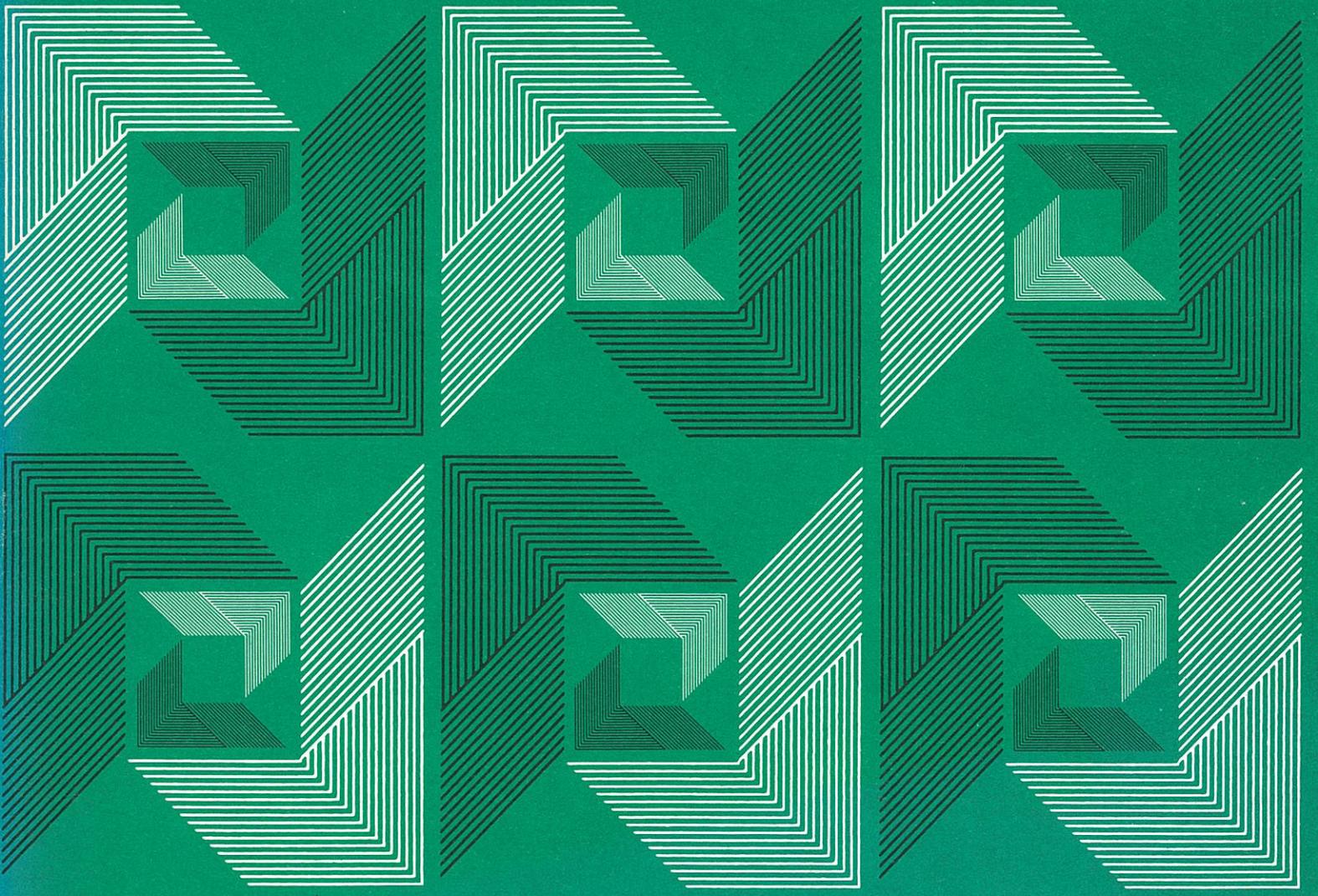


AUDIT REPORT NO. 79-1
JANUARY 1979

Director Orange

FINANCIAL AUDIT OF THE DEPARTMENT OF LAND AND NATURAL RESOURCES

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



SUBMITTED BY THE LEGISLATIVE AUDITOR OF THE STATE OF HAWAII

THE OFFICE OF THE LEGISLATIVE AUDITOR

The office of the legislative auditor is a public agency attached to the Hawaii State legislature. It is established by Article VII, Section 10, 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.



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**FINANCIAL AUDIT OF THE
DEPARTMENT OF LAND AND NATURAL RESOURCES**

**Conducted by the
Office of the Legislative Auditor
State of Hawaii**

and

**Peat, Marwick, Mitchell & Co.
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. 79—1

January 1979

FOREWORD

This financial audit report is the result of the examination of the financial statements and records of all programs and funds of the Department of Land and Natural Resources (DLNR). The report also covers the management practices and operations of the Division of Land management and its public land management program. The audit was conducted by the Office of the Legislative Auditor and the CPA firm of Peat, Marwick, Mitchell & Co.

This report is divided into three parts. Part I contains an introduction and a brief overview of public lands. Part II presents our audit findings and recommendations on DLNR's land management practices and procedures. It also includes the department's financial statements and the accountants' opinion on the accuracy of the financial statements. Part III contains the responses of the Department of Land and Natural Resources and the Department of Budget and Finance.

The audit revealed a number of deficiencies in DLNR's land management practices. A number of these deficiencies, particularly the operational problems, stem from the absence of a comprehensive land inventory and land classification system. We have made a number of recommendations in this report for improving the public land management program.

We wish to express our sincere appreciation for the cooperation and assistance extended by the officials and staff of the Department of Land and Natural Resources and its Division of Land Management.

Clinton T. Tanimura
Legislative Auditor

PART I

INTRODUCTION AND BACKGROUND

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BACKGROUND

In 1959, by Act 1 (the Hawaii State Government Reorganization Act of 1959), Second Special Session, the state legislature created a separate department of land and natural resources (DLNR) and charged it with the general duty "to manage and administer the public lands of the State and the water resources and minerals thereon." DLNR as established by Act 1 had a termination date of July 1, 1962.

Under the provisions of the act, land and water management functions formerly exercised by various territorial commissions, boards, and authorities were to be centralized within DLNR. On July 1, 1962, DLNR's functions and authority were to be transferred to the department of agriculture and conservation, and DLNR was to be abolished as an executive department. In 1961, however, the legislature enacted Act 132. This act amended Act 1 and retained DLNR as a separate permanent agency.

Functions of the Department

By statute, DLNR is responsible for managing, administering, and exercising control over the public lands of the State, including the water and mineral resources situated on these lands. It is also responsible for managing state parks, historical sites, forest reserves, and fish and game reserves.

Organization and Activities

DLNR is comprised of three organizational components—board of land and natural

resources, operating divisions, and administrative support. A brief description of this organizational makeup follows.

Board. DLNR is headed by an executive board known as the board of land and natural resources. Responsibility for managing public lands under DLNR's control is assigned by statute to this board.

The board consists of six members, two from at large and one each from the land districts of Hawaii, Maui, Oahu, and Kauai. They are appointed by the governor with the consent of the senate. The governor selects one of them as chairman. The chairman is the chief administrator of the department and serves as the only full-time member of the board. The remaining members receive no compensation, but are reimbursed for travel and other necessary expenses incurred in the performance of their official duties.

Operating divisions. Operating divisions include those departmental units which carry out the programs of the department. These operating divisions and their activities are as follows:

1. *Division of land management.* The division of land management is charged with the responsibility of assisting the chairman and the board in the administration and management of all public lands under DLNR's control. It is responsible for assisting the chairman and the board in the acquisition, development, and disposition of lands for approved private and public purposes; the inspection and enforcement

Chapter 1

INTRODUCTION

This is a report of our financial audit of the department of land and natural resources (DLNR).

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.

Objectives of the Audit

The objectives of the audit were:

1. To determine the reasonable accuracy of the financial statements of DLNR.
2. To ascertain whether or not expenditures and other disbursements were made and all revenues and other receipts to which the State is entitled have been collected and accounted for in accordance with state laws, rules and regulations, and policies and procedures.
3. To assess the adequacy, effectiveness, and efficiency of the systems and procedures for financial accounting, reporting, and internal and operational controls, and recommend improvements to such systems and procedures.
4. To determine whether the State's public lands under DLNR's jurisdiction are being administered and managed in accordance with the land laws and sound principles and practices.

Scope of the Audit

This audit examined the financial statements of DLNR for the period July 1, 1975 to June 30, 1976. Our comments on the management practices and operations describe the situation as it existed not only during the base period of the financial audit but also through June 1977. The audit opinion as to the reasonable accuracy of the financial statements is that of the independent certified public accounting firm of Peat, Marwick, Mitchell & Co.

In addition to the financial statements, the audit examined DLNR's land management practices and procedures as they relate to the sale, lease, and letting by permit of public land.

Organization of the Report

This report is organized into three parts.

Part I (chapters 1, 2, and 3) presents this introduction, some background information on DLNR, and a brief overview of public lands.

Part II (chapters 4, 5, 6, and 7) presents our audit findings and recommendations on the land management practices and procedures. It also includes the department's financial statements and the accountants' opinion of such statements.

Part III contains the responses of the agencies affected by our findings and recommendations, together with our comments on these responses.

Chapter 3

PUBLIC LANDS IN HAWAII: AN OVERVIEW

In general, most of the land in Hawaii is owned and controlled by the Hawaii State Government, the federal government, and a small number of private landowners. Table 3.1 shows the extent of land ownership by each of them.

As shown in the table, the largest single owner is the State Government, which owns a total of approximately 1.6 million acres, or 38.7 percent of the total land area of the State. The federal government owns approximately

402,084 acres, or 9.8 percent of the total land area in Hawaii. The greatest percentage of land, however, is owned collectively by a few private landowners. Thirty-nine private landowners, each of whom holds 5000 or more acres, own in the aggregate approximately 1.8 million acres, or 45.2 percent of the total land area of the State. They hold significant amounts of land on all the islands. Private landowners, each of whom holds less than 5,000 acres, together own approximately 257,059 acres, or 6.3 percent of the State's total land area.

Table 3.1

Land Ownership in Hawaii
(In Acres)

Island	Public land owners		Private land owners		Total
	State of Hawaii	Federal government	Large ¹	Small	
Oahu	56,672	56,313	189,664	78,151	380,800
Hawaii	1,126,121	295,770	1,028,731	122,818	2,573,440
Kauai	151,939	1,780	173,133	25,788	352,640
Maui	204,400	17,177	227,987	16,356	465,920
Other ²	51,400	31,044	236,410	13,946	332,800
Total	1,590,532	402,084	1,855,925	257,059	4,105,600
Percent of total . . .	38.7%	9.8%	45.2%	6.3%	100.0%

¹Represents ownership of 5000 acres or more.

²Includes Molokai, Lanai, Niihau, Kahoolawe, and northwestern Hawaiian Islands.

Source: Economic Research Associates, *Hawaii Land Study*, April 1969.

of land disposition terms and conditions; and comprehensive land use planning. In addition, the division is responsible for maintaining an accurate inventory of all state and public lands.

2. **Division of conveyances.** The division of conveyances is responsible for receiving, recording, and preserving all land title documents, maps, and other legal documents relating to land transactions in the State.

3. **Division of forestry.** The division of forestry is responsible for the development, use, preservation, and protection of the State's forest reserves under DLNR's jurisdiction. Under a cooperative agreement with the U.S. Forest Service Institute of Pacific Islands Forestry, the division is also responsible for supporting research on forest development and protection.

4. **Division of fish and game.** The division of fish and game is responsible for the protection, preservation, development, and management of the State's fish and wildlife resources. This division participates in federal grant-in-aid programs administered by the U.S. Fish and Wildlife Service and the National Marine Fisheries Services and, as such, maintains a working relationship with these two federal agencies.

5. **Division of state parks, outdoor recreation and historic sites.** This division is responsible for the development and maintenance of recreational, historical, and archeological sites. It is also responsible for the state park system and for providing assistance in projects designed to preserve, restore, and interpret places and objects of historical significance.

6. **Division of water and land development.** The division of water and land

development is responsible for the conservation, development, and utilization of water resources in the State and for the coordination of the State's flood control programs. It is also responsible for providing administrative support to the 15 soil and water conservation districts located throughout the State. In addition, its professional engineering staff provides engineering services to the other operating divisions of the department.

Administrative support. Administrative support provides overall support services to the board and the operating divisions of the department. Administrative support is divided into the following units:

1. **Fiscal office.** The fiscal office provides administrative support services to the department in the areas of budgeting, financial reporting, and recordkeeping for land sales, leases, licenses, and permits. In addition, the fiscal office maintains an inventory of the department's physical facilities, equipment, and vehicles.

2. **Planning office.** The planning office is responsible for comprehensive land and natural resources planning throughout the State. This office is also responsible for regulating land use within conservation districts and coordinating the review of environmental impact statements and capital improvement projects.

3. **Personnel office.** The personnel office is responsible for recruitment and selection of personnel; job classification and evaluation; employee training, development, and counseling; and the safety and improvement of working conditions within the department. This office is also responsible for maintaining all personnel records.

Table 3.3 summarizes the maximum terms allowed by law for leases, land licenses, and permits.

Table 3.3
Maximum Terms for Public Land Disposition

Type of disposition	Maximum term (years)
Leases	
In general	65
Intensive agricultural and pasture	35, with specific exceptions*
Residential	55, with 20-year extension
Land licenses	20
Permits	1, with additional one-year periods on month-to-month basis

*The maximum term for agricultural and pasture leases is 35 years, except in the following cases: (a) 45 years – the land is being used for tree-crop orchards; (b) 55 years – the land being leased is not immediately productive and requires extensive expenditures; and (c) 75 years – the lessee is required to occupy the premises as his own personal residence.

Before statehood, under the Hawaii Organic Act, public lands were allowed to be disposed of by homestead leases, certificates of occupation, and right of purchase leases. These methods of disposition are no longer recognized by statute. The statute, however, provides for the continuation of rights under some homestead leases, certificates of occupation, and right of purchase leases which were in force at the time of the enactment of Act 32 in 1962.

Although state policy dictates that land be retained in the public domain, HRS Chapter 171 provides that the board may sell public land in fee simple (under agreement of sale) for personal residence purposes if it, among other things, (1) determines that a demand for houselots exists, (2) investigates the cost of the intended development, and (3) determines that development plans meet the economic needs and circumstances of the persons for whom the development is intended.

Some statistics. In keeping with the intent of HRS Section 171–32, DLNR has made a large amount of the State’s public lands avail-

able to private individuals under lease agreements. It has also made public lands available to persons under license and permit agreements. Table 3.4 shows the disposition of public lands by leases, licenses, and permits. It also displays information on existing homestead leases, certificates of occupation, and right of purchase leases issued under the Hawaii Organic Act. The table further notes the total amount of public lands which remain unencumbered by leases, licenses, permits, etc., and public lands which are unidentified.

Table 3.4
Disposition of Public Lands
As of June 30, 1976

	No. of acres	Percent
Encumbered lands		
Leases		
Agriculture	256,681	
Public uses	45,291	
Water licenses	27,562	
Business and industrial	586	
Residential	158	
Total leases	330,278	65.1%
Permits and licenses	105,568	20.8
Homesteads		
Fee simple homesteads (conditional sales)	672	
Certificates of occupation and 999-year homestead leases	136	
Right of purchase leases	112	
Total homesteads	920	.2
Special sales agreements	98	--
Total encumbered public lands	436,864	86.1
Unencumbered and unidentified public lands		
public lands	70,196	13.9
Total encumbered and unencumbered public lands	507,060	100.0%

As shown, of the total 507,060 acres of public lands under DLNR’s management control, 330,278 acres, or approximately 65 percent, have been disposed of through leases; 105,568 acres, or 21 percent, by permits and licenses; and 1,018 acres, or less than .3 percent, by homesteads and special sales agreements. The remaining 70,196 acres, or nearly 14 percent of the total number of acres of public lands, are either unencumbered or unidentified.

State-owned lands. DLNR reports that state-owned lands total approximately 1.8 million acres. (This figure differs by .2 million from the figure (1.6 million) presented in table 3.1. We comment on this discrepancy in chapter 4. Of the 1.8 million acres, DLNR states that about 1.3 million acres (75 percent) are under its direct jurisdiction, 239,522 acres (14 percent) have been set aside by executive proclamation of the governor and are held by various state and county agencies, and 192,000 acres (11 percent) are lands designated as Hawaiian home lands and are under the direct control of the Hawaiian homes commission.

The 1.3 million acres of state-owned land under the direct administrative control of DLNR are classed as “public lands,” “forest reserves and watersheds,” and “state parks and historic sites.” Table 3.2 shows the breakdown.

Table 3.2

Composition of State-Owned Lands Under Jurisdiction of the Department of Land and Natural Resources

	<i>No. of acres</i>
Public lands	507,060
Forest reserves and watersheds	802,052
State parks and historic sites	15,584
	<hr/>
Total	1,324,696
	<hr/>

Public lands. HRS Section 171–2 defines public lands as all lands owned by the State, with the exception of those lands (1) designated as Hawaiian home lands, (2) used for roads and streets, (3) owned and held by the university of Hawaii, (4) owned by the Hawaii housing authority, and (5) set aside for use by the federal and county governments as well as other governmental agencies. Forest reserves, watersheds, state parks, and historic sites are technically lands set aside to DLNR as an agency of government and for purposes other than simply management. They are thus considered as also

being exempt from the statutory definition of public lands. By definition, then, only some 507,060 acres of state-owned lands are classified as DLNR public lands under its control.

Disposition of Public Lands

The law. The disposition of public lands is governed by laws which enable the State to retain ownership of the land while allowing for their use. In general, the statute favors disposition by leases over other means. HRS Section 17–32 states that “[u]nless otherwise specifically authorized in this chapter or by subsequent legislative acts, all dispositions (of public lands) shall be by lease only” A lease is defined by HRS Section 171–1 as “the right to possess and use land for a term of years.” Leases are generally limited to a term of not more than 65 years. However, there are exceptions to this general rule. A residential lease, for instance, may be limited to 55 years with the privilege of extension under certain conditions, provided the aggregate term does not exceed 75 years. Intensive agricultural and pasture leases are limited to 35 years, except that they may be for longer periods under certain specified circumstances.

Although disposition by leases is favored, the statute allows for the disposition of public lands by way of land licenses and permits in certain cases and under certain conditions. HRS Section 171–54 authorizes the board of land and natural resources to issue land licenses which grant a privilege to enter public lands for special purposes such as the removal of timber, soil, sand, gravel, stone, hapuu, and plants. Land licenses may be granted for a period of not more than 20 years. HRS Section 171–55 authorizes the board to issue permits for the temporary occupancy of lands on a month-to-month basis. Each such permit on a month-to-month basis may continue for a period not to exceed one year from the date of its issuance; provided that the board may allow the permit to continue on a month-to-month basis for additional one-year periods.

PART II

FINDINGS AND RECOMMENDATIONS

Chapter 4

PUBLIC LAND MANAGEMENT

The law grants broad authority to DLNR in the management and control of the State's public lands. DLNR has the power to sell, lease, or otherwise make lands available for use. It has the power to restrict land use for conservation and preservation purposes, and it has the power to dictate the financial terms and conditions of land use.

In this chapter, we describe and assess how well DLNR is managing the State's public lands. In the next chapter, we deal directly with the operational practices and procedures as they relate to leases, revocable permits, and special sales agreements.

Summary of Findings

Our general finding is that DLNR is not properly managing the public lands. Indeed, DLNR is unable to exercise proper controls over public lands because:

1. Although the statute requires it, DLNR has no comprehensive public land inventory, making it impossible to account for all public lands, in some instances to determine their whereabouts, and to ascertain what public lands are unoccupied, vacant, and available for use.

2. DLNR has failed to classify public lands by uses as required by statute.

In the absence of a comprehensive inventory and a classification of all public

lands, DLNR has not been able to formulate any public land use policy and to develop long-range plans concerning the disposition of public lands. DLNR's performance in the management of public lands, as a consequence, has been random and without direction.

Absence of a Public Lands Inventory

HRS Section 171-7(1) requires the board, among other things, to maintain an accurate inventory of public lands. In addition, DLNR Policy No. E-3.1.7 (relating to developing and maintaining an inventory of public lands) states in part that "... it is the policy of the Board of Land and Natural Resources to develop and maintain current a comprehensive inventory of the State and public lands of the State of Hawaii which inventory shall contain such information as may be necessary and desirable for the effective administration[,] management and control of the State and public lands." The policy further states that "... [t]he chairman is hereby requested to develop such an inventory of the State and public lands and to make provisions for its maintenance in a current status."

Despite the statutory requirement and the directive from the board, no such inventory exists. The result is that DLNR does not know how many acres of public lands the State owns or where all of the public lands are located.

In chapter 3 we noted that DLNR has reported that there are some 507,060 acres of

public lands under its control. This is the figure which DLNR has repeatedly used in its annual reports to the governor for fiscal years 1971 to 1974. The figure, however, cannot be substantiated, and DLNR is the first to admit that it is not reliable. Indeed, DLNR is unable to explain how the figure first originated and, because of the unreliability of the figure, DLNR has discontinued its use in the annual reports for fiscal years after 1973-74.

Without a current and accurate master inventory of all public lands, it is difficult to determine how much and what specific lands are unoccupied and available for use. It has been the practice of DLNR to make a "guesstimate" of the amount of such lands by subtracting the total number of acres known to be encumbered by leases, permits, homesteads, and special sales from the questionable total public land acreage figure of 507,060 acres. Table 4.1 illustrates this practice. It displays the substance of DLNR's report to the governor on the status of public lands for each of the fiscal years 1971 to 1974. The figures for "unencumbered and other unidentified public lands" were derived by DLNR by subtracting the acreages for "leases," "revocable permits and licenses," "homesteads," and "special sales agreements" from the total 507,060 acres. The figures for fiscal years 1972 and 1973 as shown in table 4.1 do not total 507,060; they total instead the

figures shown in brackets. However, DLNR has stated on our inquiry that "unencumbered and other unidentified public lands" should be increased by 16 acres for fiscal year 1972 and by 16,450 acres for fiscal year 1973, thus continuing our observations about DLNR's practice. The dubiousness of the 507,060 figure and DLNR's practice is underscored by DLNR's own categorization of the difference between 507,060 acres and the amount of land under leases, revocable permits and licenses, homesteads, and special sales agreements as "unencumbered and other unidentified public lands."

Although a complete and accurate inventory is not available, DLNR is required from time to time to make a determination as to whether a particular parcel is available for use. Such an occasion arises, for instance, when an individual applies or makes a request for a lease to a particular lot. In such cases, in the absence of an inventory, DLNR is compelled to resort to fragmented data to determine the availability of the parcel. It consults the property tax maps and the land inventory report of the department of taxation and DLNR's own lease and permit card file. At most, these records indicate whether the parcel in question is recorded as being under the control of DLNR and whether any lease or permit is outstanding. These records do not constitute an inventory

Table 4.1
Status of Public Lands as Reported by
Department of Land and Natural Resources
In Annual Reports for FY 1970-71 to FY 1973-74

<i>Type of disposition</i>	<i>Number of acres</i>			
	<i>FY 1970-71</i>	<i>FY 1971-72</i>	<i>FY 1972-73</i>	<i>FY 1973-74</i>
Leases	445,176	445,160	308,478	281,835
Revocable permits and licenses	39,000	39,000	151,874	194,967
Homesteads	920	920	920	920
Special sales agreements	52	52	69	69
Unencumbered and other unidentified public lands	21,912	21,912	29,269	29,269
Total	507,060	507,060	507,060	507,060
		[507,044]	[490,610]	

of public lands nor as an inventory of all lands owned by the State. The department of taxation records are intended for real property tax purposes and are concerned with who is to be billed for real property taxes. They, thus, do not necessarily reveal the true, ultimate, or reversionary owners of land. A given parcel is often carried on the department of taxation's records in the name of a lessee or other persons having some interest in the land.

The absence of a comprehensive public lands inventory not only makes it difficult for DLNR to determine the status of its lands but it makes it extremely easy to lose track of large parcels. It appears that DLNR may in fact have lost track of some parcels. Note table 4.1. We said above that DLNR represented that the figure for "unencumbered and other unidentified public lands" shown in table 4.1 should be increased by 16 acres for fiscal year 1972 and by 16,450 acres for fiscal year 1973. Since the only difference between all of the figures for 1971 and those for 1972 is the 16-acre difference in lands under lease, we might assume that 16 acres ceased to be under lease in 1972 and thus were properly includable in "unencumbered and other unidentified public lands" for fiscal year 1972. The same kind of assumption, however, cannot be made for 1973. Without a master list of all property it is difficult, if not impossible, to determine whether the 16,450 acres were occupied or vacant in 1973. If these acres were vacant, the failure to include them in the report for 1973 could result in their being "forgotten" until DLNR receives a specific request for their use.

There is no rational explanation for DLNR's failure to develop and maintain a comprehensive, accurate land inventory. This deficiency has been cited in several other studies and audits. DLNR's continued reluctance to remedy the situation prompted the House of Representatives to adopt House Resolution 544 at the 1978 legislative session. This resolution directs DLNR to submit a plan for the establishment of a state land inventory system before the convening of the legislature in 1979. The

plan is required to include, but not be limited to, the following: (1) a detailed description of the inventory system that will identify the location, size, land use and zoning description, and existing and potential land uses; (2) a description and analysis of the benefits, application, and potential uses of such a system; (3) a timetable to implement such a system; and (4) a detailed cost analysis for the development and maintenance of such a system. In the resolution, the House of Representatives observed that "... the absence of an accurate inventory of state owned lands precludes the effective planning for the efficient use of state lands and contributes to the conflicts between state agencies in the administration of land under their control"¹

Inadequate and Inconsistent Land Classification System

HRS Section 171-10 establishes 13 general classes of uses and requires that every parcel of public land be placed in one of these classes. The 13 classes are:

1. intensive agriculture use;
2. special livestock use;
3. pasture use;
4. commercial timber use;
5. quarry use;
6. mining use;
7. recreational use;
8. watershed use;
9. residential use;
10. commercial and industrial use;
11. hotel, apartment, and motel use;
12. resort use; and
13. unclassified uses.

Classification of land according to use is essential. It not only facilitates management but it also provides a basis for the establishment of a state public land use policy and a land disposition plan. A state public land use policy

¹House Resolution 544, "Requesting the Department of Land and Natural Resources to Develop a State Land Inventory System," Ninth Legislature, 1978.

and land disposition plan determine or assist in determining, among other things, (1) what lands may be sold, what lands should be leased on a long-term basis, and what lands ought to be let only under permits; (2) the conditions under which lands may be sold, leased, or allowed to be used; (3) the fee or rental to be charged for the use of public lands; and (4) the use, both general and specific, to which particular parcels may be put.

Despite the statutory requirement and importance, DLNR does not maintain a rational classification system. This does not mean that DLNR does not classify any of the public lands. It does, but it classifies only those parcels it lets under leases, and then only on a parcel-by-parcel basis as each lease is let. This means that not all public lands are classified. Lands which are let under permits and lands that are not let at all are not classified. DLNR further classifies the leased parcels in a manner contrary to law and according to a scheme which makes little sense.

Classification contrary to statute. DLNR classifies leased lands as follows:

1. Agriculture
2. Business
3. Cane
4. County
5. Eleemosynary
6. Federal
7. Fishpond
8. Industrial
9. Pasture
10. Pineapple
11. Recreation
12. Residential
13. Rights-of-Way
14. State Agencies
15. Water

Some of the 15 classes appear similar to the classes enumerated in the statutes; e.g., agriculture, pasture, recreational, and residential. The other classes, however, are not; e.g., cane, fishpond, pineapple, rights-of-way, and water.

In addition, some of the classes established by DLNR are based on users and not on use as required by statute; e.g., county, eleemosynary, federal, and state agencies.

Aside from the fact that it does not conform to statute, DLNR's classification poses difficulties of various sorts. They are discussed below.

DLNR's classification tends to fragment rather than group lands that are similarly used. The effect of this fragmentation is to understate the acreage devoted to a general class of use. Take, for instance, the classes "agriculture," "cane," and "pineapple." Cane and pineapple are agricultural uses, yet the classification of specific parcels as "cane" and "pineapple" will understate the amount of land devoted to "agriculture." In its *1975-76 Annual Report to the Governor*, DLNR reported that 11,795 acres were under leases for agricultural purposes. The 11,795 acres, however, did not include some 53,220 acres leased for cane and 974 acres leased for pineapple.

The classification of parcels into the user-based classes have the same effect. For example, in the same *1975-76 Annual Report to the Governor*, DLNR reported that a total of 44,950 acres were under leases to the federal government, various state and county agencies, and some eleemosynary organizations. These lands had been leased for a variety of purposes—i.e., agriculture, commercial, residential, pasture, etc. To the extent that the leases were included in the user-based classes, the acreages for the use-based classes were understated.

DLNR's classification system allows leased lands to be classified inconsistently. Inconsistency in classification is encouraged by the mixture of use-based classes and user-based classes.

The records show that DLNR has classified lands leased to federal, state, and county agencies and to eleemosynary organizations sometimes into use-based classes and at other

times into user-based classes, without any apparent rationale for the differences in treatment. Table 4.2 summarizes our review of some 110 leases made to these government agencies and eleemosynary organizations.

Inconsistencies sometimes also occur in the selection of the user-based class to which leased lands are to be assigned. They occur even where the lands are leased to the same organizational entity. The case of the lands leased to the

Table 4.2
Department of Land and Natural Resources's
Classification of Lands

<i>Lessee</i>	<i>Total no. of leases</i>	<i>Use</i>							<i>User</i>			
		<i>Agriculture</i>	<i>Business</i>	<i>Industrial</i>	<i>Recreational</i>	<i>Residential</i>	<i>Right-of-way</i>	<i>Pasture</i>	<i>Federal</i>	<i>State agencies</i>	<i>County</i>	<i>Eleemosynary org.</i>
Federal government	28	1	1				1		25			
State agencies	20	6		1		1	3	1		3		5
County governments	23	1					2				20	
Eleemosynary organizations	39		2		3	4		1				29
Total	110	8	3	1	3	5	6	2	25	3	20	34

As the table notes, the lands involved in three of 28 leases made to the federal government were classified by use and the lands involved in 25 leases by user. The lands covered by 12 of 20 leases made to state agencies were classified by use and the lands in eight leases by user. (5 of the leases were erroneously classified as eleemosynary organizations.) In the case of the lands leased to counties, the lands covered by 3 of 23 leases were classified by use and the lands in 20 leases by user. The lands in 10 of 39 leases made to eleemosynary organizations were classified by use and the lands in 29 by user.

The inconsistency in classification extends to lands leased to the same specific organizational entity. Even though the lands may be leased to the entity for similar purposes, some lands are classified by use and others by user. For example, DLNR leased two separate parcels under two separate leases to the United States Postal Service. Both parcels were for general postal service use. DLNR classified the land in one lease as "business" and the land in the other lease as "federal government."

university of Hawaii illustrates this. We reviewed 16 leases made by DLNR to the university. The lands covered by three of the 16 leases were assigned by DLNR to the user class, "state agency," and the lands covered by three other leases were placed in the user class, "eleemosynary." The lands in the remaining ten leases were classified by use. See table 4.3.

Table 4.3
Classification of Lands
Leased to University of Hawaii

<i>Classification category</i>	<i>No. of Leases</i>
State agencies	3
Eleemosynary	3
Agriculture	6
Right-of-way	2
Industrial	1
Residential	1
Total	16

The classification of some land by users and others by uses presents an incongruity in terms of the purpose to be achieved by the classification system. Classification by uses is intended to permit the development and administration of a public land use policy. Classification by users serves other ends. For the purpose of a land use policy, it is of little help to know, for instance, that 13,320 acres of public land at Kaohe, Hamakua, on the island of Hawaii, are leased to the university of Hawaii.² Also, classification for the development of a public land use policy requires that it be accomplished before land is leased or otherwise disposed of. Classification by users, particularly classification by those to whom land is actually leased, is possible only as leases are made.

Since their respective purposes are different, mixing classification by uses and classification by users tends to be counter-productive to both purposes.

Classifying only leased lands leaves a sizeable amount of land unclassified. Since only lands that are actually leased are classified by DLNR, there is a sizeable amount of land that is not classified at all. Appropriate land use control, of course, cannot be exercised over lands that are not classified.

In addition to lands that are not let at all, there are a number of parcels that are let under permits and which are not classified. Lands let by permits at June 30, 1977 numbered some 102,677 acres. The permits are for a variety of specific purposes. Table 4.4 illustrates the kinds of specific uses for which lands have been let under permits.

Even a cursory examination of table 4.4 reveals that permits have been issued on a random and unsystematic basis, without regard to any policy concerning use of public lands. Thus, for example, the issuance of permits for a recycling plant, a business maintenance yard, and an auto parking and repair business says little about whether such specific uses are com-

Table 4.4
Specific Uses of Lands Under Permit

1. Church and allied purposes	14. Clubhouse
2. Docking of fishing boats	15. Office
3. Easement	16. Lunch wagon
4. Pole line	17. Recycling plant
5. Power line	18. Business maintenance yard
6. Carport	19. Auto parking and repair
7. Parking	20. Motion picture production
8. Substation	21. Educational
9. Storage	22. Gardening
10. Utility right of way	23. Taxi stand
11. Landscaping	24. Cultivation of crops
12. Boating	25. Plant nursery
13. Pier	

patible with the general uses intended as a matter of state policy for the lands in question. The same can be said about the permits for gardening, cultivation of crops, and plant nursery. The issuance of permits for these purposes may indicate that the lands involved are suitable for agricultural purposes. However, it says nothing about whether the specific purposes for which the permits were issued indeed further the state policy concerning agricultural uses of public lands.

Permits by law³ provide for the use of land only on a temporary basis. But even such temporary use ought to further state policy, or at least not hinder the achievement of state goals concerning public land use. If all public lands were properly classified and appropriate public land use policy thereby enunciated, there would be a framework by which to determine, before the issuance of any permit, whether the use intended under the permit would put the land in question to the most advantageous use.

²DLNR's 1976 Annual Report to the Governor.

³HRS Section 171-55 states: "The board of land and natural resources may issue permits for the temporary occupancy of state lands or interest therein on a month-to-month basis under such conditions which will serve the best interest of the State Such permit on a month-to-month basis may continue for a period not to exceed one year from the date of issuance; provided that the board may allow the permit to continue on a month-to-month basis for additional one year periods."

Need for Planned Land Management

The failure of DLNR to inventory and properly classify public lands reflects DLNR's passive and reactive role in the management of public lands. Generally, DLNR acts in this area only as requests for use of public lands are made and then in accordance with the requests rather than on any planned basis. Thus, public lands are let, whether under leases or permits, for the specific purposes requested, and in the case of leased lands, they are classified by actual rather than planned use.

If the public lands are to be properly managed and their use maximized in the public interest, DLNR will need to take a more active and planned, rather than passive and reactive, role in the management of the State's public lands. It will need to do so, first, by completing an inventory of all state lands; second, by classifying all public lands by major classes of uses; third, by developing a public land use policy and formulating a public land disposition plan; and, finally, by adopting guidelines and criteria to assist DLNR in the disposition of specific parcels by lease or permit, including guidelines on rentals and other lease and permit terms and conditions.

The need for a planned approach to land use has been long recognized by DLNR itself. In 1971, the chairman's staff prepared an issue paper in which the staff stated: "Due in part to the lack of coordinated plans and policy[,] land management tends to be primarily reactive to immediate pressures, rather than prudent management in response to carefully designed long-range plans." It suggested that "lack of broad long-range land use planning for utilization of state lands, and uncoordinated programs for conservation, utilization, development and management of such lands leads [sic] to generally wasteful use of one of the primary resources of the State." The issue paper suggested that DLNR adopt a uniform land use policy which provides, among other things, "development and utilization of a uniform policy for all land use of

State lands of all categories, covering utilization, conservation, and development standards and criteria" It also suggested that a study be undertaken to determine the "actual costs, and foregone opportunity costs, to the state of continuing operations without a uniform land use policy"

Recognition by DLNR of the need for a planned approach is also evident in DLNR's land management objective as stated in its multi-year program and financial plan for the 1975-77 biennium. It states that its objective is to:

" . . . assure the effective and efficient use of public lands for both public and approved private purposes by developing lands according to established guides and policies, selling lands, leasing lands, issuing revocable permits and issuing executive orders; by inventorying, controlling and managing lands, and by assuring the availability of lands needed for state programs."

The attainment of this objective requires that DLNR actively formulate a public land use plan and policy.

Despite this recognition of need for a land use plan and policy, DLNR has taken no action in that direction. It is thus reduced to measuring its effectiveness in the public land management program by measures such as the percent of requests for private use met as a percent of requests, percent of public lands devoted to private purposes and percent of requests for public use as a percent of requests, none of which says anything about the "effective and efficient use of public lands."

Recommendations

We recommend that DLNR

1. *Institute steps to comply with House*

Resolution No. 544 and undertake a statewide survey to identify and inventory public lands.

2. Once the inventory has been taken, determine the preferred uses of the lands, taking into consideration such things as: the State's concern for preservation and conservation of lands and the need for more residential lands.

3. After survey, inventory, and determination of the preferred uses, classify public lands in a consistent manner.

4. Using the land inventory and classification system as a base, develop a land use and disposition plan which outlines how classes of land are to be used and disposed of, both now and in the future.

Chapter 5

LAND MANAGEMENT PRACTICES

This chapter discusses DLNR's leasing practices. It also examines the appropriateness of encumbering land by permit and the appropriateness of the disposition of revenues derived from public lands. It focuses primarily on the performance of the division of land management (DLM), the operating division responsible for supporting the board and its chairman in managing and controlling public lands.

Summary of Findings

Our findings, in summary, are as follows:

1. DLNR's leasing practices leave much to be desired:
 - a. Appraisal reports which establish land values and upset lease rentals are inadequate and without proper documentation. The result is that the State is not assured of receiving a fair and reasonable rental.
 - b. DLNR makes insufficient use of percentage leases for lands let for business purposes.
 - c. DLNR is improperly including "waste" land in cane leases.
 - d. DLNR is unreasonably delaying reopening of leases and redetermining lease rentals.

2. The use of lands are being improperly let by permit and, then, for long periods.

3. Contract terms and conditions of use are not being adequately monitored and enforced. Lands are not being systematically inspected to ensure that land users are in compliance with the terms and conditions of leases. Timely, appropriate actions are not being taken in cases of default in the payment of rents and special sales agreement installments.

4. Revenues derived from public lands are not being deposited into the proper fund accounts.

Some of the operational problems enumerated here, particularly the problems related to rentals and use of permits, stem in a large measure from the lack of a comprehensive public land inventory and a land classification system discussed in the previous chapter. Without such an inventory and a classification system, DLNR has not been able to establish a state policy on public land use and a rational land disposition plan, and it has not been able to formulate guidelines concerning such matters as rental rates and lease and permit provisions.

Rents from Leases and Permits

By way of an introduction, we note below, in table 5.1, the revenues generated by the leases and permits issued by DLNR.

Table 5.1
Public Lands Encumbered by Leases and Permits
FY 1976-77

<i>Type of disposition</i>	<i>No. out-standing</i>	<i>No. of acres encumbered</i>	<i>Annual rent</i>
Lease	854	333,882	\$3,027,081
Permit	728	102,677	1,210,075
		<hr style="border-top: 1px solid black;"/>	
		436,559	\$4,237,156

At June 30, 1977, public lands encumbered by leases and permits totaled 436,559 acres. Of these 436,559 acres, 333,882 acres were encumbered by 854 leases. The remaining 102,677 acres were encumbered by 728 permits. Annual rent derived from these leases and permits totaled \$4,237,156—\$3,027,081 from leases and \$1,210,075 from permits.

Deficiencies in Leasing Practices

Lease and permit approval process. The process followed by DLM in leasing land and allowing use of land by permit is as follows.

In general, private individuals and companies obtain a lease or permit on land by submitting an application form to DLM specifying, among other things, the parcel desired for use, the land district in which the parcel is situated, the approximate area desired, the parcel's tax map key number, the intended use of the land, and the type of tenancy sought—i.e., lease or permit. DLM, in turn, routes the application to one of four district land agents, depending on the location of the parcel. The district land agent reviews the application, inspects the parcel, and determines from tax maps, the state land inventory report, and DLNR's own records whether the parcel is unencumbered and free of any tax liens. If another state agency, such as the department of transportation, has control of the land, the land agent consults with the agency and obtains the necessary clearance required for its use. If the

land is unencumbered and free of any prior liens and the agent believes the intended use and type of tenancy is appropriate, he submits the application form to the board for its review and approval.

In the case of a lease,¹ once the board gives its approval, the land agent makes a request to the survey division of the department of accounting and general services for a land survey and preparation of essential maps and documents. Arrangements are also made for an appraisal of the parcel at its fair market value to enable DLM to establish an upset lease rental. The appraisal is performed by either an in-house appraiser or an independent appraiser contracted for by the department.

Upon receipt of the land survey report, maps, and appraisal report, the land agent then submits these documents to the attorney general with a request for permission to advertise the sale of the lease. He also requests that the attorney general prepare the necessary lease agreement forms. Once permission has been granted to advertise the sale of the lease and all necessary lease forms have been received from the attorney general, a "notice of sale" is published in the two daily newspapers, stating the time and place of the auction, the location of the parcel, the parcel's tax map key number, a general description of the land, including the specific use for which the disposition is intended, and the upset rental to be charged. At the specified day and time, the lease to the parcel is sold at public auction.

In some cases, usually when agricultural lands are involved, the lease may be sold by public drawing. In these cases, a notice is published in the two daily newspapers requesting that persons interested in participating in the drawing file their intention with DLNR two weeks after publication of the notice. These applicants are then screened by the district land agent and selected by the board.

¹Leases may be for a term of no more than 65 years, except that residential leases may be for a term of 75 years.

Those selected are then notified of the day and time the drawing will take place.

Unlike leases which are let by public auction or drawing, permits² are let by direct negotiations with the applicant. If the applicant agrees to the rental, the district land agent then submits the agreed-upon price to the board for its approval.

In the case of both leases and permits, the successful bidder or prospective permittee must place a security deposit with DLNR and obtain a tax clearance from the department of taxation. If an independent appraisal is performed, the bidder or permittee is also required to pay the cost of the appraisal. Once the land agent verifies that the deposit and appraisal fee have been paid and the applicant has obtained the necessary tax clearance, the documents are then signed by the applicant, the chairman, and one member of the board. The board then submits all documents to the land court for recordation, and DLNR's fiscal office is notified to begin preparing the required billing forms.

Inadequate appraisals. Since appraisals determine the fair market value of land and the upset rental for lands to be leased, it is of utmost importance that appraisal reports be complete and provide supporting data for the conclusions reached. The data should include, among other things, the rental charges or land values for comparable property in the same location.

Our examination revealed that appraisal reports prepared by DLM's in-house staff are grossly inadequate. They generally consist simply of short, handwritten notes stating that "the fair market rental is \$_____ per year." They do not contain any supporting information as to how the appraiser arrived at the upset lease rent, or if a percentage of gross revenues is involved, what criteria were used in arriving at the stated percentage. When asked about the absence of supporting data in their appraisal reports, DLM personnel expressed their belief that the fair market rental is established by the

auction process and not by an appraisal and that thus the appraisal report need not be complete. This response ignores the purpose of establishing an upset rental.

An upset rental is established to ensure that the State receives a reasonable and fair return. If an appraisal is properly done, the resulting upset rental establishes the minimum fair rental. If not properly done, the upset rental is meaningless and the State could be put to a considerable disadvantage if, in fact, the upset rental is less than the fair market rental. The need for establishing an upset rental with care is intensified when one notes that at most of the auctions there is only one bidder. Between 1969 and 1975, for instance, at 39 auctions of business and industrial leases, 28 (or 72 percent) of the auctions attracted just a single bidder. Only at the remaining 11 auctions were there at least two bidders. Obviously, if there is only one bidder, a fair market rental cannot be assured unless the upset rental has been properly set, for the sole bidder is invariably going to bid at the upset rental. Note, for instance, that at the 28 auctions described above at which there was only one bidder, the sole bidder bid at the upset lease rent in 23 or 82 percent of the cases. The sole bidder bid above the upset lease rent at only 5 or 18 percent of the auctions.

Contrary to its representation, DLM does not really expect the fair market value to be established by the auction process. Indeed, in general, DLM does not expect any competitive bidding at all. It anticipates a bid only from the party at whose request the auction process on the lease to a particular parcel has been activated. Thus, in the usual case, DLM works out the terms and conditions of the lease, including the amount of the rental, with the initial requestor. The lease is tailored to the needs of the initial requestor and to the use to which the requestor intends to put the parcel in question.

²Permits may be issued on a month-to-month basis for the temporary occupancy of land. The permit may continue for a period of one year; however, the board may allow the permit to continue on a month-to-month basis for additional one-year periods.

What happens in practice is that the requestor first formulates the terms and conditions, and the district land agent, on behalf of DLM, then either agrees with the requestor's proposals or suggests modifications. The fair market rental noted on the appraisal report is the figure negotiated and worked out with the initial requestor and which the district land agent feels would be acceptable to the board. Without a proper approval, of course, DLM does not have an adequate basis to negotiate with the requestor, and there is no assurance that the negotiated rental is fair and reasonable.

To assure a fair rental, appraisals should be fully and properly performed. To achieve this result, guidelines need to be established. They do not now exist. The guidelines should require documentation of all conclusions and should specify, among other things, the inclusion in the report of data on land values of comparable property in the same general locality as the parcel in question. The guidelines should also state the conditions under which lease rent should be based on the gross revenues of the lessee.

Inadequacies in appraisal reports are not confined to those reports generated by DLNR's staff. They also appear in appraisal reports submitted by outside appraisers under contract with DLNR. In the case of outside appraisers, the source of the problem is in the absence of formal instructions to guide the outside appraisers. What instructions that do exist are solely for situations where land is to be bought or sold. There are no instructions for instances where land is to be leased. Independent appraisal firms possess the technical capabilities and knowledge to perform appraisals adequately for lease purposes. But, DLM has no assurance that these firms will indeed follow acceptable procedures and consider all relevant information unless it provides them with adequate instructions. The absence of instructions to independent appraisers is particularly distressing since, by law, independent appraisals are required when lands are to be leased by drawing, negotiation, and reopening of lease terms and

conditions. In addition, DLM usually contracts for the services of independent appraisal firms when large parcels of land such as canelands are to be leased, or when a group of parcels is to be auctioned at the same time.

Failure to utilize percentage leases. In the private sector, it is quite common for rentals in business and industrial leases to be based on a percentage of monthly or annual gross sales made on the premises. There are a variety of these percentage leases: straight percentage of the gross without a minimum; fixed minimum plus a percentage of the gross; fixed rent or a percentage of the gross, whichever is greater; etc. DLNR does not make sufficient use of percentage leases.

In our audit, we reviewed 160 business and industrial leases. We found that only seven of these leases provided for rentals based on a percentage of gross revenues. The rest of the leases all provided for fixed dollar rents. Table 5.2 summarizes the rental provisions of the seven percentage leases.³ Six of the seven leases provided for a fixed annual dollar rental or percentage of the gross, whichever is greater. The seventh lease provided for a minimum plus a percentage of the gross.

As shown in table 5.2, the fixed annual dollar and minimum annual rent for these seven leases totaled \$45,564. The rent actually collected in one given year under the percentage lease rental provisions totaled \$110,349, for a difference of \$64,785.

The advantages of percentage leases over fixed dollar leases are obvious. DLM personnel agree that the inclusion of a percentage annual rent in business and industrial leases is a good

³These lease agreements define the term "gross proceeds" as "all income, cash or accrued, from the sale of all goods, wares and merchandise, gate receipts, sold in, upon or from any part of the demised premises by the lessee or any other person, firm or corporation and the charges for all services performed, for which charge is made by the lessee or by any other person, firm or corporation selling merchandise or performing services . . . and shall include sale and charges for cash or credit . . ."

Table 5.2
Business and Industrial Leases
Rentals Based on Percentage of Gross Revenues, with Minimum Rental

<i>Lease no. Type of business/industry</i>	<i>Minimum annual rent</i>	<i>Percentage of gross revenues</i> ¹	<i>Actual rent paid</i>
1. Tour boat	\$ 6,000	5% of gross	\$ 6,611
2. Tour boat	6,000	5% of gross	9,499
3. Golf course	16,500	8% green fees 3% food 5% alcohol 4% pro shop	24,498
4. Golf course	5,500	6% green fees and driving range 3% food 5% alcohol 3½% pro shop	15,054
5. Lodge	276	10% liquor 5% restaurant 25% cabin rentals 5% riding academy 5% park concession	12,132
6. Visitor reception and flower garden	8,688	4% of gross	8,688
7. Quarry	2,600	20 cents per cubic yard of quarry materials 5 cents per cubic yard of waste materials	33,867
	<u>\$45,564</u>		<u>\$110,349</u>

¹The lease rentals on leases nos. 1 to 6 are based on a percentage of gross revenues from the business, or a minimum rental, whichever is higher. The lease rental on lease no. 7 is based on the minimum rental plus a percentage of gross revenues.

practice to follow. DLNR, however, clearly is not utilizing percentage leases as often as it should. One of the clearest instances where a percentage lease is appropriate is when land is leased for hotel purposes. In the private sector, a percentage lease is the standard practice in hotel leases. Yet, DLNR is not using percentage leases in these cases. All 13 hotel leases that we examined provided for only annual dollar rentals. In the private sector, hotel leases generally provide for percentage rentals as follows: 4 percent of room revenues, 5 percent of food revenues, 2 percent of beverage revenues, and 10 percent of other revenues.

Improper inclusion of waste lands in cane leases. HRS Section 171-36(7) provides that a "lease shall be for a specific use or uses and shall not include waste lands, unless it is impractical to provide otherwise." The purpose of this provision is to ensure that land deemed unsuitable for the use or uses specified for a lease is not automatically included in the lease at a token or nominal amount. It minimizes the lessee's opportunity to put to productive use supposedly waste lands at little or no rental. Our examination revealed that supposedly waste lands have been included in various cane leases in violation of statute.

At June 30, 1977, approximately 28,000 acres were encumbered by 41 cane leases. The annual rent derived from these 41 leases totaled about \$667,524. An additional 15,000 acres of waste land were included in 28 of the 41 leases. The annual lease rent from these waste lands amounted to approximately \$154, or about one cent an acre. These waste lands were included in the leases not because it was impractical to provide otherwise but, rather, because it was more convenient to include them in the leases. Indeed, it appears to be DLM's standard procedure to include waste lands in leases when it is more convenient to do so and to rely on the sugar companies to report any use of these lands and to adjust the lease rentals as the companies so report. In some instances "waste" lands are included in cane leases at the request of the sugar companies themselves.

The precise evil that HRS Section 171-36(7) was designed to avoid is present in the inclusion of the 15,000 acres in the 28 leases. DLM is clearly aware that much of these lands, though labeled "waste," can be cultivated and planted with cane and converted into productive use. Moreover, DLM is aware that particularly those "waste" lands included in the leases at the request of the sugar companies were included to be held as reserve lands to be put into productive use when and if the demand for sugar increases. Exactly how many of the 15,000 acres could be used for cane production, or how many acres are presently being used without DLM's knowledge cannot be determined without an inspection of the properties. In any event, DLM's practice of automatically including in the leases "waste" lands which it knows are not truly "waste" denies the State the potential of earning revenues in excess of \$154 per annum.

Delays in reopening and redetermining annual rent. Long-term leases generally provide for reopenings after a fixed period to redetermine the rental to be paid. HRS Section 171-17(d) states that "in the event of reopening of the rental to be paid on a lease, the rental for any ensuing period shall be the rental

for the immediately preceding period or the fair market rental at the time of reopening, whichever is higher." The law further states:

"At the time of reopening, the fair market rental shall be determined by an appraiser whose services shall be contracted for by the board; provided that, should the lessee fail to agree upon the fair market rental, he may appoint his own appraiser who together with the board's appraiser shall appoint a third appraiser and the fair market rental shall be determined by arbitration"

Our examination of lease reopenings revealed that new rents are established long after the reopening date specified in the lease agreement and, then, only after the lessee has initiated reopening actions. The delays have been as long as six years.

To illustrate, a business lease let in 1960 for a term of 25 years provided that the annual rent be "redetermined at the expiration of the fifth year of the lease," i.e., in 1965. In July 1964, the lessee wrote to DLM requesting an appointment to discuss reopening of the lease for negotiations on the rent. After having received no reply to two subsequent letters, the lessee in December 1964 sent to DLM a certified letter stating in part:

"... I think the least you can do at this point is to advise me what the status of this matter is and when I may expect to hear from you something positive regarding it. If you are unable to notify me, then please advise me as to whom I might write to get a satisfactory answer.

"My file shows that we have been trying to handle this matter with your department since July 17, 1964."

It was not until July 19, 1966, some two years after the lessee had initiated inquiries concerning lease reopening and over one year after the specified reopening date, that the new annual rent was finally agreed upon.

In another case, an industrial lease for a term of 55 years provided that the lease be reopened and the annual rent be redetermined for the next ten years at the expiration of the 15th year, i.e., on March 5, 1976. In August 1975, some seven months before the reopening date, the lessee requested a meeting with DLM to discuss the new rent amount. However, it was not until April 1976, one month after the specified reopening date, that an independent appraisal of the property was completed. A new annual rent was submitted to the lessee in May 1976. In January 1977, the lessee rejected DLM's proposed annual rent and countered with a lesser amount. After several communications between DLM and the appraiser and the lessee, the lessee informed DLM that it had engaged its own appraiser to determine fair market rental. At July 1978, nearly three years after the lessee initiated reopening proceedings and over two years after the specified reopening date, the new lease rental still remained undetermined.

In yet another case, a 25-year business lease, effective December 18, 1961, provided for an annual rent of \$250 until reopening and redetermination of rent on December 19, 1971. It was not until July 3, 1974, some three years after the reopening date that DLM informed the lessee that an appraisal of the property was being made in order to establish fair market rental and a new annual rent. Almost three years later, in February 1977, the appraisal report was completed and the lessee was informed that on the basis of the appraisal the new annual rent was established at "\$1,716, effective as of December 18, 1971." In this case, the new proposed rental being nearly seven times the initial rent, the lessee did not accept the new annual rent proposed by DLM. The lessee obtained his own appraiser and, as of February 1978, the lessee was still negotiating a new annual rent with DLM.

Long delays in establishing the new rentals have a two-fold effect. *First*, it deprives the State of the use of the monies to which it is entitled. It loses, for instance, the interest it could receive on the monies if collected on time and deposited in interest-bearing accounts. *Second*, long delays work a hardship on the lessee. The new rental, no matter how long its determination is delayed, is retroactive to the date of reopening. By the provision of the lease, the lessee continues to pay the old rental amount pending the determination of the new rental. However, upon settlement of the new rental, the lessee is required to pay in one lump sum the difference between the new and the old rentals aggregated from the date of reopening to the date of the determination of the new rental. The difference between the new and the old rentals is often quite substantial, making the aggregate difference for the period between the date of reopening and the date of the determination of the new rental a sizeable sum. Note, for example, the third case illustrated above. It may well be that the resulting sizeable amount that the lessee never pay in one lump sum causes lessees to counter, rather than accept, the State's proposed new rent and thereby further delay settlement of the new rent.

There is no excuse for DLM's delay in initiating and consummating the determination of new rentals. It would appear that DLM should begin all necessary actions at least six months prior to the reopening date, e.g., perform an appraisal of the property, inform the lessee that his annual rent is to be reopened and redetermined, etc., so that at the specified date the lessee can be presented with DLM's proposed new annual rent. If the lessee disagrees with the proposed rent amount, he can, at that time, select his own appraiser, not years later as is the practice.

The need for timely lease reopenings and redetermination of rents is critical. A review of the reopening dates for 160 business and industrial leases revealed that 39 leases or 24 percent of these leases are due to be reopened within the next five years.

Recommendations. We recommend that DLNR:

1. Develop guidelines for appraisals, both in-house and independent, and require that all appraisals be properly documented.
2. Make greater use of percentage leases for business and industrial purposes.
3. Exclude waste lands from leases, especially cane leases, unless, as provided in statute, it is impractical to do so.
4. Redetermine rents promptly where leases provide for reopening and redetermination of rents.

Questionable Use of Permits

HRS Section 171-32 states as a matter of policy that “[u]nless otherwise specifically authorized in this chapter or by subsequent legislative acts, all dispositions shall be by lease only, disposed of by public auction . . .” The use of public lands under permits is allowed but only for limited purposes and for limited durations. HRS Section 171-55 provides that “[t]he board of land and natural resources may issue permits for the temporary occupancy of state lands or interest therein on a month-to-month basis under such conditions which will serve the best interest of the State . . . Such permit on a month-to-month basis may continue for a period not to exceed one year from the date of its issuance; provided, that the board may allow the permit to continue on a month-to-month basis for additional one year periods.”

According to DLM personnel, permits to use public lands are issued for a number of reasons, including, among others, the following: (1) an individual or company requires use of land for less than one year; (2) the State has planned for use of land and therefore is unable to commit these lands under a long-term lease;

and (3) immediate disposition of the land is desired by DLNR.

Our examination of 728 permits outstanding at June 30, 1977, revealed that DLNR is allowing the use of public lands under permits in violation of the intent of the statute and of DLNR’s own guidelines. Public lands have been allowed to be used under permits for periods as long as 20-plus years by automatic annual renewals of the permits. The average length of land occupancy under the 728 permits has been eight years and one month. Only 44 of the 728 permits or 6 percent have been in existence for less than one year. The remaining 684 permits or 94 percent have been in existence for more than one year. 467 permits or 64 percent have been in effect for at least 10 years, 158 or 22 percent for between 11 and 19 years, and 59 or 8 percent for over 20 years. See table 5.3. Occupancy of land for such long periods can hardly be said to be “temporary” as that term is used in HRS Section 171-55.

Table 5.3

Land Occupancy by Length of Permit

Length of permit (years)	No. of permits	%
Less than 1 year	44	6%
1 to 10 years	467	64
11 to 19 years	158	22
More than 20 years	59	8
Total	728	100%

When House Bill No. 244 (HRS Section 171-55) was being considered by the state legislature, a question specifically regarding the extension of permits was raised on the floor of the house of representatives. At that time, the chairman of the house committee on lands stated that the intent of the provision was “to get the state out of the business of having so many revokable [sic] permits for ten and twelve years and to put this under an intelligent program.” Obviously, this has not occurred. In fact, during the past six years, the number of

acres under leases decreased, while the number of acres under permits increased dramatically. This is shown in table 5.4

Table 5.4
Summary of Public Lands
Encumbered Acres Under Leases and Permits
FY 1971-72 and FY 1976-77

	FY 1971-72	FY 1976-77	Acres	Increase [decrease] %age
Lease	409,927	333,882	[76,045]	[18.6%]
Revocable permits	39,000	102,677	63,677	163.3

As the table shows, between FY 1971-72 and FY 1976-77, the number of acres under leases decreased by 76,045 acres or 18.6 percent; i.e., from 409,927 acres to 333,882 acres. During this same period, however, the number of acres under permits increased by 63,677 acres or 163.3 percent, i.e., from 39,000 acres to 102,677 acres.

DLM personnel concede that at least 54.3 acres presently under 29 permits should be under leases. These lands, used for business, pasture, and right-of-way purposes, have been under permits for at least ten years. Table 5.5 shows the number of acres which should be under leases by kinds of land.

Table 5.5
Lands Encumbered by Permit
Which Should Be Under Lease

Kind of business	No. of acres
Business032
Pasture	43.668
Right-of-way	10.631
Total	<u>54.331</u>

The extensive use of permits is detrimental to the State. *First*, tenants under permits usually refrain from making any substantial

improvements to the land since their occupancy of the land is on a month-to-month basis with no assurance of continuation of their occupancy for long stretches of time. Lands which are not improved do not increase in value as rapidly as those which are. *Second*, opportunities for securing the best rentals, from the State's standpoint, are better if the use of public lands is let by public auctions, which is generally required for leases, than if let by negotiations, which is the case for permits.

DLNR needs to conduct a review of all 728 permits outstanding and take action as necessary to put these lands out to public auction and place them under long-term leases. It also must develop a master listing of the outstanding permits showing the date of issuance and the date of expiration of each permit. On expiration of the permit, the tenant should be required either to show good cause for an extension of his permit (e.g., time to harvest a planted crop).

Recommendation. *We recommend that:*

1. *DLNR review all permits outstanding and follow the necessary procedures to place lands encumbered by permit, especially those for which the State has no planned use, under long-term leases.*
2. *DLNR develop and maintain a listing of all permits outstanding to ensure that each permit remains in effect for no longer than one year, unless the tenant shows good cause for an extension or the State has plans for the use of the land.*

Inadequate Monitoring and Enforcement of Contract Terms and Conditions

Among the responsibilities of DLNR is the responsibility to ensure that users of public lands are complying with the terms and conditions of use, including those terms and conditions set forth in statutes, in DLNR's rules and regulations, and in the lease and permit documents. By Policy No. E-1, the board

directed DLM to "inspect public and private lands as required" and to "enforce terms and conditions of disposition documents, and applicable statutes and rules and regulations pertaining to state and public lands."

DLM has been seriously deficient in monitoring leases and enforcing the terms and conditions of use.

Failure to inspect lands. According to DLNR Policy No. E-3.1.1 IV, public lands are required to be inspected as necessary, but not less than once every two years and whenever a violation is reported. The purpose of these on-site inspections is to: (1) determine whether the lessee is complying with the terms and conditions of the lease agreement, (2) identify potential violations, and (3) follow up on previously cited violations.

Despite this policy, DLM does not conduct inspections on any systematic basis. Whether any inspections should be conducted and, if so, when and under what circumstances, are left to the discretion of the individual district land agents on Hawaii, Oahu, Maui, and Kauai. The land agents differ in their practices, but it appears clear that inspections of public lands are minimal.

That DLM exerts little effort to inspect public lands is evident by the absence of inspection reports in the department's lease files. For example, a sample of 25 lease files revealed 10 files that contained no report or any other evidence that an inspection had been made. Three files contained brief notes indicating that an inspection of the property may have been made. Only 12 contained inspection reports. However, even in those cases where inspection reports were found, most of the reports were outdated. In one case, the latest inspection report was over 13 years old.

Among the terms and conditions, the compliance with which are enhanced by periodic, scheduled inspections, are those requiring the construction of facilities and

improvements and those requiring the payment of rentals based on gross receipts or on acres of cultivation or on volume of production. To illustrate the case of rentals, periodic inspections assist in assuring that the amount of cane extracted and sold corresponds to the acres stated to be under cultivation by the sugar companies, or that the volume of sand, gravel, and rock extracted under leases or permits issued for those purposes corresponds to the amounts stated by the lessee or permittee to have been extracted and sold.

Failure to take timely action on default in payment of rents and other sums. HRS Section 171-20 requires the board to deliver a written notice of breach or default by personal service, registered mail or certified mail, to any party who is in default of any terms, covenant, restriction, or condition of any lease, patent, license, agreement, or other instrument issued by the department. This section further provides that if the breach or default is not cured within 60 days or in such extra time that the board may allow for good cause, the board may proceed to terminate the occupant's tenure on the land.

DLNR is extremely lax in pursuing lessees who are seriously delinquent in the payment of their rents. For example, a notice of default was sent to a business lessee in November 1975. The notice stated that the lessee had 60 days to cure the default. It further stated that if he failed to remedy the default within the 60-day period, "... the Board of Land and Natural Resources may order the cancellation of your lease, and exercise such other rights as the Board may have at law or as set forth in the lease." At that time, the total amount of the delinquency was almost \$8500. This amount represented delinquent rent payments for the period October 1974 through November 1975. Despite the seriousness of the delinquency, no action was taken by the board after the 60-day period. In October 1976, almost one year from the date of the notice, DLM planned to recommend that the board approve cancellation of the lease and to authorize the attorney general to take necessary

actions to collect the unpaid balance on the lease. For reasons not documented in the lease file, DLM chose not to submit the matter to the board, and, at June 30, 1978, the lessee's total delinquency totaled \$31,875. This sum represents delinquent rent payments for almost four years.

In another case, a business lessee was presented with a notice of default in November 1975. The total amount delinquent at that time was \$18,656. Again, no action was taken after the 60-day period. The matter was finally submitted to the board in October 1976, but the board deferred action in the matter and took no action to cancel the lease. At June 30, 1978, the lessee was still occupying the land, and the total amount of the delinquency had increased to \$52,179.

The two examples cited above are not exceptions. Rather, they are representative of the manner in which DLNR handles lessees and permittees who are delinquent in rent payments. Note the size of the delinquencies. At June 30, 1976, the amount due and payable as rent under leases and permits then in force totaled \$746,020. Of this amount, \$526,937 or 69 percent was at least 30 days overdue and therefore delinquent. Table 5.6 summarizes the data on leases and permits outstanding and the delinquent amounts.

Table 5.6

Lease and Permit Accounts Outstanding
At June 30, 1976

Status of account	Amount	Percent
Current	\$237,083	31.0%
Delinquent:		
30-59 days	54,239	7.1
60-89 days	44,332	5.8
90 days and over	428,366	56.1
Total delinquent	526,937	69.0
Total	<u>\$764,020</u>	<u>100.0%</u>

As shown in the table, \$54,239 or 7.1 percent of the amount due and payable (\$764,020) on June 30, 1976, was between 30 and 59 days past due; \$44,332 or 5.8 percent was between 60 and 89 days past due; and \$428,366 or 56.1 percent had been delinquent for 90 days or more. A certain amount of delinquencies are to be expected. However, the total amount delinquent and the age of the delinquencies are excessive and totally unacceptable.

DLNR's lax manner in handling delinquencies in the payment of rents under leases and permits also applies to the handling of past due special sales agreement accounts. Special sales agreements are agreements of sale by which the State sells land in fee, usually houselots. The sale occurs by public auction or drawing. The terms of the sales agreements vary with each group of houselots sold; however, all require a minimum downpayment and equal quarterly installments over a three- to five-year term at an interest rate of 6 percent a year.

At June 30, 1976, there were 106 special sales agreements in force. The outstanding principal balance on all 106 accounts totaled \$1,414,000. Of this amount, \$829,000⁴ or 59 percent was delinquent. In at least one case, the delinquency had existed for as long as 20 quarters, i.e., five years. Table 5.7 summarizes information on six of the largest delinquent accounts. It includes the account that had been delinquent for five years.

DLNR should not allow these delinquencies on leases, permits, and special sales agreements to continue. The longer it allows the accounts to remain uncollected, the harder it will be to collect them.

At least two factors contribute to the occurrence of these delinquencies: (1) DLM does not perform credit investigations on

⁴The \$829,000 represents the payments not received before the end of the month following the quarterly billing.

Table 5.7
Selected Delinquent Special Sales Agreement Accounts
At June 30, 1976

Out-stand-principal amount	No. of quarters	Delinquent installments		
		Principal	Interest	Total
\$162,136	4	\$ 40,534	\$28,985	\$ 69,519
37,276	4	7,455	2,243	9,698
42,800	7	29,960	4,496	34,456
13,543	7	6,282	1,124	7,406
9,037	9	9,037	948	9,985
19,890	20	19,890	4,982	24,872
\$284,682		\$113,158	\$42,778	\$155,936

prospective users of land and (2) no interest penalties are imposed on past-due accounts.

1. *Lack of credit investigations.* To protect the interests of the State, it would appear reasonable to grant leases, permits, and special sales agreements only to persons who are financially able to pay the rents or installments called for by these leases, permits, and agreements. DLM, however, makes no attempt to ensure the credit worthiness of prospective lessees and purchasers of public lands. Lessees, permittees, and purchasers are required only to sign an affidavit stating that they have no outstanding tax debts to the State. From the size of the delinquencies, it appears obvious that the signing of such affidavits alone is insufficient to assure payment as required by the leases, permits, and agreements.

DLNR has taken some steps to require credit investigations. On April 26, 1974, the board approved standards for evaluating the credit worthiness of applicants. However, DLM was subsequently requested to revise these policies. DLM was to submit the revised policies to the board at a later date. To this day, however, the new standards have not been submitted to the board for its approval.

2. *Absence of penalties on past-due accounts.* DLNR charges no interest on

delinquent amounts even though HRS Section 478-1 provides that "...interest shall be allowed ... for money upon an open account, after 60 days from the date of last item or transaction." Although the assessment of interest on late payments will not in all cases ensure that rents and installments will be received when due and payable, it provides some incentive for timely payment. Had DLNR charged interest on past-due accounts, the State would have earned some \$28,400 in additional revenues in FY 1975-76 alone. Table 5.8 shows the interest income lost on accounts past-due for more than 60 days.

Table 5.8
Interest Income Lost on
Past-Due Leases and Permits
Fiscal Year 1975-76

60 - 89 days	\$ 44,332
90 days and over	428,366
Total	\$472,698
Potential interest income at 6% . . .	\$ 28,362

Recommendations. We recommend that:

1. *DLM conduct inspections of public lands on a systematic basis at least once every two years. Priority should be given to those cases in which violations have been cited.*
2. *DLM establish policies and standards to ensure the credit worthiness of applicants for leases, permits, and sales agreements.*
3. *Interest be assessed on all rents and installment payments that are past due.*
4. *The board of land and natural resources take necessary steps to collect the delinquent amounts due on leases, permits, and special sales agreements. Collection priorities should be given to the older accounts. Where accounts are deemed uncollectible, they should be turned over to the attorney general for final disposition.*

Improper Disposition of Public Land Revenues

All revenues derived from the sale, lease, and other disposition of public lands under DLNR's control are required by statute to be deposited and accounted for in one of three fund accounts: (1) the public land trust fund, (2) the special land and development fund, and (3) the state general fund. Each fund is an independent financial and accounting entity. To preserve the integrity and to further the purpose of each fund, it is imperative that revenues be deposited and accounted for in the appropriate fund. DLNR, however, is depositing public land revenues into the wrong funds. This has resulted in the misrepresentation of the assets of the various funds.

The following sections discuss the laws governing disposition of public land revenues and the specific deficiencies disclosed by our audit.

The laws. The laws governing the disposition of revenues are contained in the Admission Act of 1959 and Act 32, SLH 1962 (HRS Chapter 171).

Subsection 5(f) of the Admission Act and Act 32 (HRS Chapter 171), which was enacted to comply with the requirements of the Admission Act, established the public land trust fund. As provided in HRS Section 171-18,

“ . . . [A]ll proceeds and income from the sale, lease or other disposition of lands ceded to the United States by the Republic of Hawaii under the joint resolution of annexation approved July 7, 1898 (30 Stat. 750), or acquired in exchange for the lands so ceded, and returned to the State of Hawaii by virtue of section 5(b) of the [Admission] Act of March 18, 1959 (73 Stat. 6), and all proceeds and income from the sale, lease or other disposition of lands retained by the United States under sections 5(c) and

5(d) of the [Admission] Act and later conveyed to the State under section 5(e) shall be held as a public trust for the support of the public schools and other public education institutions, for the betterment of the conditions of native Hawaiians . . . , for the development of farm and home ownership on as widespread a basis as possible, for the making of public improvements and for the provision of lands for public use.”⁵

The law thus requires that all revenues derived from ceded lands, i.e., lands transferred to the United States upon annexation and lands acquired in exchange for lands so ceded and subsequently returned by the United States to Hawaii, be deposited in the public land trust fund.

Act 32 also added a new section to the law (HRS Section 171-19). This new section, among other things, requires DLNR to transfer a percentage of certain kinds of land revenues to the department of Hawaiian home lands. Perhaps of most importance, Section 171-19 recognizes the existence of non-ceded public lands, i.e., public lands which had been acquired by the Territory after annexation and prior to statehood, and lands acquired after statehood

⁵Under Subsection 5(b) of the Admission Act, except as provided in Subsections 5(c) and 5(d), the State of Hawaii obtained title to all public lands (that is, all lands ceded to the U.S. after annexation and lands exchanged for ceded lands) and Hawaiian homes “available lands,” title to which was held by the U.S. immediately before Hawaii's admission into the Union. Under Subsection 5(c), the U.S. retained title to ceded lands, lands exchanged for ceded lands, lands purchased by the Territory after annexation, and lands purchased by the U.S. which, at the time Hawaii was admitted into the Union, was set aside by law for the use of the U.S. Under Subsection 5(d), the Congress or the President could, by law or by executive order, by August 21, 1964, set aside for the use of the U.S. any of the lands conveyed to the State by Subsection 5(b) but which was held by the U.S. immediately preceding the admission of Hawaii as a state pursuant to permit, license, or permission from the Territory or any of its departments. Under Subsection 5(e), the federal agencies having control of lands under the provisions of Subsections 5(c) and 5(d) were required by August 21, 1964, to report to the President whether such lands were needed. Lands not needed were to be conveyed to the State of Hawaii.

from the federal government⁶ and private landowners. Subject to the provisions of the Hawaiian Homes Commission Act which require that 30 percent of all receipts derived from the leasing of ceded and non-ceded cultivated sugarcane lands or water licenses be deposited into the department of Hawaiian homes loan fund,⁷ and subject also to the provisions of subsection 5(f) of the Admission Act which require that all proceeds from ceded public lands be deposited into the trust fund. HRS Section 171-19 directs that all proceeds from non-ceded lands be deposited into a special land and development fund. Specifically, Section 171-19 provides:

“Subject to the provisions contained in the Hawaiian Homes Commission Act of 1920, as amended and in (sub)section 5(f) of the Admission Act of 1959, all proceeds of sale of public lands, including the interest on deferred payments and all rents from leases, licenses and permits derived from public lands shall be set apart in the (special land and development) fund.”

HRS Section 171-19 also deals with proceeds of sale of land remnants for abutting landowners. It requires that revenues derived from the sale of ceded land remnants be deposited in the public land trust fund and revenues derived from the sale of non-ceded land remnants be deposited in the general fund.

By law, then, public land revenues are required to be deposited thusly:

Revenues derived from the sale of ceded public lands (including ceded land remnants to abutting owners) and the rents from leases, licenses, and permits of ceded lands (less 30 percent derived from sugarcane leases and water licenses) are to be deposited in the public land trust fund.

Revenues derived from the sale of non-ceded public lands (excluding

non-ceded land remnants) and the rents from leases, licenses, and permits of non-ceded lands (less 30 percent derived from sugarcane leases and water licenses) are to be deposited in the special land and development fund.

Revenues from the sale of non-ceded land remnants made to abutting landowners are to be deposited in the state general fund.

Thirty percent of all lease revenues derived from sugar cane leases and water licenses on ceded and non-ceded lands are to be deposited in the Hawaiian homes loan fund.

Table 5.9 summarizes the above.

The violation. Although the law is clear that revenues be distinguished according to whether they are derived from ceded or from non-ceded lands so that they may be deposited into the proper accounts, DLNR is not now distinguishing revenues on that basis. Rather, DLNR is distinguishing revenues from public lands according to whether they are derived from sale or from lease of public lands. All revenues derived from the sale of public lands, including land remnants to abutting owners, are being deposited by DLNR in the special land and development fund. All revenues from public land leases, licenses, and permits are being deposited in the public land trust fund. Table 5.10 summarizes this.

⁶Non-ceded lands acquired after statehood from the federal government are exclusive of those lands retained under Subsections 5(c) and 5(d) and conveyed to the State under 5(e) of the Admission Act.

⁷Section 213 of the Hawaiian Homes Commission Act states as follows: “Thirty per centum of the state receipts derived from the leasing of cultivated sugarcane lands under any other provisions of law or from water licenses, shall be deposited into the Hawaiian home-loan fund until the aggregate amount of the fund (including in said amount the principal of all outstanding loans and advances, and all transfers which have been made from this fund to other funds for which this fund has not been or need not be reimbursed) shall equal \$5,000,000.”

Table 5.9

Disposition of Revenues Derived from Public Lands

Kind of public land/type transaction	Fund			
	Public land trust fund	Special land and development fund	State general fund	Hawaiian homes loan fund
Ceded public lands:				
Sale (including land remnants)	X			
Lease, license, and permit (less 30 percent from sugar cane leases and water licenses)	X			
30 percent of sugar cane leases and water licenses				X
Non-ceded public Lands:				
Sale (excluding land remnants)		X		
Land remnant sales			X	
Lease, license, and permit (less 30 percent derived from sugar cane leases and water licenses)		X		
30 percent of sugar cane leases and water licenses				X

Table 5.10

Department of Land and Natural Resources's Improper Method of Revenue Distribution

Type of land transaction	Fund	
	Public land trust fund	Special land and development fund
Sale of ceded and non-ceded public land (including land remnants)		X
Lease of ceded and non-ceded public land (including land remnants)	X	

The result is that some revenues from ceded lands (ceded land sales proceeds, including proceeds of ceded land remnants), are being improperly deposited in the special fund rather than in the trust fund. Similarly, some revenues from non-ceded lands (those from leases, licenses, and permits) which should be deposited in the special fund are being improperly deposited in the trust fund. In addition, revenues from the sale of non-ceded land remnants are being deposited in the special fund, although by statute, these proceeds should be deposited in the general fund.

In FY 1975-76, approximately \$1.2 million in land sale receipts was deposited in the special land and development fund and approximately \$5.3 million from leases, licenses, and permits was deposited in the public land trust fund. Since the deposits into each fund included amounts which should have been deposited into the other fund, DLNR's financial records on the funds clearly misrepresented the status of the funds. Since the department does not record revenues according to ceded or non-ceded lands, it is impossible to state whether the assets reported by DLNR for each fund were overstated or understated. This situation constituted one of the major reasons why Peat, Marwick and Mitchell, a private certified accounting firm which examined DLNR's financial statements under contract with us, was unable to attest to the fairness and accuracy of the department's 1975-76 financial statements.⁸

⁸See Chapter 7 for the auditors' opinions on financial statements of DLNR.

The deposit of revenues in the wrong funds affects planning and budgeting decisions. The Admission Act and HRS Section 171-18 require that trust fund revenues from ceded lands be used for specific purposes, one such purpose being "for the support of the public schools and other public educational institutions."⁹ It is the practice of the state legislature by a special provision in the general appropriations act to appropriate the proceeds in the trust fund (exclusive of the amount transferred to the department of Hawaiian home lands loan fund) as a reimbursement to the general fund for appropriations made to the department of education.¹⁰ The effect of such special provision is illustrated thusly. For FY 1975-76, the legislature appropriated in excess of \$180 million from the general fund to the department of education. During the fiscal year, the trust fund received approximately \$5.3 million of which about \$825,000¹¹ was transferred to the department of Hawaiian home lands. In accordance with the special provision in the general appropriations act, the remaining \$4.5 million was transferred to the general fund to reimburse the general fund for the use of general fund monies for education purposes. This resulted in a reduction of general fund support of education by \$4.5 million. Clearly, to the extent that the trust fund is not credited with revenues derived from the sale of ceded lands, the state general fund is required to bear additional costs of education which it otherwise is not required to bear. The converse is also true. To the extent that the trust fund is credited with revenues derived from leases of non-ceded lands, the general fund is improperly relieved of supporting education.

The apparent reasons for violation. DLNR relies on an attorney general's opinion to justify depositing all lease revenues in the trust fund and all sale proceeds in the special fund. The real reason for such deposits, however, appears to be that DLNR is at present unable to distinguish between ceded and non-ceded lands.

1. *Reliance on attorney general's opinion.* The attorney general's opinion that

DLNR relies on is the letter opinion dated May 1, 1961, addressed to the comptroller of the department of accounting and general services.¹² The comptroller had requested a ruling from the attorney general as to the propriety of placing \$1,525,873.88 realized from ceded lands by way of rentals, lease rentals, water licenses, and other licenses and sale of wood, rock, sand, etc., in the general fund. In the opinion, the attorney general stated that "[i]n view of the trust fund created by Section 5(f) [of the Admission Act], we are of the opinion that the \$1,525,873.88 realized from ceded lands since August 21, 1959 in the manner heretofore set forth should be placed in a trust fund for any of the uses enumerated in Section 5(f) and in the manner prescribed by law."

The opinion dealt specifically with the issue of disposition of revenues from leases, licenses, and permits, and of such revenues derived from ceded lands. Had the opinion gone no further than to state that revenues realized from ceded lands by way of rentals, lease rentals, water licenses, and other licenses and sale of wood, rock, sand, etc., must be deposited in the trust fund, it is doubtful that it could have generated the confusion it did. But the attorney general did not end the opinion with

⁹Admission Act of 1959.

¹⁰The Admission Act of 1959 provides that the monies held in the public land trust fund may be used "for the support of the public schools and other public education institutions, for the betterment of the conditions of the native Hawaiians, for the development of farm and home ownership on as widespread a basis as possible, for the making of public improvements and for the provision of lands for public use." The committee report which recommended passage of Act 1 does not explain the committee's reasons for specifying those particular purposes for which the trust fund monies may be used. However, to date, the state legislature has used the monies for only public education.

¹¹The \$825,000 transferred to the department of Hawaiian home lands is comprised of \$312,078 from sugarcane leases and water licenses and \$512,992 from rents derived from "available" Hawaiian home lands controlled by DLNR.

¹²Letter from the attorney general to the comptroller, DAGS, subject: Additional questions presented by Section 5(f) of the Admission Act, dated May 1, 1961.

that statement. He thought it appropriate to comment on the then existing statutory provision concerning proceeds of sale of public lands. The attorney general's comments on the statutory provision were as follows:

“Section 99–21, Revised Laws of Hawaii 1955, as amended, provides that proceeds of sale of public lands for homestead or other purposes in any county, including interest on the deferred payments and rents under right of purchase leases and rents from certain general leases derived from lands included within an improvement or development project initiated and approved by the Board of Land and Natural Resources, are set aside as a special fund for each county. These proceeds are now disposable by the Board of Land and Natural Resources. They are disposable, however, only in the manner set forth in Section 99–21 consistent with the purposes enumerated in Section 5(f).

“Section 99–21 does not provide for the manner in which realizations from ceded lands by way of rentals, lease rentals, water licenses and other licenses and sales of wood, rock and sand, etc., may be used and disposed of. Said sum therefore cannot be expended by the Board of Land and Natural Resources and shall remain in the trust fund until the legislature provides for its use which, of course, must be consistent with the uses set forth in Section 5(f) of the Admission Act.”

In light of the fact that at the time the opinion was issued, there was no statutory recognition of “non-ceded” lands. The two quoted paragraphs, taken alone, could conceivably have led one to conclude that all proceeds from the sale of public lands (ceded or not) belonged in the special fund and all revenues from leases, licenses, and permits on

public lands (again, ceded or not), needed to be placed in the trust fund. DLNR so concluded. In doing so, DLNR gave undue emphasis to the attorney general's discussion of Section 99–21, R.L.H. 1955, as amended, and completely ignored the context in which the opinion was written. It indeed overlooked the attorney general's early statement in the opinion that “Under the provisions of Section 5(f) of the Admission Act, the proceeds *from the sale or other disposition* of any lands and the income therefrom, granted to the State by Section 5(b) or later conveyed to the State by Section 5(e) shall be held as a public trust” (Emphasis supplied.)

Whatever confusion there might have been as a result of the attorney general's discussion of Section 99–21, R.L.H. 1955, as amended, surely should have dissipated when in 1962 the legislature enacted Act 32, which repealed Section 99–21, R.L.H. 1955, as amended, gave recognition to non-ceded lands, and established the special land and development fund for the deposit of all revenues from non-ceded lands (except proceeds of sale of non-ceded land remnants).

2. *Inability to distinguish between ceded and non-ceded lands.* It appears that DLNR continues to rely on the May 1, 1961 attorney general's opinion and to deposit revenues from public lands in the wrong funds, notwithstanding the enactment of Act 32, SLH 1962, because DLNR is unable to distinguish ceded public lands from non-ceded public lands. DLNR's inability to so distinguish stems from the fact that there are no records, land maps, and other related documents by which DLNR can accurately classify all public lands as ceded or non-ceded. Many of the records which date back to Annexation (1898) can no longer be found. What records that do exist are often inadequate and inaccurate. Take, for instance, the matter of land boundaries. When Hawaii's lands were transferred to the United States upon Annexation, the land boundaries were roughly defined and expressed in terms of geographic features which are not discernible today. They

were generally described in the following manner: "Extending from one side of _____ stream to the _____ tree at the top of the hill, along the ridge of the mountain and back to the ocean."¹³ With urbanization, many of the geographic land marks used to describe boundaries have been either destroyed or altered to the extent that they are no longer recognizable.

Given this situation, DLNR cannot be entirely faulted for failing to comply with the revenue distribution requirements of the public land laws. This raises the question: What then ought to be done about the clear violations of law in the deposit of revenues from public lands?

Alternative solutions. One of three solutions is possible: (1) the State could sanction DLNR's practice of depositing all lease revenues in the trust fund and all sale proceeds in the special fund by obtaining a Congressional amendment to the Admission Act. However, it is not at all certain that tinkering with the act is a satisfactory way to remedy the situation. It could result in more confusion or, even worse, in legislation harmful to the State's public land policies. (2) The State could direct DLNR to undertake a statewide survey of its public lands; however, this would be a formidable task. (3) The State could abolish the special land and development fund and deposit all public land sale and lease proceeds, regardless of whether they are derived from ceded or non-ceded lands, into the trust fund.

Given the reality of the situation—i.e., the inability of DLNR to distinguish between ceded and non-ceded lands and the less than satisfactory prospect of amending the Admission Act—it appears that the third option is the only practical solution. By abolishing the special land and development fund and by causing all proceeds from public lands, both ceded and non-ceded, to be deposited into the trust fund, the need to distinguish between ceded and non-ceded public lands would be eliminated and compliance with Section 5(f) of the Admission Act would be facilitated and assured.

The abolishment of the special land and development fund should cause no undue dislocation of state programs. As matters stand today, there is no heavy activity in the special land and development fund. It stands idle to a large extent.

At June 30, 1977, the special land and development fund had accumulated a sum of about \$6.8 million. As shown in table 5.11, the revenues (from the sale of public lands, including the sale of land remnants) have averaged about \$1.5 million per annum the past seven fiscal years (1970–71 to 1976–77). Expenditures have averaged about \$742,000 per year over this same period.

Table 5.11
Special Land and Development Fund
Revenues, Expenditures, and Unrequired Balance
FY 1970–71 – FY. 1976–77

<i>Fiscal year</i>	<i>Revenues</i>	<i>Expenditures</i>	<i>Balance</i>
Balance: 6-30-70			\$1,731,484.00
70–71	\$ 737,573.44	[\$ 816,351.11]	1,652,706.33
71–72	866,076.27	[1,094,749.61]	1,424,032.99
72–73	3,048,230.98	[548,297.84]	3,923,966.13
73–74	2,378,910.47	[590,430.61]	5,712,445.99
74–75	904,896.55	[649,351.06]	5,967,991.48
75–76	1,250,577.54	[647,360.34]	6,571,208.68
76–77	1,127,137.51	[850,222.41]	6,848,123.78
Average	\$1,473,343.25	[\$ 742,394.71]	\$4,585,782.19

Of the \$742,000, approximately \$600,000 has been for reimbursement of the general fund for principal and interest on general obligation bonds. The remaining \$142,000 has been used to repurchase lands and to pay for incidental expenses such as appraisal fees and repair and maintenance charges on public lands.

The law provides that in general, the special land and development fund is to be used only as

¹³ University of Hawaii, Land Study Bureau, *State Lands of Hawaii, Individuals' Rights to Use and Ownership*, Special Study Series, Report No. 5, July 1961, p. 10.

authorized by the legislature. However, it also states that without such prior legislative authority, the board of land and natural resources may use the fund for any of the following purposes: (1) to reimburse the general fund for advancements made, (2) for incidental maintenance of all lands under the control and management of the board, (3) to repurchase any land to which the board has the right of repurchase, (4) for the payment of all appraisal fees, (5) for the payment of publication notices, (6) for the planning and construction of roads and trails along state rights-of-way, and (7) for the payment to private land developers who have contracted with the board for development of public lands.

As can be seen from table 5.11, the legislature has not in recent years authorized any specific use of the fund, and DLNR has not used the fund under its discretionary power to any large extent, except for the purpose of reimbursing the general fund for principal and interest on general obligation bonds. DLNR itself has indicated that it has no potential use for the fund other than for bond obligations. This being so, the abolishment of the special land and development fund will leave little, if any, effect on the State's public land programs. The general fund would no longer have a special fund from which it can be reimbursed for the cost of amortizing general obligation bonds issued for public land purposes, but that loss will be offset by the larger amount which would be available in the trust fund for educational and other purposes enumerated in Section 5(f) of the Admission Act, thereby reducing the need for general fund support for these purposes.

As a footnote, it is noted, that in February 1978, the sum of about \$6 million¹⁴ was transferred from the special land and development fund to the general fund. The transfer was made at the discretion of the department of budget and finance and on the strength of the attorney general's ruling that under Act 195, SLH 1975, unless DLNR could prove the need for the money, the unrequired amount in the special land and development fund had to be transferred to the general fund. One might take issue with the reasoning of the attorney general in reaching the conclusions he reached in his ruling of February 1978 (and in his earlier opinions of March 4, 1977 and December 22, 1977 along the same or related vein). However, the difficulties with the attorney general's opinion, if any, are probably attributable to the practical inability to distinguish between ceded and non-ceded lands, a distinction which would not be necessary if the special land and development fund were to be abolished and if all revenues from public lands were to be deposited into the trust fund.

Recommendation

We recommend that DLNR prepare and present to the legislature legislation to repeal the creation of the special land and development fund (HRS Section 171-19), and to provide for the depositing of all public land proceeds into the public land trust fund.

¹⁴ \$7.08 million less approximately \$1 million which was obligated for repayment of bonds.

Chapter 6

FINANCIAL ACCOUNTING AND INTERNAL CONTROL

This chapter contains our findings and recommendations regarding DLNR's financial accounting practices and internal control system in general.

Summary of Findings

In summary our findings are as follows:

1. There are inadequacies in the department's financial records and reporting system. Financial statements which reflect results of operations and financial position of the funds administered by DLNR are not being prepared; financial records of the department are not compared and reconciled with the records of the department of accounting and general services (DAGS); and general ledgers are not maintained and the double-entry system of bookkeeping is not followed.

2. There is inadequate control over cash collected by the fiscal office and the bureau of conveyances.

3. For federally funded programs, claims for federal reimbursement are not being submitted on a timely basis; indirect costs for reimbursements by the federal government are being improperly determined; and federal reimbursement checks are being processed inefficiently.

4. The department is circumventing state law requiring public advertisements for bids in the purchase of goods and services. In addition, purchase orders are not being used effectively.

5. The State's EDP payroll system lacks adequate control. Backup facilities for the electronic data processing centers have not been adequately established.

Inadequacies in Financial Records and Reporting System

Denial of audit opinion. DLNR, like all other departments in the State, is required to maintain a system of accounts and records which accurately reflect all financial transactions. In addition, generally accepted accounting practices require that financial statements summarizing the financial transactions be prepared. The basic financial statements are the balance sheet, statement of changes in fund balance, and statement of revenues and expenditures (or statement of receipts and disbursements).

One of the objectives of a financial audit is to ascertain the reasonable accuracy of the financial statements of the organization being audited. Normally, the auditor is able to issue an opinion attesting to the accuracy of the financial statements. However, in the financial audit of DLNR, the accounting firm of Peat, Marwick, Mitchell & Co. was not able to attest to the accuracy of the department's FY 1975-76 financial statements.

The reason why Peat, Marwick, Mitchell & Co. could not attest to the reasonable accuracy of DLNR's financial statement was that the statements were fragmented, incomplete, inaccurate, and unverifiable. The condition of

the financial statements reflected the generally deficient fiscal reporting system of DLNR. The specific deficiencies in the statements, records, and reporting systems are described below. The deficiencies have been so serious that the financial statements displayed in chapter 7 of this audit report were required to be constructed primarily from the official records of DAGS, with reference to the records of DLNR.

Incomplete financial records. DLNR presently generates the following monthly fiscal reports: (1) revenue collections by division; (2) accounts receivable balances for leases, permits, and special sales agreements; and (3) CIP and operating expenditure trial balances. In addition, a report on CIP and operating expenditures by division is prepared on a quarterly basis.

These reports, although perhaps of some use to the various divisions, are of little value to the chairman and the board. What top management needs, but is not now receiving, is a summarization of the information contained in these reports into a statement of changes in fund balance, a statement of revenues and expenditures (or statement of receipts and disbursements), and a balance sheet which reflects the results of operations and financial position of the pertinent fund.

A statement of changes in fund balance (which shows the beginning available balance of the fund and the net change in revenues less expenditures) and a statement of revenues and expenditures (which shows a cumulative total of all revenues and expenditures from the beginning of the fiscal year to the reporting date) will enable the chairman and the board to readily ascertain the funds available for use. The balance sheet of a fund will give the chairman and the board the opportunity to assess such things as the total amounts of lease rents and permits that have not been collected and general financial condition of the fund.

In addition to the above, there are other kinds of statements which can be of material help to management. A statement comparing actual

expenditures and encumbrances against appropriations can be used to compare actual expenditures with planned expenditures. Another statement summarizing expenditures by object code, i.e., type of expenditure, is useful in controlling current expenditures and in planning for future resource requirements. A monthly encumbrance report which shows the sum of money earmarked or set aside from money allotted, along with a monthly statement of revenue and expenditures, ensures that the expenditure of funds in any quarter does not exceed the amount allotted for that quarter.

Absence of reconciliation between DLNR's and DAGS' records. A primary means of ensuring the accuracy of the financial records of a state agency is to periodically (at least quarterly) compare and reconcile the agency's records with the records maintained by DAGS, which maintains the State's official accounting records. By such comparison and reconciliation, the agency is able to detect errors in its records and to make proper adjustments to its records.

Despite the obvious value, since 1974, DLNR has made no attempt to make such comparisons and reconciliations. As a result, there is little assurance that the financial records maintained by DLNR are accurate. In addition, since the department relies solely on its expenditure records, and not on any DAGS' records, as a means of ensuring that expenditures in any given quarter do not exceed the actual amount allotted, there is little assurance that the expenditures it makes in any quarter against the allotment for that quarter are within the actual allotment received.

Absence of the double-entry system. A fundamental accounting control mechanism to assure that all financial transactions are accounted for in the financial records is the double-entry system. This system requires that for every transaction an account or accounts be debited (or charged) and an account or accounts be credited, the sum of the debits equaling the sum of the credits. The double-entry system affords built-in controls which automatically call

attention to any partial recording of financial transactions.

DLNR does not use the double-entry system. It maintains its ledgers under a single entry system. Under this system, it keeps a revenue account and an expenditure account. In the revenue account it records revenues as they are received. In the expenditure account it records expenditures as they are made. DLNR maintains no ledgers or accounts to reflect the assets, liabilities, reserves, and balances of the various funds with which it operates and to which fiscal transactions can be debited and credited. It was thus not surprising that our audit disclosed several transactions which were not recorded in the department's records. The department was unaware that these transactions had not been recorded. We discovered these transactions when we reviewed the records maintained by DAGS. Selected accounts of the unrecorded amounts for fiscal year 1975-76 are shown in table 6.1 below.

Table 6.1
Unrecorded Accounts

Type of fund	Description of account	Amount (1975-76)	
		Appropriated	Expended
Special	Fisheries - new vessel construction loan	\$256,482	\$106,300
General	Development of irrigation water system - Kauai	154,000	139,487
General	Public lands management	1,100	1,100
		<u>\$411,582</u>	<u>\$246,887</u>

As shown in table 6.1 approximately \$246,887 in expenditures were not recorded on DLNR's books. If the double-entry system of bookkeeping had been utilized, the absence of the accounts could have been detected by an out-of-balance condition in the general ledger. In addition, had the financial records of the department been compared and reconciled with those maintained by DAGS, the department would have been able to detect the errors so that adjustments could have been made immediately.

Recommendations. To assist the department in conforming to generally accepted accounting principles and sound fiscal management practices, we recommend as follows:

1. The department prepare financial statements and other appropriate kinds of financial reports on a regular and timely basis.
2. The department compare and reconcile its financial records with those of DAGS and that the records be compared and reconciled at least quarterly in every fiscal year.
3. The department immediately institute the double-entry system of bookkeeping and develop general ledgers which reflect the assets, liabilities, reserves, and fund balances for each of the various funds within DLNR.

Inadequate Control over Cash Collections

For the year ended June 30, 1976, revenues and other receipts collected by the department amounted to approximately \$12 million. Of the \$12 million, about \$10 million was collected by the department's fiscal office. These collections represent revenues derived from public land sales, leases, licenses and permits, and hunting and fishing licenses. Another \$1.6 million was collected by the division of conveyances in the form of recording and filing fees and conveyance taxes. These are sizeable sums. However, controls to safeguard these revenues and receipts from loss, theft, burglary, or misappropriation are presently quite deficient. Deficiencies exist in the manner in which cash received by the fiscal office and by the division of conveyances is recorded, secured, and deposited.

Fiscal office. 1. *Ineffective control over cash receipts.* All mailed lease, license, and permit payments made by check are processed by an account clerk in the department's fiscal office. Under current practice, the account clerk opens the mail, prepares a detailed listing of the

checks received and tallies on an adding machine the amounts shown on the checks. The checks, together with the listing and adding machine tape, are forwarded to the cashier who prepares the bank deposit slip. This same cashier later receives the validated deposit slip directly from the bank.

Although initial control is established over mailed receipts by the preparation of the detailed listing and the adding machine tape, such control is rendered ineffective by the forwarding of both the listing and the tape to the cashier for preparation of the bank deposit. The transmittal of both the listing and the adding machine tape, together with the checks, to the cashier imposes on the cashier the duty of not only preparing the deposit slip, but also of reconciling the deposit with the listing and tape. This dual function lodged in one person does not allow for a cross-check of the amount collected with the amount actually deposited. Rather, it makes it possible for errors to go undetected and for irregularities to be concealed. For example, checks to be deposited could be intentionally or unintentionally omitted from the deposit. Since the cashier who makes out the bank deposit has both the detailed check listing and the tape, if he by mistake omits a check from the deposit, there is no way for anyone to detect this error. It is possible, too, for the cashier intentionally to omit depositing the check and concealing this fact either by creating a new tape and listing or by improper reconciliation.

A sound system of internal control dictates that the duty of preparing the deposit slip and the duty of reconciliation be separated and performed by different individuals.

Recommendation. We recommend that the department take immediate steps to establish control over payments by separating the function of preparing deposit slips from the function of reconciling the deposits with actual receipts. To accomplish this, we recommend that only the detailed listing of the checks, with the checks themselves, be forwarded to the

cashier. The adding machine tape should be forwarded to the fiscal officer, and the fiscal officer should have the responsibility to reconcile the validated deposit slip with the adding machine tape. To facilitate reconciliation and recordkeeping, we further recommend that the fiscal officer maintain a record of the date and amount on the adding machine tape and an indication that the tape has been reconciled with the validated deposit slip.

2. *Inadequate segregation of the cash collection duties.* Hunting and fishing licenses are sold through DLNR's appointed agents, namely, sporting goods stores, state game wardens, and office clerks located at DLNR's district offices. The licenses are issued in books to these agents. An account clerk in the fiscal office is responsible for issuing the books of licenses to the agents. Licenses are sold in duplicates. One copy of each license sold by the agents is returned to the account clerk for reconciliation with monies collected and deposited.

Monies collected from the sale of licenses by game wardens and district office clerks are processed and deposited by the district offices. The validated deposit slips are transmitted to the fiscal office clerk for reconciliation with the copies of the licenses sold. This procedure properly segregates the cash receipt and deposit function from the accounting control function. This same separation of functions, however, does not exist with respect to those licenses issued by sporting goods stores and other licensed retail establishments.

All phases of the collection process in the case of licenses issued by retail stores are handled by the account clerk in the fiscal office. The clerk collects from the retail stores all cash received on account of the sale of licenses by the stores and he balances the daily receipts, prepares the deposit slips, and records the cash received in the accounting records. The validated deposit slips are then returned directly by the bank to this clerk for reconciliation with the licenses issued. This procedure does not provide

for sufficient separation of duties to meet the tests of a sound internal control system.

We believe that the department should handle receipts from the sale of licenses by retail stores in the same manner as receipts from the sale of licenses by game wardens and district office clerks. In other words, the retail outlets should transmit all cash receipts from the sale of licenses to the district offices for deposit. The validated deposit slips together with the copies of the licenses issued would then be transmitted to the fiscal office clerk for reconciliation.

***Recommendation.** We recommend that the department require the retail stores to transmit all monies collected on account of the sale of hunting and fishing licenses to the district offices for deposit. The validated deposit slips should be routed to the fiscal office clerk for reconciliation with the duplicate licenses in his possession.*

Division of conveyances. The division of conveyances is responsible for the collection of all land court and other registration fees imposed by law on land title documents (mortgages, deeds, and leases) submitted for recordation. It is also responsible for collecting the conveyance tax¹ levied on transfers of ownership and interest in real property. All such receipts, whether received by mail or in person are processed by the cashier as follows.

For each transaction, the cashier enters the amount of fee or tax received on the cash register. He then records receipt of the fee or tax in the revenue ledger and places the cash or check in a drawer. If the document to be recorded is received by mail, the cashier attaches the cash register tape to the instrument. If the document to be recorded is delivered in person, the cashier hands the cash register tape to the person delivering the document. In the case of documents transferring ownership or interest in real property, the documents, whether received by mail or in person, are manually validated with a conveyance stamp.

At the close of each day, the cashier reconciles the cash received with the total registered on the cash register by tallying on an adding machine the amount of cash collected and comparing this total with that shown on the cash register tape. He then prepares a cash register reading report, i.e., the cash reconciliation report, and the necessary bank deposit slips and forwards all items, i.e., cash collections, adding machine tape, cash register tape, cash register reading report, and bank deposit slips to the receiving clerk supervisor for review.

There are several shortcomings in the procedure described above. They are as follows.

1. ***No security over cash drawer.*** The amount of cash and checks received averages about \$7000 a day. The drawer in which they are placed is unlocked and easily accessible to several document receiving clerks as well as other employees. As a result, the receipts are highly accessible to loss or theft. A sound system of internal control dictates that all receipts be kept in a place which is secured by a lock. The key to the cash drawer should be assigned to one individual, in this case the cashier, so as to prevent unauthorized persons from having access to the receipts.

2. ***Inadequate segregation of duties.*** The cashier collects the cash and maintains the record of revenues collected. He also reconciles the cash received with the total amount registered on the cash register and prepares the receipts for deposit. The lodging of these several functions in one individual does not provide for cross-checks necessary for control.

For internal control, the duties associated with the collection of cash should be separated from those relating to the recording of receipts. The cashier's duties should be confined to collecting cash and preparing the cash register

¹The conveyance tax is administered by the department of taxation; however, collection of this tax is made by the bureau of conveyances.

reading report. The supervising document receiving clerk or another responsible individual other than the cashier should be assigned the duty of recording the revenues collected in the accounting records. This same person should also make the comparison between the total registered on the cash register tape and the total amount collected so as to ensure that the amounts actually collected by the cashiers match the amounts that should have been collected. In addition, the deputy registrar should review the cash comparisons performed by the cashier and supervising document receiving clerk to ensure that the proper cross-checks have been performed. The deputy registrar should also prepare the bank deposit slip.

3. *Unapproved corrections.* Corrections to the cash register tape and cash register reading report are made by the cashier during the cash reconciliation process. These corrections are made without review and approval of either the deputy registrar or some other responsible employee. Without such review and approval, cash overages or shortages may go undetected through erroneous or improper corrections.

4. *Lack of payment validation.* That the recordation fee or conveyance tax is indeed paid and processed through the cash register is readily ensured if the document presented for registration is validated via the cash register. At present, documents submitted for registration are not being validated by the cash register, even though these documents provide a space for such validation.

It is true that documents transferring ownership and interest in real property are manually validated with a conveyance stamp. But, this manual validation does not guarantee that the conveyance tax is actually collected. It is possible for an employee to simply stamp a document without actually receiving any cash. Then, with respect to other documents submitted for recordation, they are not validated at all. The cash register tape is attached to documents received by mail; however, these

tapes often either get lost or are removed during the recordation process. When payment is made in person, the receipt is given to the customer and there is nothing to indicate that the recordation fee was paid.

All documents should be validated on the cash register to give some assurance that recording fees and conveyance taxes are being paid and placed in the cash drawer.

Recommendation. We recommend that the department establish proper controls over cash collections at the division of conveyances. Specifically, we recommend as follows:

1. A lock be installed on the cash drawer and that the key to the lock be assigned to the cashier.

2. The cashier's duties be confined to collecting the cash and preparing the cash register reading report. We further recommend that the function of recording revenues collected be performed by the supervising document receiving clerk or an individual, other than the cashier.

3. The deputy registrar review the results of the reconciliation process and approve all corrections made to the cash register tape and the cash register reading report.

4. All documents presented for recordation and registration be validated on the cash register to ensure collection of all recording fees and conveyance taxes.

Federal Funds

In general, the federal government provides two methods of remitting grant funds to the State. Funds are either advanced on a monthly basis according to the project's planned expenditure needs or paid as claims are submitted (not more frequently than monthly) for reimbursement. The specific method of

payment is determined by the federal agency concerned and as specified in the project grant agreement.

Untimely submission of claims for federal reimbursement. While advance payment grants allow the State to receive federal funds before project payments are actually made, reimbursement grants require that the State pay all project costs and submit a claim for federal reimbursement. Because these claims represent amounts which have been advanced by the state general fund, it is imperative that they be submitted on a monthly basis. When project payments are not made on a regularly scheduled basis or when project payments are lump-sum payments for such things as the condemnation and purchase of land, the claim for federal reimbursement should be submitted immediately after state funds have been expended so as to minimize the time lag between disbursement of state general fund monies and the federal reimbursement.

Our examination of federal grants revealed that reimbursement claims are not being submitted on a timely basis and general fund monies which could otherwise be put to use are being unnecessarily tied up for periods ranging from seven to nine months. This problem is illustrated by DLNR's program to construct park facilities with 50 percent matching grants from the Department of Interior's Bureau of Outdoor Recreation. Included in this program are the construction of park facilities at Haena beach state park on the island of Kauai and the Sand Island state park on Oahu.

The Haena beach park project included the condemnation and purchase of four parcels of private land for recreational and other park purposes. The State made payment to the owner of parcel 1 in December 1974; however, the claim for reimbursement amounting to \$244,443 was not submitted until six months later in June 1975. Federal reimbursement for this parcel was received in September 1975, some nine months after disbursement from the state general fund.

Payment for parcels 2, 3, and 4 was made in June 1975, but the claim for reimbursement totaling \$142,743 was not submitted to the bureau until September 1975 and the reimbursement was not received until January 1976. The delay totaled seven months. Table 6.2 displays the time lags.

Table 6.2

Reimbursement Claims on Haena Beach Park Project

<i>Parcel no.</i>	<i>Date payment made for land condemned</i>	<i>Date reimbursement claim submitted</i>	<i>Date reimbursement received</i>	<i>Amount of reimbursement claimed</i>
1	12-2-74	6-10-75	9-75	\$244,443
2, 3, 4	6-6-75	9-26-75	1-76	142,743

In the case of the Sand Island state park project, the federal grant was for actual construction of facilities. The work was performed by private contractors and payment invoices submitted by these contractors were paid as received by DLNR. The claim for reimbursement, however, was not submitted to the bureau on a monthly basis as allowed by federal regulation; but rather, the claims were accumulated and submitted on a quarterly basis. As shown in table 6.3 below, DLNR during FY 1975-76 submitted three quarterly reimbursement claims totaling \$452,408 for the Sand Island park project.

Table 6.3

Quarterly Reimbursement Claims on Sand Island State Park Project During Fiscal Year 1975-76

<i>Claim number</i>	<i>Date claim submitted</i>	<i>Amount of claim</i>
1	8-25-75	\$197,073
2	11-19-75	144,837
3	2-09-76	110,498
Total		<u>\$452,408</u>

By DLNR submitting claims only quarterly, the State is losing the opportunity to more quickly recover state funds paid to contractors.

The loss to the State is aggravated when even the submission of quarterly reimbursement claims are delayed. There have been instances where three to four months from the end of a quarter have transpired before claims for reimbursement were submitted to the bureau. As examples, we cite two grants, the Pitman Robertson grant and forest fire prevention and control grant. In the case of the Pitman Robertson grant, two reimbursement claims totaling \$80,123 were each submitted some four to five months following the end of the third and fourth quarters of FY 1975-76. Two reimbursement claims totaling \$65,000 were submitted for the forest fire prevention and control grant in FY 1975-76. These two claims were submitted some three and four months following the end of the third and fourth quarters.

The department's tardiness in submitting reimbursement claims coupled with the normal two to three months it takes for the federal government to process the claim and remit payment to the State results in the State not being reimbursed for expended funds for roughly six to nine months.

Improper determination of indirect costs. Indirect costs, i.e., administrative and other overhead costs, incurred under federally sponsored projects administered by DLNR, are considered to be allowable reimbursable costs by the federal government only if an indirect cost rate previously negotiated with the U.S. Department of Interior which became effective as of July 1, 1975 is used. Despite this requirement, the department's forestry division has failed to use the approved rate in determining indirect cost reimbursements and has instead followed outdated departmental instructions which specify direct distribution of costs to all projects.

According to departmental personnel, the division's improper method of determining indirect cost reimbursements has neither been questioned by the federal examiners, nor has it

affected reimbursements received from the federal government. While this is probably because the division has always reached the grant ceiling under its federal matching grants, the fact still remains that continued use of this improper indirect cost determination method may affect the level of federal reimbursements on future projects.

Inefficient processing of federal reimbursement checks. Under current practice, federal grant reimbursement checks are received in a central location and routed to the appropriate addressee, namely, the fiscal office, various DLNR operating divisions, and on occasions to project managers. If the federal reimbursement check cannot be identified with a specific project and, thus, a particular office, the check is routed throughout the department until it is received by the person responsible for the claim. Such a practice delays the use of funds by the State and increases the possibility of checks being lost.

Control over federal reimbursements could be improved by establishing a control file of all reimbursement claims in the department's fiscal office. This file would enable the department readily to identify reimbursement checks by amount, paying agent, or other pertinent information.

Recommendations. We recommend as follows:

1. *The department devise a procedure to shorten the time it takes to prepare and submit federal reimbursement claims.*

2. *The division of forestry utilize the approved indirect cost rate in costing claims for administrative and other overhead expenses.*

3. *The department establish a control file of all federal reimbursement claims in the fiscal office in order that reimbursement checks may be readily identified and routed without delay to the appropriate offices.*

Deficiencies in the Purchasing Process

The purchasing process begins with the decision to acquire goods or services and ends with the receipt and acceptance of such goods or services. DLNR's purchasing practices are faulty in two major respects: (1) there is an absence of bid advertisements and (2) an excessive number of purchase orders are being used for small dollar purchases.

Lack of bid advertisements. Bid advertisements are required primarily to (1) prevent partiality and (2) obtain an optimum price for goods and services. HRS Section 103-22 requires that all expenditures of \$8000 or more be subjected to a formal bidding process, provided the goods and services are of a nature which admit to competition. For expenditures of \$4000 or more but less than \$8000, the statute requires an informal bidding process. Additionally, the statute states, in part, that "no expenditures for public purposes shall be so divided or parceled as to defeat or evade this section."

Our examination revealed three instances in which DLNR appeared to have divided or parceled purchases to circumvent the bidding requirements. In one instance, moving services were purchased from one vendor under six individual purchase orders not exceeding \$4000. Collectively, however, they exceeded the \$8000 limit by over \$13,000.

A similar situation involved the purchase of radio equipment. A series of purchase orders were issued during the period May 6-17, 1976. None exceeded \$4,000 but collectively they amounted to \$53,000. When queried, a department employee stated that the items purchased were of a nature which did not admit of competition. It was further stated that the vendor was the only one who maintained the needed service facilities on all major islands. However, there was no justification for the department's action on file.

Table 6.4 details the third situation. In this instance office furnishings for the division of water and land development were purchased from a number of vendors, again with individual purchase orders not exceeding \$4000, but collectively exceeding the \$8000 limit.

Table 6.4
Purchases of Office Furnishings
Not Subjected to Bid Advertisements

<i>Vendor</i>	<i>Purchase order number</i>	<i>Dates of purchase orders</i>	<i>Amount</i>
A	6127	12- 3-75	\$ 1,521
B	6128	12- 3-75	1,984
C	6129	12- 3-75	3,929
D	6130	12- 1-75	2,223
E	6131	12- 1-75	3,616
F	6133	12-11-75	1,541
F	6134	12- 3-75	3,246
F	6135	12-11-75	3,326
G	6141	12-10-75	2,951
			<u>\$24,337</u>

Note that all purchase orders were initiated within two weeks of each other. This seems to indicate that the purchases were planned and could have been let out to bid. If DLNR had solicited bids for the entire amount purchased, it may have been able to purchase the furnishings for a price less than \$24,337.

In this third situation, DLNR personnel maintain that the articles ordered from a given vendor were not available from other vendors. The purchase orders indicate that all the furniture may not have been available from one vendor. But some similar items—two drafting tables, various types of map storage racks and storage shelves, various types of files, and book cases—were divided into separate orders and bought from different vendors, indicating that the purchase orders were arbitrarily broken down into lesser amounts.

Excessive use of purchase orders for expenditures of low dollar value. DLNR issued approximately 13,000 purchase orders during

the fiscal year 1975-76. Using a random selection procedure, we selected 60 purchase orders for detailed examination. Our audit sample revealed an excessive number of low dollar value purchase orders. Table 6.5 presents a classification of the purchase orders sampled, by dollar value, and a projection of the low dollar purchase order classification on the entire population of 13,000 purchase orders issued during the year.

Table 6.5
Stratification of Purchase Orders

<i>Purchase order values</i>	<i>Audit sample</i>	<i>% of audit sample</i>	<i>Projection on population</i>
Under \$25	17	28.3%	3,679
\$25 - \$50	13	21.7	2,821
\$50 - \$100	13	21.7	2,821
Over \$100	17	28.3	3,679
	<u>60</u>	<u>100.0%</u>	<u>13,000</u>

As the table shows, approximately 3679 purchase orders issued could conceivably be for amounts under \$25. The excessive use of purchase orders for expenditures of low dollar value contributes to unnecessary volume and inefficiency. Consequently, untimely payments are made to vendors and petty cash funds are not used to the extent possible.

1. *Untimely payments to vendors.* HRS Section 103-10 provides that vendors be paid no later than 60 calendar days following receipt of a statement. If the vendor does not receive payment within the 60-day period, he is entitled to interest on the amount unpaid at the rate of 1/2 percent per month. Our audit sample of 60 items revealed that in seven cases it took anywhere from 64 to 84 days² from receipt of the vendors' statements to the date payment was made to vendors.

2. *Ineffective use of petty cash funds.* DLNR has several petty cash funds ranging from \$10 to \$250. As of June 30, 1976, they

numbered 22 and totaled about \$1440. These funds are maintained at various locations and are available for expenditures of minor amounts. Table 6.6 displays the 22 funds available at June 30, 1976.

Table 6.6
Petty Cash Funds by Size

<i>Amount</i>	<i>No. of funds</i>
\$ 10	3
20	1
25	3
30	1
50	6
55	2
75	1
100	3
250	2
	<u>22</u>

Our examination of the petty cash funds maintained in several offices revealed that DLNR is not effectively using its petty cash funds. Most funds appear to be maintained at a level too low (i.e., \$10-\$50) to permit effective use. Where funds are large enough (i.e., \$100-\$250), they are not being used when needed. For example, one fund containing \$250 was not used at all during the 1975-76 fiscal year. Properly controlled and utilized, petty cash funds can aid the department in reducing the volume of purchase orders and increasing efficiency in the purchasing process.

Recommendations. We recommend that the department re-examine its purchasing procedures. Specifically, we recommend as follows:

1. *The department strictly adhere to the bidding requirements outlined in HRS Section*

²This includes DLNR's process time, as well as DAGS' time to process the summary warrant vouchers, and to prepare and mail the vendors' warrants.

103-22. In cases where goods and services do not admit to competition, we recommend that the reasons be consistently documented and approved by the proper officials.

2. The department use petty cash in making purchases of low dollar amounts. We also recommend that the present petty cash fund levels be analyzed for sufficiency in the light of increased utilization. We believe that, by reducing the volume of purchase orders, the department will be more able to make timely payments to vendors.

Electronic Data Processing

The electronic data processing (EDP) division of the department of budget and finance processes the State's payroll and the summary warrant vouchers of some of the state agencies, including DLNR. As part of the audit, the controls established and exercised by the EDP division were reviewed and evaluated. Although an in-depth examination of the EDP control was not conducted, several weaknesses were noted. They are discussed in the following paragraphs.

Inadequate controls in the EDP payroll system. An essential element of control in an EDP system is the segregation of duties between the computer programmers and the computer operators. The programming personnel are responsible for developing and testing computer programs. They also participate in documenting the job tasks and operating procedures of the system. Computer operators, on the other hand, are responsible for operating the system, that is, the processing of and control over the transactions that are run through the computer. The segregation of duties is necessary to prevent the processing of unauthorized transactions.

Another mechanism of control is the documentation of the job tasks and operating procedures of the EDP system. Documentation is necessary to ensure that proper operating controls have been established and the duties of

the EDP personnel are appropriately segregated. Documentation of the job tasks, and operating procedures also serve as instructions to the EDP personnel with regard to the work they are to perform and the procedures they are to follow.

In the EDP payroll system the duties of the programmers and operators are not properly segregated. The programmers are not only involved in the preparation of payroll applications, but they also have access to payroll transactions and the master files. This results in part because instructions relating to operating procedures have not been documented. Thus, the computer operators find that they need the assistance of the programmers as they encounter payroll processing problems. The programmers also assist in monitoring the operations. This is a serious weakness since it increases the possibilities of errors and irregularities. In addition, without documentation, there is no assurance that proper procedures are being followed.

Inadequate control over voided payroll warrants. The automated payroll system requires that the computer print several voided warrants at the beginning of each warrant run so that the computer printers can be aligned in the proper position. Additional warrants are also voided if the computer malfunctions during printing. Although the voided warrants are nonnegotiable, they must be accounted for to maintain adequate accounting control.

At present, only a list of the voided warrants is sent to DAGS central payroll office for reconciliation with the warrant number control register. The voided warrants are stored at the EDP division of budget and finance. Since DAGS does not control the physical disposition of the voided warrants, there is no assurance that the warrants have in fact been voided.

Inadequate protection of payroll master files. Copies of the payroll master files are stored on open metal racks in the security area of EDPD's computer operations section. While this area is secured, the files are exposed to

potential destruction by fire. Once destroyed, reconstruction of these files would be a time-consuming and tedious task.

Inadequate backup facilities. Whenever critical accounting functions are performed by means of computer processing, a formalized plan for backup processing in the event of failure of the normally used equipment is necessary for adequate control. This plan should include the identification of fully compatible equipment and a formal agreement for the use of such equipment.

We were informed by EDPD personnel that the university of Hawaii's computer would be used in the event that a backup processing facility should be required. However, upon investigation, we could find nothing to indicate that a formal agreement between EDPD and the university had ever been executed. In addition, while the university's computer is similar to EDPD's facility, it is unlikely that backup processing could be performed on the university's computer without some program changes.

Recommendations

We recommend as follows:

1. *The operations of the payroll system be adequately documented so the duties of the computer programmers may be segregated from those of the computer operators.*

2. *All voided payroll warrants be sent to DAGS central payroll office for reconciliation and destruction.*

3. *The payroll master files be kept in a fire proof vault at EDPD or some other suitable location where they may be protected from destruction by fire.*

4. *EDPD enter into a formal agreement with the university for backup processing of payroll operations. We further recommend that, once this agreement is formalized, EDPD conduct a test on the university's computer so that the results may be compared against its own computer and necessary changes can be identified and documented.*

Chapter 7

FINANCIAL STATEMENTS AND ACCOUNTANTS' OPINION

This chapter presents the results of the examination of the financial statements of DLNR for the fiscal year July 1, 1975 to June 30, 1976 conducted by the firm of PEAT, Marwick, Mitchell & Co. This chapter contains the opinion of Peat, Marwick, Mitchell & Co., regarding the fairness and accuracy of the department's financial statements. It also displays various financial statements on the general fund, bond fund, special revenue funds, and trust and agency funds administered by DLNR, together with explanatory notes.

Summary of Findings

The revenues derived from the sale, lease, and other disposition of public lands under DLNR's control are required by the Admission Act and HRS Section 171-19 (special land and development fund) to be deposited and accounted for by one of three fund accounts: the general fund, the special land and development fund, and the public trust fund. Due to the improper distribution of public land revenues among these funds, Peat, Marwick, Mitchell & Co. could not attest to the fairness and accuracy with which the 1975-76 financial statement of the special revenue fund and the trust and agency funds administered by DLNR reflected the financial position and results of operations of the funds. In addition, because Peat, Marwick, Mitchell & Co. was unable to satisfy themselves that the revenues accounted for in the general fund meet the requirements of the Admission Act, they were unable to express

an opinion on the accompanying financial statement of general fund unappropriated receipts.

Accountants' Opinion

Peat, Marwick, Mitchell & Co.'s statement filed with the legislative auditor is as follows:

"To the Legislative Auditor
State of Hawaii
Honolulu, Hawaii

We have examined the financial statements of the funds administered by the department of land and natural resources, State of Hawaii, as of June 30, 1976 and for the year then ended as follows:

- | | |
|------------------------------------|--|
| Exhibit A
General Fund | . Statement of Unappropriated Receipts; |
| | . Statement of Appropriations, Appropriated Receipts, Transfers, Expenditures and Changes in Appropriated Balances; |
| | . Appropriations, Appropriated Receipts, Expenditures and Changes in Appropriated Balances - Capital Improvement Projects (Schedule 1). |
| Exhibit B
Bond Fund | . Statement of Appropriations, Transfers and Appropriated Receipts, Expenditures, and Changes in Appropriated Balances - Capital Improvement Projects. |
| Exhibit C
Special Revenue Funds | . Combined Statement of Revenues, Expenditures, and Changes in Fund Balances. |

As explained in the general notes to the financial statements, the General fund and Bond fund financial statements relating to the department of land and natural resources are part of the respective State of Hawaii General and Bond funds and our opinion expressed thereon is limited to the transactions of the department of land and natural resources.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as stated in the following paragraph.

The revenues derived from public land sales, leases, and permits are being improperly distributed among the general fund, the special land and development fund and the public land trust fund. However, because the records do not distinguish between ceded and non-ceded land, it was not practicable to satisfy ourselves with respect to such revenues.

Due to the materiality of the matter described in the preceding paragraph, we are precluded from and we do not express an opinion on the following financial statements for the year ended June 30, 1976:

- General Fund – Statement of Unappropriated Receipts (part of Exhibit A)
- Special Revenue Funds – Exhibit C
- Trust and Agency Funds – Exhibit D

In our opinion, the Statement of Appropriations, Appropriated Receipts, Transfers, Expenditures and Changes in

Appropriated Balances of the General fund, and the Statement of Appropriations, Transfers and Appropriated Receipts, Expenditures and Changes in Appropriated Balances of the Bond fund – Capital Improvement Projects for the year ended June 30, 1976 have been fairly presented on the basis of accounting described in the general notes to the financial statements which are consistent with that of the preceding year. Supplementary data included in Schedule 1 (Appropriations, Appropriated Receipts, Expenditures and Changes in Appropriated Balances of the General fund – Capital Improvement Projects) have been subjected to the same auditing procedures and, in our opinion, are stated fairly in all material respects when considered in conjunction with the financial statements taken as a whole.

/s/ Peat, Marwick, Mitchell & Co.
Peat, Marwick, Mitchell & Co.
Certified Public Accountants

Honolulu, Hawaii
November 5, 1976”

Descriptions and Definitions

Descriptions of financial statements and schedule. The financial statements and schedule of DNLR examined by Peat, Marwick, Mitchell & Co. are in Exhibits A to D displayed at the end of this chapter. A brief description of these statements is as follows.

1. Statement of unappropriated receipts (Exhibit A – general fund) summarizes by source of revenue, the amount of unappropriated receipts estimated to be collected and actually collected by DLNR and transferred to the state general fund for the year ended June 30 1976.
2. Statement of appropriations, appropriated receipts, transfers, expenditures, and changes in appropriated balances (Exhibit A – general fund) notes the monies appropriated,

made available, transferred, expended, and lapsed for the fiscal year.

3. Appropriations, appropriated receipts expenditures, and changes in appropriated balances — capital improvement project (Exhibit A, Schedule 1 — general fund) account for appropriations from the state general fund for various capital improvement projects.

4. Statement of appropriations, transfers and appropriated receipts, expenditures, and changes in appropriated balances (Exhibit B — bond fund) reflects, by division, the activity of the various capital improvement projects.

5. Combined statement of revenues expenditures, and changes in fund balances (Exhibit C — special revenue funds) summarizes by source of revenue and object of expenditure the changes in amounts held in each special revenue fund.

6. Combined statement of receipts, disbursements, and changes in undisbursed balances (Exhibit D — trust and agency funds) summarizes cash receipts and disbursements and changes in amounts held in each trust or agency fund.

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

1. *Allotment* — Authorization by the director of 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* — An obligation in the form of a purchase order or contract which is chargeable to an appropriation, the incurring of which sets aside the appropriation for the amount of the obligation.

4. *Expenditure* — The actual disbursement of funds for the payment of goods delivered or services rendered, the obligation to pay for such goods or services having been incurred against authorized funds.

5. *Lapse of appropriation balance* — The balance of funds authorized, which is unexpended and uncommitted at the end of a prescribed time period. The balance reverts to the designated fund and is available for appropriation by the state legislature in the ensuing fiscal year.

6. *Transfer* — Transfer of amounts from one fund or appropriation account to another.

7. *Unallotted appropriation* — The appropriation balance available for allotment.

8. *Unappropriated receipts* — The receipts not specifically set aside for specific purposes.

9. *Unencumbered allotments* — An allotment which is not encumbered.

10. *Unliquidated encumbrances* — The outstanding encumbrances that are to be liquidated.

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 DLNR are discussed below.

Accounting principles. DLNR's funds are accounted for on a modified cash basis of accounting. The accompanying financial statements, therefore, have been prepared on that basis. Under this method of accounting, revenue is recognized when actually received and expenditures are recorded at the time liabilities are incurred, except for vacation pay, which is recorded when paid.

The accounting procedures provide for the recording of commitments at the time purchase orders, contracts, and other commitments are either placed or executed. These commitments are represented as encumbrances in the financial statements and are necessary to reflect obligations against the various funds at the end of the fiscal year.

Basis of presentation. The accompanying financial statements of DLNR were prepared from the accounting records maintained by DLNR and the department of accounting and general services.

Fund categories and descriptions. Monies to finance DLNR's programs are accounted for in several different funds. These funds have been established by legislative actions, and each fund has a specific purpose or objective to fulfill. Each fund is an independent fiscal and accounting entity and a separate group of accounts is maintained for each to show its revenues and expenditures. There are four general categories of these funds. The categories and the funds within each are described briefly below.

1. **General fund.** 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 general fund appropriations to the department are part of the state general fund; thus, none of the financial statements attached as exhibits at the end of this

chapter is a statement of the general fund; except that Exhibit A reflects the general fund appropriations for and expenditures of DLNR. It also reflects unappropriated receipts transferred to the general fund.

2. **Bond fund.** The general obligation bond fund accounts for appropriations made available for capital improvement projects.

3. **Special revenue funds.** Special revenue funds are operated to account for revenue and expenditures designated for particular purposes. There are four of these special revenue funds.

a. **Special land and development fund.** This special fund was established by Act 32, SLH 1962, to account for non-ceded public land proceeds, i.e., proceeds derived from lands acquired by the Territory after annexation and prior to statehood, and those lands acquired after statehood from the federal government and private land owners.

b. **Fish and game fund.** This special fund accounts for monies collected and expenditures made for fish and game activities. All fish and game license and permit fees are deposited into this fund.

c. **Water development revolving fund.** Act 166, SLH 1961, established this special fund to account for all revenues, including interest from water development projects. The revenues collected are used to pay for administrative costs, engineering surveys, economic studies, plans, maps, and for other water development projects.

d. **Clearance fund.** This fund serves primarily as a clearing fund to facilitate disbursement of payroll. Payroll costs for all divisions are accumulated in and disbursed from this fund. This fund also accounts for accrued vacation and sick leave for project-funded employees of the division of water and land development. The amount accrued for vacation and sick leave is based upon a percentage of the

actual amount paid to project-funded employees of the division.

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

a. *Public land trust fund.* This fund was established by Act 32, SLH 1962, in accordance with the requirements of the Admission Act. All revenues derived from the sale of ceded public lands (including ceded land remnants) and the rents from leases, licenses, and permits of ceded lands (less 30 percent derived from sugarcane leases and water licenses) are required to be deposited into this fund.

b. *Refundable deposit fund.* This fund was created to account for the various temporary deposits received as security for leases, permits, licenses, and plans and specifications.

c. *Airport permit collections fund, harbors permit collections fund, and highway permit collections fund.* These three funds account for all revenue collected from public lands set aside by executive order to the department of transportation. DLNR retains 5 percent of all revenues collected as its management fee. These monies are in turn transferred to the state general fund.

d. *Sand Island permit collections fund.* This fund was established to account for permit rentals collected from state-owned land on Sand Island. The monies are used to pay the debt service on general obligation bonds issued for Sand Island capital improvement projects. Any monies remaining after payment of the debt service, if derived from lands and facilities dedicated to the university of Hawaii, are required by Section 96 of Act 195, SLH 1975, to be transferred to the state general fund as a reimbursement for monies appropriated for the operations of the university of Hawaii.

e. *Hydrography donation fund.* This fund was created to account for donations

received from various subsidiaries of sugar plantations. The donations are used for the operation and maintenance of sugarcane irrigation stations.

f. *Wildlife donation fund.* This fund accounts for donations received from private individuals and conservation agencies. The monies are used for preservation and restoration of endangered wildlife species.

g. *Sand Island parkway fund.* This fund accounts for the department of transportation harbors division's portion of the Sand Island parkway project cost.

Variations from generally accepted accounting principles (GAAP). Some of DLNR's accounting policies and reporting practices do not conform to generally accepted accounting principles (GAAP) recommended by the National Council on Governmental Accounting and the American Institute of Certified Public Accountants. The significant variations common to most of the funds are summarized below. Variations from GAAP which relate only to a specific fund are discussed in the notes to the financial statements of that fund.

1. DLNR records revenue when received in cash. Under GAAP, revenues should also be recognized, i.e., accrued, when such revenues are measurable, available to finance operations, and of a material amount that was not received at the specified time.

2. Appropriated receipts, primarily from federal grants-in-aid are recognized by DLNR as revenues in the financial statements. Under GAAP, these receipts should be recognized in a special revenue fund.

3. DLNR records expenditures relating to an encumbrance only upon approval of the payment voucher. Accordingly, encumbrances at the end of the year are not reflected as an expenditure in the year the appropriation is encumbered. Under GAAP, encumbrances are reflected together with expenditures as

charges in the year the appropriation is encumbered.

4. DLNR has no balance sheets which disclose the assets, liabilities, reserves, and fund balances of its bond, special revenue, and trust and agency funds at June 30, 1976. Fair presentation of financial position in conformity with GAAP requires that balance sheets be prepared.

In addition to the general notes set forth above, some special comments are necessary with respect to several items contained in the financial statements. These comments are set forth 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 the General Fund (Exhibit A)

Intergovernmental expenditures. Act 195, SLH 1975 (the General Appropriations Act), authorized the expenditure of \$19,447,551 for the State's grants-in-aid program to the counties. The act designated DLNR as the expending agency. HRS Section 248-6, relating to the State's grants-in-aid program, states that the director of finance shall compute and pay to the director of finance of each county the grants-in-aid.

In order to comply with Act 195, SLH 1975, the amounts relating to the 1976 grants-in-aid program are accounted for by DLNR. However, because Act 195 conflicts with HRS Section 248-6, all vouchers relating to the grants-in-aid program were signed by the state director of finance and countersigned by a respective designee in DLNR.

Commitments. In accordance with the general practice followed by other state agencies, DLNR does not reflect accrued and potential liability for earned vacation and sick leave credits for other than federally-funded-project employees. Vacation leave and sick

leave credits for federally-funded-project employees are accrued and the related liability is recorded in the clearance fund.

At June 30, 1976, earned vacation and sick leave for other than federally-funded-project employees amounted to approximately \$1,530,000 and \$4,025, respectively.

Within certain limitations, the employees are entitled to receive cash payments for accrued vacation upon the termination of their employment. Sick leave can accumulate at the rate of one and three-quarters' working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon the termination of employment.

Improper accounting of receipts. Monies collected from hunting licenses and fishing fees are accounted for in the fish and game special fund. At June 30, 1976, DLNR recorded licenses and fees totaling \$139,809.

According to HRS Section 187-17, "[a]ll moneys collected each month as fees for hunting and fishing permits or licenses and all fees for commercial fishing . . . shall be deposited with the director of finance to the credit of the general fund. The moneys collected shall be available for expenditure only by the department of land and natural resources in accordance with appropriations authorized by the legislature"

Notes to Financial Statements of Bond Fund (Exhibit B)

Variance from generally accepted accounting principles (GAAP). It is generally the State's practice to record bonds authorized and unissued as an asset. The "asset" represents only an authorization to incur future obligations. As a result of this practice, certain capital projects in the accompanying financial statement represents projects for which legislative authorization (appropriation) has been obtained

but for which no monies are available for expenditures. Under GAAP, such capital projects should not be included for financial statement reporting purposes.

Notes to Financial Statements of Special Revenue Funds (Exhibit C)

Variations from GAAP. Significant variations from GAAP are presented below:

1. Formal budgets are not included in the accompanying financial statements. GAAP requires that the statement of revenues and expenditures of the special revenue funds include a comparison with a formal budget.

2. Under GAAP, funds which are custodial in nature and which function primarily

as clearing mechanisms are accounted for as agency funds. The clearance fund appears to have these characteristics and, therefore, it would be more appropriate to present this fund as a trust and agency fund, rather than as a special revenue fund.

3. Appropriated receipts (primarily federal grants) are recorded in DLNR's general and bond funds. Under GAAP, these receipts should be accounted for in the special revenue fund.

Appropriated fund balance. The special fund appropriated fund balance at June 30, 1976 totaled \$288,070. Of this amount, \$287,863 was encumbered for the Waimanalo development project. The remaining \$207 was designated "other."

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
GENERAL FUND

Statement of Unappropriated Receipts
Year Ended June 30, 1976

	<i>Estimated</i>	<i>Actual</i>	<i>Over [under] estimated</i>
Revenue:			
Division of Conveyances:			
Recording and filing fees for mortgages, deeds, etc.	\$ 597,160	\$ 548,440	\$ [48,720]
Filing fees, land court documents	137,547	118,676	[18,871]
Fees for land court certificates	108,098	76,765	[31,333]
Fees for copies of instruments and maps	27,726	27,553	[173]
Total Division of Conveyance	<u>870,531</u>	<u>771,434</u>	<u>[99,097]</u>
Division of Land Management:			
Transferred from Trust and Agency Funds:			
Ceded land income:			
Rentals from leases and permits	6,700,000	4,739,912	[1,960,088]
Licenses for use of government water	275,000	360,275	85,275
Sale of wood, rock and sand	150,000	176,788	26,788
Licenses for use of government land for specific purposes	60,000	58,294	[1,706]
	<u>7,185,000</u>	<u>5,335,269</u>	<u>[1,849,731]</u>
Less proceeds transferred to Department of Hawaiian Home Lands	825,367*	825,367	-
	<u>6,359,633</u>	<u>4,509,902</u>	<u>[1,849,731]</u>
Net Sand Island permit collections	156,458*	156,458	-
Fees for managing property for other state departments	7,000	5,743	[1,257]
Total transferred from Trust and Agency Funds	<u>6,523,091</u>	<u>4,672,103</u>	<u>[1,850,988]</u>
Sale of wood, rock and sand	125,000	67,516	[57,484]
Fees for issuance of land patents and grants	5,500	5,535	35
Other	5,979	9,859	3,880
Total Division of Land Management	<u>6,659,570</u>	<u>4,755,013</u>	<u>[1,904,557]</u>
Division of State Parks:			
Rental of cabins and lodgings	85,000	94,563	9,563
Transportation services for recreation areas	68,000	87,014	19,014
Rental of marina and related concessions	60,000	80,685	20,685
Rental from recreation areas	13,000	23,098	10,098
Sale of water	5,300	5,857	557
Mooring fees	3,400	4,161	761
Other	1,000	1,056	56
Total Division of State Parks	<u>235,700</u>	<u>296,434</u>	<u>60,734</u>
Total revenue	<u>7,765,801</u>	<u>5,822,881</u>	<u>[1,942,920]</u>
Nonrevenue:			
Conveyance tax collected for Department of Taxation	1,200,000	827,731	[372,269]
Federal reimbursement for the following projects:			
Hapuna Beach State Park development	223,987*	223,987	-
Iolani Palace restoration	100,000*	100,000	-
Kahana Valley State Park development	87,360*	87,360	-
Statewide Inventory of historic parks	60,266*	60,266	-
Total nonrevenue	<u>1,671,613</u>	<u>1,299,344</u>	<u>[372,269]</u>
Transferred to General Fund, State of Hawaii	<u>\$9,437,414</u>	<u>\$7,122,225</u>	<u>\$ [2,315,189]</u>

*Actual figures used as estimates not available.

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
GENERAL FUND

Statement of Appropriations, Appropriated Receipts, Transfers, Expenditures, and Changes in Appropriated Balances
Year Ended June 30, 1976

	<i>Appropriated balance July 1, 1975</i>	<i>Appropriations</i>	<i>Appropriated receipts</i>	<i>Transfers and other credits</i>	<i>Expenditures</i>	<i>Lapses</i>	<i>Appropriated balance June 30, 1976</i>
Operating expenditures:							
General government—conveyances and recording	\$ 3,410	\$ 609,575	\$ —	\$ 17,965	\$ 577,084	\$ 40,136	\$ 13,730
Public safety:							
Prevention of natural disasters—flood control	1,050	76,087	—	3,796	65,174	—	15,759
Shark control and research	2,161	—	—	—	—	2,161	—
Development of hunter training program	38,525	—	—	—	—	—	38,525
Total public safety	41,736	76,087	—	3,796	65,174	2,161	54,284
Conservation of natural resources:							
Administration:							
Department of Land and Natural Resources	39,000	—	—	—	—	—	39,000
Public lands management	4,378	518,721	—	11,373	476,332	22,654	35,486
Total administration	43,378	518,721	—	11,373	476,332	22,654	74,486
Agriculture—Ohia decline study	—	50,000	—	—	50,000	—	—
Forest resources:							
Preservation and enhancement	48,791	1,382,162	122,513	[40,715]	986,941	112,021	413,789
Rural community fire protection	—	—	25,387	—	11,565	—	13,822
Natural area reserves system	24,160	—	—	—	12,003	—	12,157
Vegetation analysis of State's Mamane Forest Ecosystem	—	25,000	—	—	—	25,000	—
Total forest resources	72,951	1,407,162	147,900	[40,715]	1,010,509	137,021	439,768
Fish and game resources:							
Development of bait—seining methods for Hawaiian skipjack (aku) fishery	9,977	—	—	—	—	9,977	—
Preservation and enhancement	47,227	144,411	39,561	1,274	180,030	3,786	48,657
Total fish and game resources	57,204	144,411	39,561	1,274	180,030	13,763	48,657
Water resources:							
Water resources	31,929	—	—	[1,929]	—	—	30,000
Contribution by County of Kauai—Lihue Water System	6,620	—	—	—	—	—	6,620
Preservation and enhancement	56,331	722,470	397,360	9,306	1,088,596	19,585	77,286
Contribution for exploratory drilling	6,258	—	—	—	—	—	6,258
Study of water resources for central Oahu	—	50,000	—	—	—	50,000	—
Waimanalo irrigation system—fire damage	—	—	—	9,262	9,262	—	—
Total water resources	101,138	772,470	397,360	16,639	1,097,858	69,585	120,164

Operating expenditures (cont):

Other natural resources:							
Youth conservation corps—five-day residential camp . .	\$ 10,480	\$ —	\$ 12,500	\$ —	\$ 22,980	\$ —	\$ —
Mineral resources	—	48,763	—	[22,865]	1,463	24,095	340
Youth conservation corps	—	25,000	—	—	—	25,000	—
Total other natural resources	10,480	73,763	12,500	[22,865]	24,443	49,095	340
Total conservation of natural resources	285,151	2,966,527	597,321	[34,294]	2,839,172	292,118	683,415
Culture—recreation:							
Historical and archeological places	6,227	215,778	—	8,347	181,898	39,520	8,934
Aboreta	362	—	—	—	291	71	—
Other natural features	608	92,707	—	3,715	85,532	3,886	7,612
Other inland-based outdoor activities	62,525	1,351,612	196,754	70,109	1,404,496	29,055	247,449
Other ocean-based activities	21,117	687,427	53,626	90,567	763,025	1,138	88,574
General administration for leisure time	13	55,966	—	2,041	53,721	—	4,299
Natural physical environment	9,999	576,407	—	31,782	600,940	1,903	15,345
Total culture—recreation	100,851	2,979,897	250,380	206,561	3,089,903	75,573	372,213
Economic development and assistance:							
Economic development:							
Services development and marketing—transportation, communication, and utility	31	70,533	—	2,055	71,815	16	788
Forestry—production and management methods improvement	962	—	23,211	—	24,145	28	—
Commercial fishery—production and management methods improvement	2,151	233,601	—	456	177,903	7,312	50,993
Irrigation services for agriculture	—	493,660	—	11,394	397,668	489	106,897
Commercial fishery—product development	37,198	—	46,597	—	83,747	2	46
Forestry—product development	377	266,364	—	2,611	213,897	25,523	29,932
Aerial spotting of skipjack tuna schools	14,768	—	—	—	10,618	2,939	1,211
Malaysian prawn research and development	3,369	—	—	—	2,884	485	—
Minor equipment and supplies for farm and agricultural use	50,000	—	—	—	—	—	50,000
Total economic development	108,856	1,064,158	69,808	16,516	982,677	36,794	239,867
Economic assistance:							
Emergency Employment Act of 1971	85	—	—	—	85	—	—
Comprehensive Employment and Training Act	—	—	1,544	—	1,544	—	—
Total economic assistance	85	—	1,544	—	1,629	—	—
Total economic development and assistance	108,941	1,064,158	71,352	16,516	984,306	36,794	239,867
Total operating expenditures	540,089	7,696,244	919,053	210,544	7,555,639	446,782	1,363,509
Intergovernmental expenditures—grants-in-aid to counties	—	19,447,551	—	—	18,247,545	1,200,006	—
Total operating and intergovernmental expenditures	540,089	27,143,795	919,053	210,544	25,803,184	1,646,788	1,363,509
Capital improvements projects	1,022,407	—	1,221,221	—	576,027	—	1,667,601
Total	\$1,562,496	\$27,143,795	\$2,140,274	\$210,544	\$26,379,211	\$1,646,788	\$3,031,110

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
GENERAL FUND – CAPITAL IMPROVEMENT PROJECTS

Appropriations, Appropriated Receipts, Expenditures, and Changes in Appropriated Balances

	Appropriated balances, July 1, 1975				Additions		Deduction	Appropriated balances, June 30, 1976			
	Unallotted appropriations	Unencumbered allotments	Unliquidated encumbrances	Total	Appropriations	Appropriated receipts	Expenditures	Unallotted appropriations	Unencumbered allotments	Unliquidated encumbrances	Total
Division of Fish and Game:											
Public fishing area development and operation	\$ 158	\$ -	\$ -	\$ 158	\$ -	\$ -	\$ -	\$ 158	\$ -	\$ -	\$ 158
Game management facilities	39,290	-	-	39,290	-	-	-	39,290	-	-	39,290
Total	39,448	-	-	39,448	-	-	-	39,448	-	-	39,448
Division of Forestry—federal advances for construction of facilities for U.S. Forestry Service	18,911	-	-	18,911	-	-	18,904	-	7	-	7
Division of Land Management—Waimanalo development	-	-	291,333	291,333	-	-	197,909	79,424	-	14,000	93,424
Division of State Parks:											
U.S. Department of Interior National Park Service grants	-	-	-	-	-	33,510	33,510	-	-	-	-
Iolani Palace restoration	-	-	-	-	-	8,600	8,600	-	-	-	-
Lapakahi State Historical Park	48,738	-	-	48,738	-	72,700	121,438	-	-	-	-
Waimanalo Bay recreational area	24,950	-	-	24,950	-	-	527	-	24,423	-	24,423
Wahiawa Freshwater Park	12,234	-	-	12,234	-	-	49	-	12,185	-	12,185
Anuenue Park, Oahu	18,225	-	-	18,225	-	452,409	12,941	-	457,693	-	457,693
Haena State Park, Kauai	445,478	-	-	445,478	-	387,185	2,790	-	829,873	-	829,873
Kahana Valley State Park	-	-	18,125	18,125	-	-	-	-	-	18,125	18,125
Total	549,625	-	18,125	567,750	-	954,404	179,855	-	1,324,174	18,125	1,342,299
Division of Water and Land:											
Water resource planning	4,808	-	-	4,808	-	15,900	10,744	9,964	-	-	9,964
Hawaii water resources regional plan, statewide	84,036	-	-	84,036	-	250,917	168,615	-	166,338	-	166,338
Puukapu watershed project	1,558	-	-	1,558	-	-	-	1,558	-	-	1,558
Development of irrigation water system of Kauai	-	14,513	-	14,513	-	-	-	-	14,513	-	14,513
Waifua, Waipouli water system	-	50	-	50	-	-	-	-	50	-	50
Total	90,402	14,563	-	104,965	-	266,817	179,359	11,522	180,901	-	192,423
Total — Department	\$698,386	\$14,563	\$309,458	\$1,022,407	\$ -	\$1,221,221	\$576,027	\$130,394	\$1,505,082	\$32,125	\$1,667,601

STATE OF HAWAII
DEPARTMENT OF LAND & NATURAL RESOURCES
BOND FUND - CAPITAL IMPROVEMENT PROJECTS

EXHIBIT B

Statement of Appropriations, Transfers and Appropriated Receipts, Expenditures and Changes in Appropriated Balances

Year ended June 30, 1976

Project	Appropriated balance, July 1, 1975				Additions			Deductions		Appropriated balance, June 30, 1976				
	Unallotted appropriations	Unencumbered allotments	Unliquidated encumbrances	Total	Appropriations	Transfers and appropriated receipts		Expenditures	Intra-departmental transfers	Lapses	Unallotted appropriations	Unencumbered allotments	Unliquidated encumbrances	Total
						receipts	Expenditures							
Division of Fish and Game:														
Kanaha Pond Wildlife Sanctuary, Maui	\$ -	-	12,523	12,523	-	-	12,522	-	-	-	-	1	-	1
Hawaii Game Management Facilities	52,000	6,245	21	58,266	5,000	-	254	-	35,318	22,000	-	5,694	27,694	
Honolulu Game Management Facilities	-	3,003	-	3,003	10,000	-	6,561	-	3	-	-	6,439	6,439	
Maui Game Management Facilities	38,200	4,131	-	42,331	-	-	-	-	10,691	20,000	8,000	3,640	31,640	
Kauai Game Management Facilities	-	2,237	-	2,237	-	-	-	-	237	-	2,000	-	2,000	
Keehi Fishery Station, Oahu	-	1	-	1	-	-	-	-	1	-	-	-	-	
Paiko Lagoon Park and Bird Sanctuary, Oahu	476,000	4,000	-	480,000	600,000	-	865,000	-	10,000	201,000	4,000	-	205,000	
Birds and Marine Species, Hawaii	15,000	-	-	15,000	-	-	-	-	15,000	-	-	-	-	
Farm Planning Fund - Fish Hatchery	-	15,000	-	15,000	-	-	-	-	15,000	-	-	-	-	
Importation of Bird and Fowl	20,000	-	-	20,000	-	-	-	-	20,000	-	-	-	-	
Wildlife Protection and control, statewide	25,000	-	-	25,000	-	-	-	-	-	25,000	-	-	25,000	
Introduction of Birds and Mammals, Hawaii	5,000	-	-	5,000	-	-	-	-	-	5,000	-	-	5,000	
Game Planting and Propagation, Kauai	6,000	-	-	6,000	-	(6,000)	-	-	-	-	-	-	-	
Game Introduction, Habitat Development and Improvement	20,000	13,875	-	33,875	10,000	6,000	12,655	-	-	30,000	7,220	-	37,220	
Importation of Game Birds, Hawaii	17,000	-	-	17,000	5,000	-	-	-	-	22,000	-	-	22,000	
Sand Island Fishery Station - Construction of Thermo Control Building	-	-	-	-	110,000	-	-	-	-	110,000	-	-	110,000	
Total	674,200	48,492	12,544	735,236	740,000	-	896,992	-	106,250	435,000	27,660	9,334	471,994	
Division of Forestry:														
Forest Development - Truck Road, Maui	-	-	42	42	-	-	-	-	-	-	-	42	42	
Forest Development and Timber Access Roads, Hawaii	19,500	81,470	2,705	103,675	-	-	54,264	-	22,083	19,500	7,136	692	27,328	
Forest Development - Trail Shelters, Kauai	-	15,166	38	15,204	-	-	12,606	-	-	-	2,560	38	2,598	
Forest Development - Roads, Kauai	-	107,191	-	107,191	-	-	100,244	-	114	-	-	6,833	6,833	
Forest Development - Trails, Kauai	-	25,256	-	25,256	-	-	19,826	-	-	-	5,430	-	5,430	
Polipoli Recreation Area Development, Maui	-	1,865	-	1,865	-	-	1,172	-	514	-	-	179	179	
Maui Department of Land & Natural Resources Baseyard	-	4,904	-	4,904	461,000	-	2,927	-	466	-	5,000	457,511	462,511	
Upper Waiakoa Trail, Maui	-	6,000	-	6,000	-	-	3,329	-	2,671	-	-	-	-	
Puu Puou Road, Maui	-	3,000	-	3,000	-	-	-	-	3,000	-	-	-	-	
Fences - Forest Boundary and Pasture	-	817	-	817	-	-	495	-	817	-	322	-	322	
Kalopa Park - Mauna Kea Fencing, Hawaii	40,000	-	-	40,000	-	(22,000)	558	-	-	-	2,075	15,367	17,442	
Fencing and Stocking of Endangered Plants and Animals	25,000	-	-	25,000	-	-	993	-	-	-	24,007	-	24,007	
Kauai Department of Land & Natural Resources Baseyard	-	-	-	-	75,000	-	2,396	-	-	50,000	22,604	-	72,604	
Acquisition of Forest Reserve Lands	-	-	-	-	250,000	-	-	-	-	190,000	60,000	-	250,000	
Total	\$ 84,500	245,669	2,785	332,954	786,000	(22,000)	198,810	-	28,848	259,500	129,134	480,662	869,296	

(Continued)

STATE OF HAWAII
DEPARTMENT OF LAND & NATURAL RESOURCES
BOND FUND - CAPITAL IMPROVEMENT PROJECTS

Statement of Appropriations, Transfers and Appropriated Receipts, Expenditures and Changes in Appropriated Balances, Continued

Project	Appropriated balance, July 1, 1975				Additions			Deductions		Appropriated balance, June 30, 1976			
	Unallotted appropriations	Unencumbered allotments	Unliquidated encumbrances	Total	Appropriations	Transfers and appropriated receipts	Expenditures	Intra-departmental transfers	Lapses	Unallotted appropriations	Unencumbered allotments	Unliquidated encumbrances	Total
Division of Land Management:													
Reclamation of Public Lands													
Beneath Tidal Water	\$ 25,000,000	-	-	25,000,000	-	-	-	-	-	25,000,000	-	-	25,000,000
Sand Island Development, Oahu	-	-	43,375	43,375	2,570,000	-	32,875	-	-	2,570,000	-	10,500	2,580,500
Weliweli Houselot Development, Kauai	-	-	105,961	105,961	-	-	87,193	-	16,752	-	-	2,016	2,016
Wakiu Houselots, Maui	204,000	-	10,875	214,875	-	-	-	-	-	204,000	-	10,875	214,875
Kurtistown Houselots, Hawaii	-	-	57,302	57,302	-	-	57,290	-	12	-	-	-	-
Waimanalo Core Development, Oahu	2,232,000	510,000	-	2,742,000	50,000	-	5,400	-	1,118,000	1,164,000	504,600	-	1,668,600
Kawailoa, Oahu	20,000	-	-	20,000	-	-	-	-	20,000	-	-	-	-
Puna Farm Lots, Hawaii	113,000	-	-	113,000	-	-	-	-	13,000	100,000	-	-	100,000
Nawiliwili Coral Fills, Kauai	47,500	27,500	-	75,000	-	-	-	-	75,000	-	-	-	-
Anuenue Development, Oahu	130,000	35,129	971,600	1,136,729	-	-	943,275	-	132,907	-	-	60,547	60,547
Waimanalo Houselots, Oahu	1,145,000	-	-	1,145,000	-	-	-	-	-	1,145,000	-	-	1,145,000
Lahikina, Punchbowl Area, Oahu	30,000	50,000	-	80,000	-	-	-	-	-	30,000	50,000	-	80,000
Kealakehe, North Kona Houselots	620,000	6,287	12,900	639,187	150,000	-	362,977	-	-	205,000	67,449	153,761	426,210
University Heights Houselots, South Hilo	365,000	59,909	-	424,909	-	-	3,456	-	-	365,000	56,453	-	421,453
Waiakea Houselots, South Hilo	47,584	24,109	-	71,693	-	-	299	-	-	47,584	23,810	-	71,394
Puna Houselots, Hawaii	182,000	39	-	182,039	-	-	-	-	-	182,000	39	-	182,039
Wahikuli Houselots, Lahaina, Maui	804,500	158,635	-	963,135	-	-	842	-	-	804,500	157,793	-	962,293
Waimea Heights Houselots, Kauai	762,000	1,554	-	763,554	-	-	-	-	-	762,000	1,554	-	763,554
Hanapepe Houselots, Kauai	603,000	1,449	-	604,449	-	-	350	-	250,000	353,000	1,099	-	354,099
Lihue-Kawaihau Houselots, Kauai	300,000	-	-	300,000	-	-	-	-	-	300,000	-	-	300,000
Wailua Houselots, Kauai	20,000	-	-	20,000	20,000	-	-	-	-	40,000	-	-	40,000
Food Distribution Center, Oahu	1,540,000	2,661	-	1,542,661	60,000	-	4,600	-	253,039	1,339,000	6,022	-	1,345,022
Kaihea-Kona Airport Development	10,000	-	-	10,000	-	-	-	-	10,000	-	-	-	-
State Land Development Program	180,000	-	-	180,000	-	-	-	-	-	-	-	180,000	180,000
Kohala-Hamakua Houselots	-	18,686	138,596	157,282	25,000	-	129,144	-	-	25,000	-	28,138	53,138
Nawiliwili Industrial Subdivision, Kauai	290,000	-	-	290,000	-	-	-	-	-	290,000	-	-	290,000
Wailua-Kai Reservoir, Kauai	25,000	-	-	25,000	-	-	-	-	-	25,000	-	-	25,000
Wailua Mango Grove Subdivision, Kauai	25,000	-	-	25,000	-	-	-	-	-	25,000	-	-	25,000
Agricultural Park Subdivision	-	5,009	14,350	19,359	-	60,000	17,201	-	-	-	61,133	1,025	62,158
Upper Waimea Valley, Kauai	15,000	-	-	15,000	-	-	-	-	-	15,000	-	-	15,000
Maunawili Sugar Cane Experimental Project	800,000	-	-	800,000	-	-	-	-	-	800,000	-	-	800,000
Agricultural Recreation	250,000	-	-	250,000	-	-	-	-	-	250,000	-	-	250,000
Acquisition of Lands for Public Rights of Way and Public Transit Corridors	-	-	-	-	1,000,000	-	-	-	-	1,000,000	-	-	1,000,000
Truck Farming - Clearing State Lands	-	-	-	-	10,000	-	-	-	-	10,000	-	-	10,000
Total	35,760,584	900,967	1,354,959	38,016,510	3,885,000	60,000	1,644,902	-	1,888,710	37,051,084	929,952	446,862	38,427,898
Division of State Parks:													
Kahana Valley State Park, Oahu	107,425	3,367	32,874	143,666	1,168,000	-	49,869	-	-	1,222,749	30,050	8,998	1,261,797
Nuanu Pali State Park, Oahu	251,952	33,815	-	285,767	-	-	131,922	-	-	145,301	8,544	-	153,845
Hapuna Beach State Park, Hawaii	433,870	14,074	463,550	911,494	-	(18,870)	428,285	-	224,315	165,000	7,354	67,670	240,024
Makua-Kaena Point State Park, Oahu	60,000	-	115,364	175,364	800,000	-	713,773	-	-	104,188	27,403	130,000	261,591
Wahiawa Freshwater Park, Oahu	150,000	-	22,241	172,241	25,000	-	10,641	-	11,600	175,000	-	-	175,000
Iao Valley State Park, Maui	21,500	3,108	37,501	62,109	-	-	34,097	-	-	17,550	1,424	9,038	28,012
Palaa State Park, Molokai	133,450	8,548	5,218	147,216	-	-	10,249	-	-	3,000	6,429	127,538	136,967
Kalapana Kaimu Beach Development, Hawaii	100,000	-	9,084	109,084	-	-	2,777	-	-	-	-	106,307	106,307
Wailuku River State Park, Hawaii	188,500	80,734	27,897	297,131	-	-	110,241	-	15,071	150,000	-	21,819	171,819

(Continued)

STATE OF HAWAII
DEPARTMENT OF LAND & NATURAL RESOURCES
BOND FUND - CAPITAL IMPROVEMENT PROJECTS

Statement of Appropriations, Transfers and Appropriated Receipts, Expenditures and Changes in Appropriated Balances, Continued

Project	Appropriated balance, July 1, 1975				Additions			Deductions		Appropriated balance, June 30, 1976				
	Unallotted	Unencumbered	Unliquidated	Total	Appropriations	Transfers and appropriated receipts	Expenditures	Intra-departmental transfers	Lapses	Unallotted	Unencumbered	Unliquidated	Total	
	appropriations	allotments	encumbrances							appropriations	allotments	encumbrances		
Division of State Parks, continued:														
Kalopa Park, Hawaii	\$ 40,469	4,495	55,751	100,715	1,000	40,870	99,717	-	12	5,000	3,940	33,916	42,856	
Wahiawa Valley, Kalaheo, Kauai	140,000	-	21,624	161,624	-	-	21,624	-	140,000	-	-	-	-	
Makiki-Tantalus State Park, Oahu	485,000	-	-	485,000	165,000	-	-	-	-	529,000	121,000	-	650,000	
Archeological and Historic Site														
Preservation and Park Development	306,254	75,271	84,878	466,403	50,000	-	163,962	-	120,000	68,708	85,490	78,243	232,441	
Plans for Comprehensive Park Systems	10,000	-	-	10,000	-	(10,000)	-	-	-	-	-	-	-	
Waiianapanapa Park, Maui	215,300	2,641	11,499	229,440	-	-	23,212	-	-	191,000	5,424	9,804	206,228	
Maalea-Kaanapali Wayside Park, Maui	-	13,166	-	13,166	-	-	13,166	-	-	-	-	-	-	
Wailoa State Park, Hawaii	264,021	541	5,600	270,162	-	-	108,804	-	-	145,792	15,566	-	161,358	
Russian Fort State Monument, Kauai	225,331	1,301	28,000	254,632	-	-	70,568	-	-	148,506	1,494	34,064	184,064	
Kiaka Point, Haleiwa, Oahu	-	3,052	-	3,052	2,000,000	27,000	2,002,891	-	-	-	644	26,517	27,161	
Waimanalo Bay Recreational Area	311,170	5,961	-	317,131	-	-	4,955	-	-	268,991	1,006	42,179	312,176	
Sand Island State Recreational Area	1,771,816	17,975	1,050,000	2,839,791	681,000	-	1,036,516	-	-	2,261,616	-	222,659	2,484,275	
Urban Strip Parks	25,000	-	-	25,000	-	-	-	-	25,000	-	-	-	-	
Royal Mausoleum State Monument	280,000	-	-	280,000	-	-	-	-	-	-	230,000	50,000	280,000	
Acquisition of Land for Kiholo														
Bay State Park, Hawaii	200,000	-	-	200,000	-	-	5,310	-	194,510	-	-	180	180	
Wailua River State Park	408,256	8,859	-	417,115	-	-	7,434	-	124,256	284,000	1,425	-	285,425	
Akaka Falls State Park, Hawaii	-	112	-	112	-	-	112	-	-	-	-	-	-	
Kahaluu District Park, Oahu	380,000	16,000	-	396,000	-	-	299,258	-	-	-	-	96,742	96,742	
Wahikuli Wayside Park, Maui	282,500	5,652	-	288,152	-	-	14,713	-	-	-	200,000	73,439	273,439	
Kahului Beach Park, Maui	100,000	-	-	100,000	-	(100,000)	-	-	-	-	-	-	-	
Lapakahi State Park, Kohala, Hawaii	430,000	30,227	-	460,227	-	-	120,711	-	10,000	230,000	26,711	72,805	329,516	
Lydgate Park, Wailua River State														
Park, Kauai	107,744	1,295	103,575	212,614	-	-	104,235	-	-	107,744	635	-	108,379	
Heeia Land Acquisition Project, Oahu	1,365,000	22,954	-	1,387,954	1,130,000	1,500,000	15,653	-	-	2,495,000	1,507,241	60	4,002,301	
Diamond Head Crater Improvements	-	-	-	-	-	305,783	892	-	-	250,000	-	54,891	304,891	
Waimanalo Foothills State Recreation														
Area Site, Oahu	15,000	-	-	15,000	-	-	-	-	-	15,000	-	-	15,000	
Kealakekua Bay State Park, Kona,														
Hawaii	694,500	13,214	-	707,714	300,000	-	1,732	-	-	994,500	11,482	-	1,005,982	
Kuilioloa Heiau Historical Site,														
Oahu	15,000	-	-	15,000	-	-	-	-	-	15,000	-	-	15,000	
Waahila Ridge Park, Oahu	100,000	-	-	100,000	-	-	-	-	-	100,000	-	-	100,000	
Open Space - Leeward District, Oahu	7,500	-	-	7,500	-	-	-	-	-	7,500	-	-	7,500	
Twin Falls Wayside Park, Maui	50,000	-	-	50,000	-	-	-	-	-	50,000	-	-	50,000	
Waipio Valley Master Plan	10,000	-	-	10,000	-	(10,000)	-	-	-	-	-	-	-	
Acquisition of Land, Kauai	100,000	-	-	100,000	-	-	-	-	-	100,000	-	-	100,000	
Hanalei River, Kauai	10,000	-	-	10,000	-	-	-	-	-	10,000	-	-	10,000	
Iolani Palace Restoration	-	839,525	100,233	939,758	1,400,000	-	2,139,203	-	-	-	94,705	105,850	200,555	
Ukumehame State Park, Maui	25,000	-	-	25,000	-	-	-	-	-	25,000	-	-	25,000	
Makana-Laperouse State Park, Maui	350,000	-	-	350,000	500,000	-	55,363	-	-	748,000	3,492	43,145	794,637	
Hanamaulu Beach, Kauai	100,000	-	-	100,000	-	(10,000)	-	-	-	90,000	-	-	90,000	
Puumai Kokee Hibiscus Garden, Kauai	10,000	-	-	10,000	-	-	-	-	-	10,000	-	-	10,000	
Ahukini Pier, Kauai	50,000	-	-	50,000	-	-	7,659	-	-	38,000	3,021	1,320	42,341	
Waimea Landing, Kauai	50,000	-	-	50,000	-	-	257	-	-	45,000	4,743	-	49,743	
Honolulu Stadium, Oahu	1,481,000	6,670	-	1,487,670	1,000	-	1,181	-	-	1,472,000	15,489	-	1,487,489	
Keaiwa Heiau Recreational Area,														
Oahu	50,000	-	-	50,000	-	-	-	-	-	50,000	-	-	50,000	
Statewide Trail and Access System	100,000	-	-	100,000	-	-	24,157	-	-	-	69,243	6,600	75,843	
Aiea Bay, Pearl Harbor, Oahu	-	-	-	-	1,000	15,000	3,852	-	-	1,000	11,148	-	12,148	
Honomolimo State Park - Land														
Acquisition	-	-	-	-	100,000	-	-	-	-	100,000	-	-	100,000	
Nuu Bay - Land Acquisition	-	-	-	-	100,000	-	-	-	-	100,000	-	-	100,000	
Haena Beach State Park	-	-	-	-	365,000	-	-	-	-	365,000	-	-	365,000	
Mauna Kea State Park - Skiing														
Facilities	-	-	-	-	300,000	-	-	-	-	300,000	-	-	300,000	

(Continued)

STATE OF HAWAII
DEPARTMENT OF LAND & NATURAL RESOURCES
BOND FUND -- CAPITAL IMPROVEMENT PROJECTS

Statement of Appropriations, Transfers and Appropriated Receipts, Expenditures and Changes in Appropriated Balances, Continued

Project	Appropriated balance, July 1, 1975				Additions			Deductions			Appropriated balance, June 30, 1976			
	Unallotted	Unencumbered	Unliquidated	Total	Appropriations	Transfers and appropriated receipts	Expenditures	Intra- departmental transfers	Lapses	Unallotted	Unencumbered	Unliquidated	Total	
	appropriations	allotments	encumbrances							appropriations	allotments	encumbrances		
Division of State Parks, continued:														
Sacred Falls, Oahu	\$ -	-	-	-	3,000,000	-	8,568	-	-	-	2,987,000	4,432	-	2,991,432
Hilo Baseyard	-	-	-	-	100,000	-	-	-	-	-	100,000	-	-	100,000
Kona Airport State Park	-	-	-	-	230,000	-	-	-	-	-	230,000	-	-	230,000
Maui Motorcycling Park	-	-	-	-	50,000	-	-	-	-	-	50,000	-	-	50,000
Lanipoku State Park	-	-	-	-	30,000	-	-	-	-	-	30,000	-	-	30,000
Moka Loe Island Park	-	-	-	-	1,000,000	-	-	-	-	-	1,000,000	-	-	1,000,000
Salt Lake District Park, Oahu	-	-	-	-	500,000	-	-	-	-	-	500,000	-	-	500,000
Malaekahana Beach Park, Oahu	-	-	-	-	250,000	-	17,675	-	-	-	229,000	3,325	-	232,325
Manoa Valley Trail System	-	-	-	-	60,000	-	-	-	-	-	60,000	-	-	60,000
Wawamahe Beach - Acquisition of Queen's Beach	-	-	-	-	1,600,000	-	14,007	-	-	-	1,581,000	4,993	-	1,585,993
Kapiolani Park - Comprehensive Recreational Use Plan	-	-	-	-	10,000	-	-	-	-	-	10,000	-	-	10,000
Diamond Head State Park	-	-	-	-	10,000	-	-	-	-	-	10,000	-	-	10,000
Sleeping Giant State Park Lookout - Land Acquisition	-	-	-	-	25,000	-	-	-	-	-	25,000	-	-	25,000
Halawa Valley - Acquisition of Major Park	-	-	-	-	240,000	-	-	-	-	-	240,000	-	-	240,000
Puu O Mahuka Heiau - Land Acquisition	-	-	-	-	100,000	-	-	-	-	-	100,000	-	-	100,000
Hale Pai Printshop Restoration, Maui	-	-	-	-	-	10,000	-	-	-	-	-	10,000	-	10,000
State Underwater Parks	133,000	119	-	133,119	-	(27,000)	5,860	-	100,089	-	-	-	170	170
Total	12,145,558	1,212,676	2,174,889	15,533,123	16,292,000	1,722,783	7,885,101	-	964,853	20,756,145	2,517,853	1,423,954	24,697,952	
Division of Water and Land Development:														
Molokai Irrigation System	-	-	6,562	6,562	-	-	-	-	-	-	-	-	6,562	6,562
Kokee Irrigation Project	-	-	59,800	59,800	-	-	-	-	-	-	-	-	59,800	59,800
Statewide Flood Control Plan	-	-	23,774	23,774	-	-	23,774	-	-	-	-	-	-	-
Puukapu Flood Control Project, Hawaii	-	-	14,862	14,862	-	-	13,789	-	1,073	-	-	-	-	-
Kona Water Development, Hawaii	574,000	240,959	1,611,831	2,426,790	1,470,000	-	1,603,049	-	2,161	521,000	206,653	1,563,927	2,291,580	
Maui County Water Project	247,800	24,779	86,910	359,489	-	-	105,168	-	-	238,800	15,521	-	254,321	
Haena Water System, Kauai	-	-	7	7	-	-	-	-	-	-	-	7	7	
Kalaheo-Lawai Water System, Kauai	168,000	31,145	13,136	212,281	50,000	-	44,281	-	-	218,000	-	-	218,000	
West Maui Water Project	1,845,400	150,413	104,307	2,100,120	750,000	-	373,647	-	-	1,915,400	99,568	461,505	2,476,473	
Central Maui Water Source Development	-	3,639	-	3,639	-	-	3,639	-	-	-	-	-	-	
South Kohala-Hamakua Water Project	980,971	5,094	215,519	1,201,584	350,000	-	189,290	-	406	810,971	30,917	520,000	1,361,888	
Wailua-Kapaa Water System, Kauai	553,000	60,321	41,550	654,871	590,000	-	90,712	-	-	858,000	21,666	274,493	1,154,159	
Kekaha Water System, Kauai	199,000	11,375	-	210,375	190,000	-	11,375	-	-	355,000	14,000	20,000	389,000	
Kilauea Water System, Kauai	-	308	747	1,055	-	-	1,055	-	-	-	-	-	-	
Volcano Water System, Hawaii	-	15,000	-	15,000	-	170,000	30,871	-	789	-	-	153,340	153,340	
South Kona Water System, Hawaii	501,000	3,156	-	504,156	-	399,000	671,992	-	33	-	60,567	170,564	231,131	
Lihue Water System, Kauai	692,000	5,254	-	697,254	90,000	(546,000)	47,769	-	180	78,000	3,471	111,834	193,305	
Waimea Irrigation System, Kauai	100,000	-	-	100,000	-	100,000	-	-	10,000	95,000	5,000	-	100,000	
Hawaii Region Comprehensive Water Resources Framework Study	365,000	187,441	4,320	556,761	-	-	175,333	-	-	365,000	16,428	-	381,428	
Kau' Water Project, Hawaii	1,102,112	94,126	-	1,196,238	145,000	(70,000)	87,001	-	1,723	245,000	810,000	127,514	1,182,514	
Molokai Water Project - Phase II	625,000	40,649	-	665,649	-	-	25,803	-	3,092	600,000	-	36,754	636,754	
Hoolehua Water Project, Molokai	525,000	1,810	-	526,810	640,000	-	304,144	-	-	352,000	333,530	177,136	862,666	
Hanapepe Water System, Kauai	28,000	15,335	-	43,335	210,000	-	17,834	-	25	188,000	14,826	101,769	304,595	
Manoa-McCully-Moiliili Flood Control	38,000	-	-	38,000	-	(38,000)	-	-	-	-	-	-	-	
Extension of Hilo Water System	46,000	19,936	65,597	131,533	-	(46,000)	83,237	-	396	-	-	1,900	1,900	
Kehena Ditch Water Source, North Kohala	250,000	23,539	229,853	503,392	-	-	227,067	-	-	250,000	26,325	-	276,325	

(Continued)

STATE OF HAWAII
DEPARTMENT OF LAND & NATURAL RESOURCES
BOND FUND - CAPITAL IMPROVEMENT PROJECTS

Statement of Appropriations, Transfers and Appropriated Receipts, Expenditures and Changes in Appropriated Balances, Continued

Project	Appropriated balance, July 1, 1975				Additions			Deductions		Appropriated balance, June 30, 1976			
	Unallotted appropriations	Unencumbered allotments	Unliquidated encumbrances	Total	Appropriations	Transfers and appropriated receipts	Expenditures	Intra-departmental transfers	Lapses	Unallotted appropriations	Unencumbered allotments	Unliquidated encumbrances	Total
Division of Water and Land Development, continued:													
Malama-Ki Water Line, Hawaii	\$ 234,000	26,000	-	260,000	-	-	-	-	260,000	-	-	-	-
Lalamilo Irrigation System, South Kohala	-	1,324	-	1,324	-	-	56	-	204	-	-	1,064	1,064
Koloa Water System, Kauai	559,000	-	-	559,000	200,000	-	51	-	-	664,000	349	94,600	758,949
Silt Basins, Statewide	60,000	25,000	-	85,000	-	-	586	-	-	60,000	24,414	-	84,414
Olaa Flume Spring	654,000	2,843	25,950	682,793	-	-	20,355	-	-	654,000	653	7,785	662,438
North Kohala Irrigation Water System Development	613,500	-	-	613,500	-	-	-	-	-	563,500	50,000	-	613,500
Panaewa Farm Lot Water Line	-	2,237	34,263	36,500	-	-	-	-	-	-	36,500	-	36,500
Development of Irrigation Water System on Kauai	-	14,513	-	14,513	-	-	-	14,513	-	-	-	-	-
Hanalei Irrigation, Kauai	51,000	-	-	51,000	-	-	-	-	-	-	51,000	-	51,000
Planning, development, improvement of water resources for statewide planning, design and construction of water facilities for new agricultural enterprises	4,875,000	125,000	-	5,000,000	-	(102,900)	38,200	-	-	4,746,600	25,500	86,800	4,858,900
Kahului Flood Control Project, Maui	100,000	-	-	100,000	110,000	-	-	-	-	210,000	-	-	210,000
Water Sources Investigation, Hawaii	139,560	-	-	139,560	-	-	-	-	-	129,560	10,000	-	139,560
Haiku-Makawao-Pukalani Water Systems, Maui	161,270	-	-	161,270	-	-	-	-	-	161,270	-	-	161,270
Oahu Water Sources Investigation	-	-	-	-	250,000	-	1,522	-	-	182,000	66,478	-	248,478
Kauai Water Sources Investigation	-	-	-	-	630,000	-	4,127	-	-	585,000	40,873	-	625,873
Maui Water Sources Investigation	-	-	-	-	300,000	-	-	-	-	300,000	-	-	300,000
Waimea Irrigation System Bridges	-	-	-	-	124,000	-	-	-	-	124,000	-	-	124,000
Ala Wai Canal Dredging	-	-	-	-	1,575,000	-	-	-	-	1,500,000	75,000	-	1,575,000
Total	16,287,613	1,131,196	2,538,988	19,957,797	7,674,000	(154,781)	4,195,727	14,513	280,082	16,970,101	2,039,239	3,977,354	22,986,694
Total - Department	\$ 64,952,455	3,539,000	6,084,165	74,575,620	29,377,000	1,606,002	14,821,532	14,513	3,268,743	75,471,830	5,643,838	6,338,166	87,453,834

See accompanying notes to financial statement.

**STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
SPECIAL REVENUE FUNDS**

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 1976**

	<i>Total (memorandum only)</i>	<i>Land and development</i>	<i>Fish and game</i>	<i>Water develop- ment</i>	<i>Clearance</i>
Fund balances, July 1, 1975	\$6,891,998	\$6,276,588	\$309,042	\$195,821	\$110,547
Revenues:					
Collections on sales of public lands	1,167,861	1,167,861	—	—	—
Payroll clearance funds	367,503	—	—	—	367,503
Charges for current services:					
Sale of water	227,351	—	—	227,351	—
Assessment for accrued vacation and sick leave	57,931	—	—	—	57,931
Other	6,897	5,593	1,304	—	—
Total charges for current services	292,179	5,593	1,304	227,351	57,931
Licenses and permits:					
Hunting	90,229	—	90,229	—	—
Commercial and sport fishing	49,580	—	49,580	—	—
Total licenses and permits	139,809	—	139,809	—	—
Revenues from use of money and property:					
Interest	84,909	77,124	—	7,785	—
Other	2,875	—	2,875	—	—
Total revenues from use of money and property	87,784	77,124	2,875	7,785	—
Advances for appraisers' fees	13,405	13,405	—	—	—
Total revenues	2,068,541	1,263,983	143,988	235,136	425,434
Fund balances and additions	8,960,539	7,540,571	453,030	430,957	535,981
Expenditures:					
Personnel Services	595,014	—	132,158	58,999	403,857
Debt service costs, principal and interest on G.O. bonds	605,672	605,672	—	—	—
Loans granted for construction of new fishing vessels	106,306	—	106,306	—	—
Loans to other funds	54,500	—	—	54,500	—
Materials and supplies	13,849	7,116	—	6,733	—
Reimbursement of appraisal fees	11,393	11,393	—	—	—
Repairs and maintenance	4,615	4,615	—	—	—
Miscellaneous	40,754	39,201	—	1,121	432
Total expenditures	1,432,103	667,997	238,464	121,353	404,289
Fund balances, June 30, 1976	\$7,528,436	\$6,872,574	\$214,566	\$309,604	\$131,692
Fund balances consist of amounts:					
Unappropriated (available for expenditure)	\$7,240,366	\$6,584,504	\$214,566	\$309,604	\$131,692
Appropriated (encumbered)	288,070	288,070	—	—	—
	\$7,528,436	\$6,872,574	\$214,566	\$309,604	\$131,692

See accompanying notes to financial statement.

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
TRUST AND AGENCY FUNDS

Combined Statement of Receipts, Disbursements, and Changes in Undisbursed Balances
Year Ended June 30, 1976

	<i>Trust Funds</i>			<i>Agency Funds</i>						
	<i>Total (memorandum only)</i>	<i>Public Land Trust Fund</i>	<i>Refundable Deposits Fund</i>	<i>Airport Permit Collec- tions Fund</i>	<i>Harbor Permit Collec- tions Fund</i>	<i>Highway Permit Collec- tions Fund</i>	<i>Sand Island Permit Collec- tions Fund</i>	<i>Hydro- graphy Donation Fund</i>	<i>Wild- life Dona- tion Fund</i>	<i>Sand Island Parkway Fund</i>
Undisbursed balances, July 1, 1975	\$ 375,281	\$ —	\$208,727	\$ —	\$ —	\$ —	\$121,498	\$ 8,100	\$956	\$36,000
Receipts:										
Ceded land proceeds	5,688,453	5,335,269	—	\$89,348	\$18,380	\$29,400	\$216,056	\$ —	\$ —	\$ —
Security deposits received	113,444	—	113,444	—	—	—	—	—	—	—
Gifts	12,150	—	—	—	—	—	—	12,150	—	—
	<u>5,814,047</u>	<u>5,335,269</u>	<u>113,444</u>	<u>89,348</u>	<u>18,380</u>	<u>29,400</u>	<u>216,056</u>	<u>12,150</u>	<u>—</u>	<u>—</u>
Balances and additions	<u>6,189,328</u>	<u>5,335,269</u>	<u>322,171</u>	<u>89,348</u>	<u>18,380</u>	<u>29,400</u>	<u>337,554</u>	<u>20,250</u>	<u>956</u>	<u>36,000</u>
Disbursements:										
Transfer to General Fund	4,672,103	4,509,902	—	3,553	842	1,348	156,458	—	—	—
Transfer to Department of Hawaiian Home Lands	825,367	825,367	—	—	—	—	—	—	—	—
Security deposits refunded	143,841	—	143,841	—	—	—	—	—	—	—
Transfer to Department of Transportation	131,385	—	—	85,795	17,538	28,052	—	—	—	—
Debt service cost, principal and interest on general obligation bonds	64,467	—	—	—	—	—	64,467	—	—	—
Land improvements	36,000	—	—	—	—	—	—	—	—	36,000
Engineering and architectural fees	16,200	—	—	—	—	—	—	16,200	—	—
Educational optical equipment	395	—	—	—	—	—	—	—	395	—
	<u>5,889,758</u>	<u>5,335,269</u>	<u>143,841</u>	<u>89,348</u>	<u>18,380</u>	<u>29,400</u>	<u>220,925</u>	<u>16,200</u>	<u>395</u>	<u>36,000</u>
Undisbursed balances, June 30, 1976	<u>\$ 299,570</u>	<u>\$ —</u>	<u>\$178,330</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$116,629</u>	<u>\$ 4,050</u>	<u>\$561</u>	<u>\$ —</u>

See accompanying notes to financial statement.

PART III

RESPONSES OF THE AFFECTED AGENCIES

COMMENTS ON AGENCY RESPONSES

A preliminary draft of this report was transmitted on January 8, 1979 to the governor, the presiding officers of the two houses of the legislature, the chairman of the department of land and natural resources, and the director of finance. We asked the chairman to comment on the recommendations contained in the report, including the actions to be taken or will be taken on the recommendations. The director of finance was asked to comment specifically on those findings and recommendations relating to the electronic data processing division of the department of budget and finance.

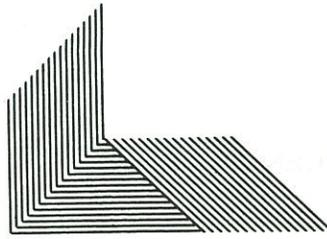
A copy of the transmittal letters to the chairman and director are included in this part as attachments 1 and 2, respectively. The responses received from the chairman and director are included as attachments 3 and 4.

Comments on the Responses

The chairman of the board of land and natural resources concurs with the recommendations concerning financial accounting controls and reports that corrective action has been taken. With regard to the substantive recommendations concerning the public land management program, the chairman states that the recommendations are being reviewed in depth to determine (on those recommendations which he concurs with) how best the deficiencies can be corrected. He has also indicated that, should he disagree with any of the recommendations, he will be in communication with us.

The director of finance concurs with our findings and recommendations relating to operational controls in the electronic data processing division (EDPD) of the department of budget and finance and indicates that action will be taken on each of the recommendations.

THE OFFICE OF THE AUDITOR
STATE OF HAWAII
465 S. KING STREET, RM. 500
HONOLULU, HAWAII 96813



CLINTON T. TANIMURA
AUDITOR
RALPH W. KONDO
DEPUTY AUDITOR

January 8, 1979

C
O
P
Y

Mr. Susumu Ono
Chairman, Board of Land and Natural Resources
Department of Land and Natural Resources
State of Hawaii
Honolulu, Hawaii

Dear Mr. Ono:

Enclosed are eight copies of our preliminary report of the *Financial Audit of the Department of Land and Natural Resources*. The preliminary report has been distributed to the following officials: the governor, the presiding officers of both houses of the legislature, and the director of finance.

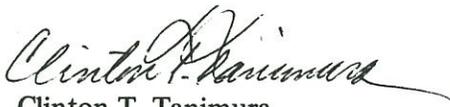
The report contains a number of recommendations. We would appreciate receiving your comments on the recommendations, including the actions that have been taken or will be taken with respect to the recommendations. Please have your written comments submitted to us by January 24, 1979. Your comments will be included as part of the final report.

Since the report is still not in its final form and changes may possibly be made to it, the circulation of this report should be restricted solely to those officials of your organization whom you might wish to call upon to assist you in your response. Public release of the report will be made by our office after considering your comments and after the report is published in its final form.

If you wish to discuss the report with us, we will be pleased to meet with you, at our office, on or before January 18, 1979. Please call our office for an appointment. If we do not hear from you, we will assume that a meeting is not necessary.

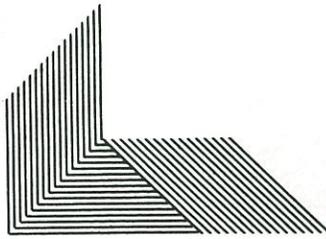
We appreciate the assistance and cooperation extended to us during the examination.

Sincerely,


Clinton T. Tanimura
Legislative Auditor

Enclosures

THE OFFICE OF THE AUDITOR
STATE OF HAWAII
465 S. KING STREET, RM. 500
HONOLULU, HAWAII 96813



CLINTON T. TANIMURA
AUDITOR
RALPH W. KONDO
DEPUTY AUDITOR

January 8, 1979

C
O
P
Y

Mrs. Eileen R. Anderson
Director of Finance
Department of Budget and Finance
State of Hawaii
Honolulu, Hawaii

Dear Mrs. Anderson:

Enclosed is a copy of our preliminary report of the *Financial Audit of the Department of Land and Natural Resources*. The preliminary report has been distributed to the following officials: the governor, the presiding officers of both houses of the legislature, and the chairman of the board of land and natural resources.

In chapter 6 (pp. 6-21 to 23), the report discusses findings and recommendations relating to the electronic data processing division of your department. We would appreciate receiving your comments on the findings and recommendations. Please have your written comments submitted to us by January 24, 1979. Your comments will be included as part of the final report.

Since the report is still not in its final form and changes may possibly be made to it, the circulation of this report should be restricted solely to those officials of your organization whom you might wish to call upon to assist you in your response. Public release of the report will be made by our office after considering your comments and after the report is published in its final form.

If you wish to discuss the report with us, we will be pleased to meet with you, at our office, on or before January 18, 1979. Please call our office for an appointment. If we do not hear from you, we will assume that a meeting is not necessary.

We appreciate the assistance and cooperation extended to us during the examination.

Sincerely,

Clinton T. Tanimura
Legislative Auditor

Enclosure

SUSUMU ONO, CHAIRMAN

BOARD OF LAND & NATURAL RESOURCES

EDGAR A. HAMASU
DEPUTY TO THE CHAIRMAN

DIVISIONS:

CONSERVATION AND
RESOURCES ENFORCEMENT
CONVEYANCES
FISH AND GAME
FORESTRY
LAND MANAGEMENT
STATE PARKS
WATER AND LAND DEVELOPMENTGEORGE R. ARIYOSHI
GOVERNOR OF HAWAII

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
P. O. BOX 621
HONOLULU, HAWAII 96809

January 24, 1979

RECEIVED

JAN 25 11 07 AM '79

OFC. OF THE AUDITOR
STATE OF HAWAII

Mr. Clinton T. Tanimura
Legislative Auditor
465 So. King St., Suite 500
Honolulu, Hawaii 96813

Dear Mr. Tanimura:

Subject: Financial Audit of the Department of
Land and Natural Resources

The eight copies of the subject audit report were received on January 8, 1979. Your transmittal letter requested our written comments by January 24, 1979. Due to the very limited review period (less than 15 working days), and our need to carefully review a comprehensive and technical (involving statutory requirements) document containing over 100 pages, we are not able to give you our detailed comments on all of the recommendations contained in the report at this time. In areas where specific responses can be made we have included them in our comments.

The finding and recommendations contained in Chapters 4 and 5 are being reviewed in depth to determine whether we fully concur with them. If we concur, we will determine how best we can correct the deficiency including an estimate as to how long it will take and at what cost. If we do not concur we will cite our reasons in our follow-up communication with you.

The following responds to specific recommendations:

1. Page 5-13 2. Make greater use of percentage leases for business and industrial purposes.

We concur. The percentage rentals are being incorporated on all new leases where practical.

2. Page 6-5 1. The department prepare financial statements and other appropriate kinds of financial reports on a regular and timely basis.

We concur. While the records for the year audited were inadequate due to conversion to new bookkeeping machine, the records of subsequent years are kept on a regular and timely basis.

3. Page 6-5 2. The department compare and reconcile its financial records with those of DAGS and that the records be compared and reconciled at least quarterly in every fiscal year.

We concur. Our records, with the exception of a single trust account are reconciled with those of DAGS. The operating and special funds are reconciled quarterly and the CIP and Trust Funds are reconciled semi-annually.

4. Page 6-11 1. A lock be installed on the cash drawer and that the key to the lock be assigned to the cashier.

We concur. The key to the cash drawer has been assigned to the cashier.

5. Page 6-12 2. The cashier's duties be confined to collecting the cash and preparing the cash register reading report. We further recommend that the function of recording revenues collected be performed by the supervising document receiving clerk or an individual other than the cashier.

We concur. The recommendations have been carried out.

6. Page 6-12 3. The deputy registrar review the results of the reconciliation process and approve all corrections made to the cash register tape and the cash register reading report.

We concur. The changes have been made.

Mr. Clinton Tanimura

-3-

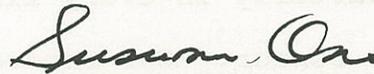
January 24, 1979

7. Page 6-16 2. The division of forestry utilize the approved indirect cost rate in costing claims for administrative and other overhead expenses.

We concur. We are utilizing the current approved indirect cost rate.

In closing, we accept the report as a guide to improve those services and activities evaluated in the report.

Very truly yours,



SUSUMU ONO

Chairman of the Board

GEORGE R. ARIYOSHI
GOVERNOR

EILEEN R. ANDERSON
DIRECTOR

JENSEN S. L. HEE
DEPUTY DIRECTOR

DIVISIONS:
BUDGET PLANNING AND MANAGEMENT
ELECTRONIC DATA PROCESSING
FINANCE



STATE FOUNDATION ON CULTURE AND THE ARTS
COMMISSION ON THE STATUS OF WOMEN
EMPLOYEES' RETIREMENT SYSTEM
HAWAII PUBLIC EMPLOYEES HEALTH FUND
STADIUM AUTHORITY
HAWAII INSTITUTE FOR MANAGEMENT AND
ANALYSIS IN GOVERNMENT
HAWAII FOUNDATION FOR HISTORY AND
THE HUMANITIES
PUBLIC UTILITIES COMMISSION

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE

STATE CAPITOL
P. O. BOX 150
HONOLULU, HAWAII 96810

January 16, 1979

RECEIVED

JAN 17 12 38 PM '79

OFFICE OF THE AUDITOR
STATE OF HAWAII

Mr. Clinton T. Tanimura
Legislative Auditor
Office of the Auditor
465 S. King St., Suite 500
Honolulu, Hawaii 96813

Dear Mr. Tanimura:

Thank you for providing a copy of the preliminary report of the Financial Audit of the Department of Land and Natural Resources and, more specifically, Chapters 6-21 to 6-23 relating to our Electronic Data Processing Division.

Our EDP Division has reviewed the comments and the recommendations contained in the report and listed below are responses to the recommendations contained on page 6-23 of the report.

1. Application development staff and the computer operations staff will develop adequate documentation so that duties of the programmers will be segregated from those of computer operators.
2. The EDP Division will contact DAGS to develop procedures for forwarding of voided warrants to DAGS Central Payroll Office for reconciliation and destruction.
3. The payroll master files will be removed from the security area of our computer operations section and placed in the fire-proof vault at EDPD.
4. Staff at EDPD have approached the University's Statistical and Computing Center chief, Walter Yee, of providing a mutual back-up capability in the event of computer hardware or software failure for critical application systems. EDPD staff will accelerate these discussions towards entering into a mutual back-up service agreement.

We appreciate the opportunity to read and comment on your report and if we can be of further assistance, please let us know.

Very truly yours,



Eileen R. Anderson
Director of Finance

cc: EDP Division

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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 Population 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.
- 1977 1. A Study of Airport System Financing, Department of Transportation, 76 pp.
2. A Study of the Library System of the Department of Education, 59 pp.
3. A Study of the Utilization of Faculty Resources in the College of Business Administration of the University of Hawaii, 53 pp.
- 1978 1. Transcript of the Seminar on Urban Mass Transit, 160 pp.
2. Issue Analysis, Compensation for Adult Foster Care Services, 10 pp.
3. Hawaii Constitutional Convention Studies, 1978, Article VI: Taxation and Finance, 87 pp.
- 1979 1. A Review of Alternative Approaches to Hospital Cost Containment, v.p.
2. A Study of Guidelines for State Grants, Subsidies, and Purchase of Services, 31 pp.

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- 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 Agencies 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. (out of print)
4. General Audit of the Department of Personnel Services, State of Hawaii, 129 pp. (out of print)
A Summary of the General Audit of the Department of Personnel Services, 53 pp.
5. Financial Audit of the Samuel Mahelona Memorial Hospital for the Fiscal Year Ended June 30, 1968, 34 pp.
6. Financial Audit of the Honokaa Hospital for the Fiscal Year Ended June 30, 1968, 41 pp.
7. Financial Audit of the Kohala Hospital for the Fiscal Year Ended June 30, 1968, 34 pp.
8. Financial Audit of the Kona Hospital for the Fiscal Year Ended June 30, 1968, 44 pp.
9. Financial Audit of the Kauai Veterans Memorial Hospital for the Fiscal Year Ended June 30, 1968, 30 pp.
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.
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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)
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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. (out of print)
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2. Program Audit of the School Health Services Pilot Project, 80 pp. (out of print)
3. Management Audit of the Public Utilities Program—Vol. I: The Organization for and the General Management of the Public Utilities Program, 154 pp.
4. Management Audit of the Public Utilities Program—Vol. II: The Regulation of Public Utilities, 193 pp. (out of print)
5. Financial Audit of the Department of Taxation, 53 pp. (out of print)
6. Management Audit of the Public Utilities Program—Vol. III: The Regulation of Transportation Services, 201 pp.
- 1976 1. Management Audit of the Recreational Boating Program, 121 pp.
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3. Management Audit of the State Foundation on Culture and Arts, 64 pp.
4. Financial Audit of the State Judiciary, 34 pp.
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LEGISLATIVE AUDITOR
KEKUANAO'A BUILDING, RM. 500
465 SOUTH KING STREET
HONOLULU, HAWAII 96813