (Note)	27,284.00	-	-
Other	-	8,572.50	-
	$219,875.89	$514,008.45	$1,369.50

The accompanying note is an integral part of Exhibit

PART III

RESPONSES OF THE AFFECTED AGENCIES

COMMENTS ON AGENCY RESPONSES

A preliminary draft of this audit report was transmitted to the Hawaii housing authority and the department of accounting and general services in January 1975 for their comments on the findings and recommendations directed at the agencies. Copies of the transmittal letters to the Hawaii housing authority and the department of accounting and general services (DAGS) are included as attachments 1 and 2. The responses of the authority and DAGS are included as attachments 3 and 4. The authority attached several exhibits to its response. The exhibits are not included in this report because they do not add significantly to the authority's response and some of the exhibits contain personal information on tenants.

The Hawaii housing authority and the department of accounting and general services have expressed general agreement with the recommendations contained in the audit report and have indicated that they are implementing or will implement most of the changes recommended. However, some of the comments made by the authority indicate that the authority does not fully comprehend some of the findings and recommendations. The following sections contain our comments on the responses made by the authority. Our comments are limited to those areas which require clarification or special comment.

Improper Recording of Operating Reserve Charge

The audit found that for years an amount was reported as an expenditure of the state public housing program when in fact there was no valid expense to support such an amount. No cash was expended for the amount shown as an expenditure. Over the years, the amount erroneously shown as an expenditure totaled over $150,000. Presumably this means that this amount has been taken into consideration as one of the expenses to be recovered in setting rental rates.

The audit recommended that the authority remove the accumulated reserve amount from the accounting records since the recording of the amount as an expenditure and the accumulation of a reserve are misleading. The authority responded thusly:

> "HHA's practice of recognizing the need for reserving funds from operating fund balance, to meet an unpredictable emergency, or future major maintenance problem, is patterned after HUD required accounting practice."

The authority's response shows that it does not understand the finding. The reporting of an amount as an expenditure when in fact no disbursement or expenditure was incurred is incorrect. The inclusion of this amount in the financial statement results in a misrepresentation of the financial results of the operations of the state public housing program. In addition, this error, if it continues to be made in the future, may have adverse economic effects on the tenants, since this amount may be included as one of the expenses to be recovered through rental charges. We again recommend that the authority remove the accumulated reserve amount from the accounting records and discontinue recording the amount as an expenditure in the future.

Poor Financial Management

The audit revealed that the authority had not been investing any of its special fund moneys which are deposited with the state treasury. At June 30, 1973, this amount totaled approximately $6 million. Using a 6 percent rate of return, the yield in interest would amount to approximately $355,000 per year.

The audit recommended that the authority prepare cash forecasts and develop an investment program and coordinate its cash management program with the state department of budget and finance. The authority responded as follows:

> "The Authority was not aware that agencies are able to exercise control of special fund balances. HHA assumed that management of subject funds was at the discretion of the Departments of Budget and Finance and Accounting and General Services. Immediately upon the receipt of this report HHA contacted Department of Budget and Finance, and has received instructions and forms for managing the investment and deriving the revenue from its 'special fund' cash resources. It is our understanding that the interest on the investments was not lost but was being credited to the General Fund of the State rather than to HHA special funds."

The authority's response infers that because some interest was credited to the general fund rather than the HHA special funds the deficiency was not that serious. The authority, however, should be mindful that any loss of investment revenue means that the revenues from housing programs must make up for such loss. We believe that the authority has a special responsibility to its clients to assure that there is maximum investment of cash balances and that all interest earnings are properly credited to the special funds established to support housing programs. The amount of interest earnings which has not been credited to housing is not inconsequential.

Controls over Property Inventory

The audit noted that the authority was not maintaining accurate property inventory records. This deficiency was also noted by the department of accounting and general services, the agency responsible for the accounting of all state property. The authority has responded that it has or was in the process of correcting its records and in some instances its records were accurately maintained. We are pleased that the authority has indicated that it has taken some action to correct the deficiencies. However, in those instances where the authority has stated that its records were accurate, the authority has apparently misinterpreted the finding. To illustrate, the audit found that disposals of property, except for trade-ins, were not being recorded in inventory records. The authority states that a report of items lost or stolen is always prepared. The audit finding is not directed to the question of whether or not a report of the loss was prepared. The audit finding is that the *inventory records* do not show the disposals of property and *not* whether reports on losses of property have been prepared.

Eligibility Determination

The audit found that varying methods were being used by the authority's staff in calculating "aggregate family income," one of the determinants of eligibility for and continued occupancy in public housing. The apparent reason for this was that specific standards or criteria were not developed to assure that all staff members would compute aggregate family income in the same manner. The authority, as part of its response, submitted several exhibits which were intended to show that it has standards. The information contained in the exhibits is not sufficiently specific. For example, in one of the exhibits submitted, income is to be determined as follows:

> "Income is generally projected according to current or anticipated rate of pay if such income is steady and can reasonably be determined to be permanent, etc., ... Past income is used as a basis where current income is temporary in nature, or where tenant's past income shows that he has had sporadic employment with other sources of income, etc."

Using the above guidelines, it is very conceivable that different staff interviewers reviewing the same application may arrive at different income amounts. Standards must be sufficiently specific to cover, among other things, the various conditions of employment which affect income.

The audit also noted from several cases examined for eligibility, that the work of staff interviewers was not being adequately reviewed by the supervisors. The authority has stated that supervisors systematically spot-check and review the work of the interviewers. However, we did not find this to be so. For example, we questioned a supervisor on a specific case regarding an applicant who we considered was possibly not eligible for public housing. The interviewer in this case had not documented the reasons for finding this applicant eligible. The supervisor simply responded that, in a borderline case, he would abide by the interviewer's decision. We think that a supervisor should review at least all of the borderline cases.

ATTACHMENT NO. 1

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

CLINTON T. TANIMURA
AUDITOR

January 24, 1975

C o p y

Mr. Sidney W. Cook
Chairman of the Commission
Hawaii Housing Authority
1002 North School Street
Honolulu, Hawaii 96817

Dear Mr. Cook:

Enclosed is a copy of our preliminary report on the *Financial Audit of the Hawaii Housing Authority*. The term "preliminary" indicates that the report has not been released for general distribution. However, copies of this report have been forwarded to the Governor and the presiding officers of both houses of the legislature. In addition, we have forwarded copies of the report to the director of the Department of Social Services and Housing, the executive director of the authority, and the directors of other affected agencies.

The report 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 February 5, 1975. 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 January 31, 1975. 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 staff to our auditors.

Sincerely,

Clinton T. Tanimura

Clinton T. Tanimura
Legislative Auditor

Enclosure

cc: Mr. Yoshio Yanagawa

ATTACHMENT NO. 2

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

CLINTON T. TANIMURA
AUDITOR

January 24, 1975

C o p y

Mr. Hideo Murakami, Comptroller
Department of Accounting and
General Services
State of Hawaii
Honolulu, Hawaii

Dear Mr. Murakami:

Enclosed is a copy of our preliminary report on the *Financial Audit of the Hawaii Housing Authority*. The term "preliminary" indicates that the report has not been released for general distribution. However, copies of this report have been forwarded to the governor and the presiding officers of both houses of the legislature. In addition, we have forwarded copies of the report to the authority and other affected agencies.

Chapter 4, page 34, of the report contains a recommendation relating to your department. 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 recommendation. Please have your written comments submitted to us by February 3, 1975. 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 January 31, 1975. 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,

Clinton T. Tanimura

Clinton T. Tanimura
Legislative Auditor

Enclosure

ATTACHMENT NO. 3

RECEIVED

FEB 5 1975

OFFICE OF THE AUDITOR
STATE OF HAWAII

George R. Ariyoshi
GOVERNOR

YOSHIO YANAGAWA
EXECUTIVE DIRECTOR

STATE OF HAWAII
DEPARTMENT OF SOCIAL SERVICES AND HOUSING
HAWAII HOUSING AUTHORITY
P. O. BOX 17907
HONOLULU, HAWAII 96817

IN REPLY REFER
TO: 1-17/299
Hall (845-6491)

February 5, 1975

Mr. Clinton T. Tanimura, Auditor
The Office of the Auditor
State of Hawaii
State Capitol
Honolulu, Hawaii 96813

Dear Mr. Tanimura:

Thank you very much for the opportunity to reply to the findings and recommendations made by your office on the operations of the Hawaii Housing Authority. Attached are our written replies to the specific recommendations made by your office.

Although the report is for the fiscal year 1972-1973, most of the recommendations are good and we have or will correct the deficiencies as per our responses.

It must be pointed out that many of the deficiencies were in programs taken on by the Authority fairly recently and the training and the expertise of the present accounting staff is not in this area. In our zeal to get the program started, we probably proceeded without sufficient training of our accounting staff. This was wrong.

We have also been discussing a new organizational plan with the Department of Budget and Finance which, once approved by the Governor, will give us more adequate supervisory capacities in most of our problem areas.

We thank you and members of your staff for all the assistance received.

Sincerely yours,

Sidney W. Cook

SIDNEY W. COOK
Chairman

Attach.

LEGISLATIVE AUDIT REPORT
FINANCIAL AUDIT OF THE HAWAII HOUSING AUTHORITY
Dated January, 1975

RESPONSE OF THE AUTHORITY

Chapter 3 FINANCIAL ACCOUNTING AND INTERNAL CONTROL

Recommendation: We recommend that the Authority examine the transactions in the accounts of the mortgage loan bond fund, the Act 105 bond fund, and the dwelling unit revolving fund and make the necessary adjustments to correct the balances in each of the respective funds.

Recommendation: We recommend that the Authority correct the improper entries in the accounts of the mortgage loan bond fund and the Act 105 bond fund.

HHA'S RESPONSE:

HHA made the proper adjustments to correct the balances of the three specified funds. State Audit Division has been requested to confirm HHA's accounting records, practices and the stated fund balance.

Recommendation: We recommend that the Authority make the necessary correcting entries to the accounting records on Contract No. SF-181.

HHA'S RESPONSE:

The correcting entries indicated were made by Journal Voucher No. 20 dated July 31, 1974.

Recommendation: We recommend that the Authority properly record the land purchase and the related liability to the State.

HHA'S RESPONSE:

At the time of the audit the land purchase price had not been furnished to the HHA by DLNR. Land purchase approval was subsequently recorded.

Recommendation: We recommend that the Authority record the cash balance and related liability in the mortgagors trust fund account in order to properly reflect the Authority's obligation as mortgagee.

HHA'S RESPONSE:

Employees Retirement System has purchased the mortgage loans and therefor the recording of the liability is no longer necessary. Any future similar transactions will be recorded as recommended.

Recommendation: We recommend that a written servicing agreement be executed by the bank and the Hawaii Housing Authority, specifying the terms of the arrangement and the responsibilities of the respective parties.

HHA'S RESPONSE:

All service agreements specify respective responsibilities and arrangements for service of our mortgages.

Recommendation: We recommend that the Authority delete as assets from the State bond fund and general fund accounts the amounts expended from these funds for capital improvements and equipment purchases and record them as assets in the general fixed assets group of accounts. In addition, we recommend that the Authority adhere to the statute with respect to the recording of teacher housing units.

HHA'S RESPONSE:

The error of recording disbursements directly from the teacher housing bond fund is recognized and any improperly recorded assets or expenses will be transferred into the teacher housing revolving fund. The foregoing procedures will also be applied to any other general fixed assets.

Recommendation: We recommend that the Authority review its 27 fund accounts to identify those accounts which should be consolidated. In effecting the consolidation, the Authority should keep in mind that the number of funds actually maintained must be consistent with legal specifications and operational requirements.

HHA'S RESPONSE:

The recommendation is sound and the Authority is studying the best solution for consolidation of the several fund accounts; our intent is to complete this consolidation before June 30, 1975.

Recommendation: We recommend that the Authority adhere to generally accepted principles of accounting in recognizing revenues and costs.

HHA'S RESPONSE:

HHA concurs and is taking steps to record revenues and expenses of Act 105 development projects correctly.

Recommendation: We recommend that the Authority remove the accumulated reserve amount from the accounting records and cease to record a percentage of each year's operating expenses as a reserve.

HHA'S RESPONSE:

HHA's practice of recognizing the need for reserving funds from operating fund balance, to meet an unpredictable emergency, or future major maintenance problem, is patterned after HUD required accounting practice.

Recommendation: We recommend that the Authority depreciate its fixed assets in order to obtain an accurate determination of costs of operations.

HHA'S RESPONSE:

In view of the stress given this accounting principle the Commissioners of HHA will be requested to give this recommendation serious consideration.

Chapter 4 FUND MANAGEMENT

Recommendation: We recommend that the Hawaii Housing Authority prepare cash forecasts, including the short- and long-term cash requirements of the special funds and develop an investment program for the cash not needed for immediate financial obligations. We further recommend that the Authority coordinate its cash management program with the Department of Budget and Finance to assure maximized investment of the Authority's funds.

HHA'S RESPONSE:

The Authority was not aware that agencies are able to exercise control of special fund balances. HHA assumed that management of subject funds was at the discretion of the Departments of Budget and Finance and Accounting and General Services. Immediately upon the receipt of this report HHA contacted Department of Budget and Finance, and has received instructions and forms for managing the investment and deriving the revenue from its "special fund" cash resources. It is our understanding that the interest on the investments was not lost but was being credited to the General Fund of the State rather than to HHA special funds.

Recommendation: We recommend that the Executive Director of the Authority comply forthwith with the action taken by the Commission in 1971.

HHA'S RESPONSE:

Action to merge Housing Development Fund Part II with the State Housing Revolving Fund as recommended by the State Auditor and authorized by HHA Commission in 1971 had not been recorded at time of audit due to a clerical error; transfer into HHA's special fund, S-302 has been recorded; also, fund resources deposited to S-302.

Recommendation: We recommend that all State funds presently being maintained in banks be transferred to the State Treasury and that all State funds hereafter collected by the Authority be deposited into the State Treasury.

HHA'S RESPONSE:

As any Navy-leased housing ended with termination of license between HHA and Navy at the end of October 1974 reference to the related fund is no longer applicable. The few units are being accounted for in the Housing Revolving Fund, S-302.

Moneys related to former Kalihi War Homes are accounted for in Housing Development Fund Part II merged into S-302 by Commission action in 1971.

Deposits by potential buyers of Authority-developed housing, repayment collections or interim and mortgage loans are all recorded and accounted for through special fund S-327 for Act 105 activities.

Disposition of the accounts for tenant security deposits, downpayment reserve plan and the three administrative "revolving funds": 1) central disbursing, 2) vehicle and 3) equipment established by HHA Commission resolutions many years ago; (1954-57), after suggestions from and consultation with the federal audit team and federal housing officials will be discussed with federal Department of Housing and Urban Development and the Department of Accounting and General Services appropriate action taken before July 1, 1975.

Recommendations: We recommend that the Hawaii Housing Authority observe section 40-66, HRS, relating to the lapsing of unexpended balances at the end of a fiscal year. In addition, we recommend that the Authority attach the documents supporting cash claim for payment made to the State Comptroller.

We further recommend that the State Comptroller observe section 40-56, HRS, relating to the submission of documents supporting a claim for payment.

HHA'S RESPONSE:

HHA advances the necessary funds to process payments to lessor/landlords by the first day of each month and invoices the General Fund for reimbursement; workload that time of month is very heavy. The incident is considered a clerical and inadvertent overdraft; the net amount of $13,389.50, was reimbursed to the State General fund by HHA check No. 8374 and properly recorded, see Exhibit A, copy of reimbursement transmittal as requested.

Recommendations: We recommend that the Authority adhere to the requirements of section 37-42, HRS, limiting expenditures to the allotment amounts. In addition, we recommend that the Authority institute procedures for periodic special reviews by the Authority's Commissioners of the financial transactions in the disbursing fund.

HHA'S RESPONSE:

Control procedures, tighter supervision, and special training have been instituted to prohibit the occurrence of overexpenditure of an allotment amount in the future. Arrangements will be made for periodic review of disbursing fund activities by HHA Commissioners.

Recommendation: We recommend that the Authority review and improve its internal procedures to speed up communication and action between and among its units.

HHA'S RESPONSE:

The audit report comment indicates a misunderstanding. HHA did not lose HUD Operating Subsidy funds. Based on experience with HUD funding process, it was extremely impractical for HHA to commit or plan to depend on this Operating Subsidy in this instance until actual funds were received into its bank account, March 29, 1973. The steps required to contract and account for the completed maintenance work made it impossible to expend the operating subsidy within the 90-day period ending June 30, 1973. This unexpended amount is thereby available and was not lost. It was properly credited to increase the Authority's reserve. This prior year subsidy amount can be used in the following fiscal year; this was done.

Chapter 5 PURCHASING AND INVENTORY CONTROL PRACTICES

Recommendation: We recommend that the Authority establish a formal policy restricting the use of blanket purchase orders. Among other things, the policy should specify the types and kinds of items which may be purchased, the dollar ceiling of such purchases, and the unit cost limit.

HHA'S RESPONSE:

The Authority is now well into implementation of a system for improved purchasing practices developed under a HUD funded contract with Haskins & Sells. The improvements will apply to both goods and emergency services procured through the use of open (blanket) purchase orders. Controls will include: 1) types of goods and services, which may be purchased 2) total dollar limits and 3) time limits.

Recommendation: We recommend that the Hawaii Housing Authority establish a formal policy whereby all confirming purchases are prohibited except in clearly defined situations.

HHA'S RESPONSE:

HHA agrees with recommendation. A formal policy prohibiting confirming Purchase Orders except in clearly defined situations is being adopted.

Recommendation: We recommend that the Authority take the steps necessary to ensure compliance with its policy of requiring the certification of available funds prior to making purchase commitments.

HHA'S RESPONSE:

Except, as noted for Central Stores stock items, and as commented by the auditor, certification by the Comptroller, or his designee, that approved budgeted funds are available is a strictly enforced practice. For approximately 1200 items of maintenance materials and supplies authorized for stock in the Central Stores, the limit for purchase of such items by the Purchasing Agent is $500 for any Purchase Order, excess of that amount requires approval of the Executive Director.

Recommendations: We recommend that all invoices be stamped with a marking for the staff to indicate that the prices and arithmetical accuracy of the invoices have been verified. In addition, we recommend that the Authority prohibit the processing of "xerox" copies of invoices for payment unless such copies contain a certification by the vendor that the original invoice has not been presented or paid.

HHA'S RESPONSE:

HHA concurs with this recommendation. The two recommended practices are in effect. HHA Finance section has never knowingly approved or paid anything but original invoices; payment based on a copy of an invoice of any kind including "xerox" copies is prohibited except when vendor certifies the invoice to be an "original". With the recent transfer to Finance of the payment copy of Purchase Orders and the procedure of receiving of invoices for checking, collating and matching of these documents for payment, Finance is stamping invoices and confirming accuracy and correctness.

Recommendation: We recommend that the Authority immediately take a physical count of all property and continue to take a physical inventory of its property at least annually.

HHA'S RESPONSE:

The Authority has always had a regular practice of a physical inventory of its equipment annually. At the time of audit the practice had been neglected because of the workload of Act 105, other more recently acquired programs and burden of State PPB system requirements. However, the documentation of property transactions and control of property was always being maintained. During the year and a half subsequent to the audit, the Authority's inventory records have been brought up to date and deficiencies concerning record keeping and compliance with filing requirements have been corrected and will continue to be maintained.

Recommendation: We recommend that the HHA take the steps necessary to ensure that property records are properly maintained. Such steps should include the periodic reconciliation of the detailed property records with the general ledger control account, the maintenance of detailed property records of all property, and the recording of all disposals of property.

HHA'S RESPONSE:

1. Property inventory listings, cards and general ledger controls for funds mentioned in report were in balance at time of audit. Property records for federally-aided programs have always been reconciled and maintained in balance. Property accounting records for the State housing program is being updated and will be balanced as recommended by June 1975.

2. This appears to be an erroneous comment. Detailed property records for teacher housing are maintained and inventory submitted to DAGS Property Section annually in accordance with the December 1971 agreement between HHA and DAGS.

3. Without exception, HHA consistently documents and records property transactions. Lost or stolen property, or property that cannot be accounted for at time of inventory is processed by a survey action. Formal Report of Survey is made wherein the responsible party explains the circumstances; an investigation of facts is conducted and a finding and recommendation made by the Property Survey Officer. The Executive Director's approval of Property Survey Officer's report clears the inventory discrepancy. There are no exceptions to this or other pertinent practices.

Recommendation: We recommend that the HHA take the steps necessary to ensure compliance with the inventory filing requirements as agreed upon by the HHA and the State Comptroller.

HHA'S RESPONSE:

Inventory filing requirements were complied with for 1973 and 1974 fiscal years in accordance with HHA/DAGS December 1971 agreement. All property transactions (additions to and deletions from inventory) are being properly accounted for, processed and documented in accordance with good property control procedures.

Chapter 6

HOUSING MANAGEMENT

Recommendation: We recommend that the authority develop standards for calculating "aggregate family income" and when more than one mode of calculation is prescribed, specify the conditions under which each may be used.

HHA's RESPONSE:

1. The authority has always had standards for calculating "aggregate family income." Refer to Exhibit AA.

2. Where more than one mode of calculation is prescribed, the conditions under which each may be used is found in the interviewer's guide called "Procedure for Reexamination of Tenants in Low Rent Projects, 4/11/60." Refer to Exhibit B, Page 11, Section B, Items 2 and 3.

3. HUD guidelines were used by HHA in developing these standards. Refer to Exhibit C.

4. HUD letter dated 7/30/71 reaffirms that our method of computing "aggregate family income" is correct. Refer to Exhibit D, Paragraph 4.

5. Other examples of standards used by the interviewers to uniformly calculate income are shown in Exhibits E and F.

Recommendation: We recommend that the findings and decisions of the interviewers by systematically and periodically reviewed to ensure that all applicants are properly evaluated, that the appropriate criteria are being applied, and that all applicants are afforded fair and equal treatment.

HHA's RESPONSE:

1. Supervisors are systematically spot-checking and reviewing the work of interviewers. As errors are discovered, corrective action is immediately taken. Refer to Exhibit G for copies of letters to tenants explaining errors in rent computations which were found during reviews by supervisors.

2. In addition, HUD occupancy audits are regularly conducted to review the work of interviewers and to ensure that all applicants and tenants are

properly evaluated and afforded fair and equal treatment according to established standards and policies. Refer to Exhibits H and I for copies of HUD's audits.

3. Periodic HUD reports, 51227 (Report on Families Moving Into Low-Rent Housing) and 51245 (Report on Regular Reexamination of Families in Low-Rent Housing) further ensures that applicants and tenants are properly evaluated. Refer to Exhibits J and K.

   Supervisors initially check these reports to see that our standards and policies are properly applied. HUD, then, systematically audits these reports and advises HHA when errors are made. Refer to Exhibit L.

Recommendation: We recommend that the legislature reassess the viability of the downpayment reserve plan and evaluate other possible options, either by themselves or in conjunction with the downpayment reserve plan, to assist public housing tenants acquire homes of their own.

HHA's RESPONSE:

The Authority concurs with the recommendation to reassess this program and evaluate other possible options in assisting public housing tenants acquire homes of their own. This need has been enhanced by the recent enactment of the Federal Housing and Community Development Act of 1974 which revised many provisions governing the low-rent public housing program. Major changes includes the elimination of continued occupancy limits, redefining income eligibility for families with income not exceeding 80% of area median income or for "very low income" families to 50% of the median income in the area and re-defining the application of the 25% rent-income ratio. As the Authority has related the income limits and other provisions of the rules governing the State-aided permanent housing program to the low-rent program, change in focus in the Federally-aided low-rent program will necessitate major operational change in the Downpayment Reserve Plan which is administered through the State program.

The policies for implementing the provisions of the Housing and Community Development Act of 1974 are expected in April, 1975. The Authority will then be better able to relate the low-rent and the State-aided programs and recommend changes to the present downpayment reserve plan or propose other possible options to assist public housing tenants in achieving homeownership.

Recommendation: We recommend that the authority adhere to the rules and regulations which require the use of actual current operating costs in computing HHA's contribution to the reserve. Estimated operating costs for the ensuing fiscal year should be used as a basis for estimating HHA's portion of the reserve. However, at the end of each fiscal year when actual costs are realized, the necessary cost adjustments should be made so that HHA's contribution to the individual reserve accounts does in fact reflect current adjusted operating costs for that particular year.

HHA's RESPONSE:

The unit operating costs by bedroom sizes for determining the HHA's contribution to the reserve were revised on May 1, 1974. The present rates are:

Oahu

1-BR	--	$ 73.00
2-BR	--	81.00
3-BR	--	88.00
4-BR	--	95.00
5-BR	--	102.00

Hawaii

2-BR	--	$ 65.00
3-BR	--	75.00

Recommendation: We recommend that the authority immediately reassign its maintenance staff and continue to explore possible means of reducing the time it takes to prepare vacated units for occupancy.

HHA's RESPONSE:

In 1972, the Hawaii Housing Authority was selected as one of thirteen Authorities throughout the United States, by the Department of Housing and Urban Development, to participate in the Housing Management Improvement

Program (HMIP). A concerted effort under the HMIP, has been directed at the identification of problems in managing public housing and designing programs to resolve those problems. Specifically, maintenance operations within HHA has been one main area of concentration for the HMIP.

There are two maintenance programs which have been designed and implemented within two HHA Management Areas which are aimed at reducing the time needed to renovate vacant units. The two programs are After-hours Maintenance and Preventive Maintenance. Both programs have been in operation from ten months to one year. Although, it is too early to adequately measure the overall effectiveness of the programs cited, with respect to the impact on renovation of vacant units, the trends to date are encouraging. For example, Mayor Wright Homes has reduced their renovation time by 20% from 25 hours per unit to 20 hours per unit and Kalihi Valley Homes has reduced their time by 3% from 36.08 hours per unit to 35.02 hours per unit. Moreover, there has been a significant improvement in the number of vacant days experienced at Mayor Wright Homes and Kalihi Valley Homes. In 1973, Mayor Wright Homes and Kalihi Valley Homes had average vacant days per unit of 5.6 and 14.2 days respectively, and in the first ten months of 1974, Mayor Wright and Kalihi Valley reduced the average vacant days per unit to 4.6 days and 6.9 days, respectively. These improvements and trends are directly related to the implementation of the HMIP Maintenance Demonstration Programs.

It is expected that once the HMIP Maintenance Programs are implemented throughout HHA, similar improvements in the time needed to renovate vacant units and number of vacant days per unit will be experienced in all HHA Management Areas.

Recommendation: We recommend that the authority establish time standards for the various maintenance tasks performed by its maintenance personnel.

HHA's RESPONSE:

The Maintenance Supervision Program, under the HMIP Demonstration, was implemented in HHA Management Area II in May, 1974. This program is designed to improve effectiveness of overall maintenance operations by applying more efficient scheduling, control and supervision of the maintenance workload and use of work performance standards for various repair tasks. Data developed during the Maintenance Supervision demonstration will be used to establish work performance standards for use throughout HHA to achieve more economical productivity in accomplishing the maintenance workload.

ATTACHMENT NO. 4

George R. Ariyoshi
GOVERNOR

Hideo Murakami
COMPTROLLER

MIKE N. TOKUNAGA
DEPUTY COMPTROLLER

DIVISIONS:
ACCOUNTING
ARCHIVES
AUDIT
AUTOMOTIVE
CENTRAL SERVICES
COMPUTER CENTER NO. 1
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SURVEY

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

January 29, 1975

RECEIVED
JAN 31 1975
OFFICE OF THE AUDITOR
STATE OF HAWAII

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

Dear Mr. Tanimura:

With reference to the preliminary report on the Financial Audit of the Hawaii Housing Authority transmitted to us under your letter of January 24, we have reviewed the recommendation to which your letter directed our attention. The report's recommendation is that the comptroller observe the requirements of Section 40-56, H.R.S., relating to the documentation supporting claims for payment.

The essential importance of the requirements of Section 40-56 is recognized, and it is our intention that the requirements be enforced consistently. Because of the findings of your audit, we are reviewing the Hawaii Housing Authority's claims in particular, to assure that the documentation requirements are being met.

We appreciate the opportunity you have provided us to review your preliminary report.

Very truly yours,

Hideo Murakami

HIDEO MURAKAMI
Comptroller

PUBLISHED REPORTS OF THE LEGISLATIVE AUDITOR

AUDIT REPORTS

1966 1. Examination of the Office of the Revisor of Statutes, 66 pp. (out of print).

1967 1. Overtime in the State Government, 107 pp.

2. Management Audit of Kula Sanatorium, 136 pp.

1968 1. Financial Audit of the Department of Health for the Fiscal Year Ended June 30, 1967, v.p. (out of print).

2. Financial Audit of the Department of Planning and Economic Development for the Fiscal Year Ended June 30, 1967, v.p. (out of print).

3. Financial Audit of the Department of Regulatory Agnecies for the Fiscal Year Ended June 30, 1967, v.p. (out of print).

4. Financial Audit of the Department of Hawaiian Home Lands for the Fiscal Year Ended June 30, 1967, 54 pp.

5. Financial Audit of the Oahu Transportation Study for the Period July 1, 1962 to August 31, 1967, 68 pp.

6. Financial Audit of the Hawaii Visitors Bureau for the Period July 1, 1966 to January 31, 1968, 69 pp. (out of print).

7. State Capital Improvements Planning Process, 55 pp. (out of print).

8. Financial Audit of the Hilo Hospital for the Fiscal Year Ended June 30, 1967, 43 pp. (out of print).

9. Financial Audit of the Hawaii Visitors Bureau for the Period July 1, 1967 to June 30, 1968, 42 pp.

1969 1. Financial Audit of the General Fund, State of Hawaii, for the Fiscal Year Ended June 30, 1968, v.p. (out of print).

2. Financial Audit of the Judicial Branch, State of Hawaii, for the Fiscal Year Ended June 30, 1968, v.p. (out of print).

3. Financial Audit of the State Department of Budget and Finance for the Fiscal Year Ended June 30, 1968, v.p.

4. General Audit of the Department of Personnel Services, State of Hawaii, 129 pp. (out of print).

5. A Summary of the General Audit of the Department of Personnel Services, 53 pp.

6. Financial Audit of the Samuel Mahelona Memorial Hospital for the Fiscal Year Ended June 30, 1968, 34 pp.

7. Financial Audit of the Honokaa Hospital for the Fiscal Year Ended June 30, 1968, 41 pp.

8. Financial Audit of the Kohala Hospital for the Fiscal Year Ended June 30, 1968, 34 pp.

9. Financial Audit of the Kona Hospital for the Fiscal Year Ended June 30, 1968, 44 pp.

10. Financial Audit of the Kauai Veterans Memorial Hospital for the Fiscal Year Ended June 30, 1968, 30 pp.

11. An Overview of the Audits of the Act 97 Hospitals, 18 pp.

1970 1. Management Audit of the Department of Water County of Kauai, 65 pp.

2. Audit of the Kamehameha Day Celebration Commission, 47 pp.

3. Audit of the Medical Assistance Program of the State of Hawaii, 392 pp.

1971 1. Financial Audit of the State School Lunch Services Program, Department of Education for the Fiscal Year Ended June 30, 1970, v.p. (out of print).

2. Audit of the County/State Hospital Program, 124 pp. (out of print).

3. Audit of the State Vendor Payment Process, 63 pp.

4. Audit of the Hawaii Educational Television System, 153 pp.

1972 1. Audit of the Office of the Public Defender, 39 pp.

2. Financial Audit of the Department of Agriculture for the Fiscal Year Ended June 30, 1971, v.p.

3. Financial Audit of the Department of Labor and Industrial Relations for the Fiscal Year Ended June 30, 1971, v.p.

4. Audit of Utility Facility Relocation in Street Widening Projects, 73 pp.

5. Audit of the School Construction Program of the State of Hawaii, 297 pp.

1973 1. Management Audit of the Department of Education, 410 pp.

2. Audit of the University of Hawaii's Faculty Workload, 61 pp. (out of print).

3. Financial Audit of the Department of Education, 73 pp. (out of print).

1974 1. Financial Audit of the Department of Regulatory Agencies, 67 pp.

2. Financial Audit of the State Department of Defense and Civil Air Patrol (Hawaii Wing), 52 pp.

Special Reports

1965 1. Long and Short Range Programs of the Office of the Auditor, 48 pp. (out of print).

2. A Preliminary Survey of the Problem of Hospital Care in Low Popoulation Areas in the State of Hawaii, 17 pp.

1966 1. Procedural Changes for Expediting Implementation of Capital Improvement Projects, 9 pp.

1967 1. The Large School: A Preliminary Survey of Its Educational Feasibility for Hawaii, 15 pp.

2. State-City Relationships in Highway Maintenance, and Traffic Control Functions, 28 pp.

3. Manual of Guides of the Office of the Legislative Auditor, v.p.

1969 1. Transcript of Seminar in Planning-Programming-Budgeting for the State of Hawaii, 256 pp.

2. Airports System Financing Through Revenue Bonds, 9 pp (out of print)

3. Second Annual Status Report on the Implementation of Act 203, Session Laws of Hawaii 1967 (Relating to State-County Relationships), 13 pp. (out of print).

4. An Overview of the Governor's 1969-70 Capital Improvements Budget, 61 pp. (out of print)

5. A Supplementary Report on the Audit of the Hawaii Visitors Bureau, 2 pp. (out of print)

1970 1. A Study of the Compensation of Coaches of Interscholastic Athletics of the State Department of Education, 31 pp.

1971 1. A Study of the State Highway Special Fund, 14 pp.

1972 1. A Study of Hawaii's Motor Vehicle Insurance Program, 226 pp.

LEGISLATIVE AUDITOR
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