

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

**Conducted by the
Office of the Legislative Auditor
State of Hawaii
and
Coopers & Lybrand
Certified Public Accountants**

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

**Submitted by the
Legislative Auditor of the State of Hawaii**

**Report No. 85-11
February 1985**

FOREWORD

This financial audit report is the result of an examination of the financial statements and records of the Department of Land and Natural Resources for the fiscal year ended June 30, 1984. The audit was conducted by the Office of the Legislative Auditor and the certified public accounting firm of Coopers & Lybrand.

This report is divided into three parts. Part I contains an introduction and some background information on the Department of Land and Natural Resources. Part II presents our findings and recommendations on the department's financial and accounting practices. It also includes the department's financial statements and the audit opinion on the fairness and accuracy of the statements. We have followed our customary practice of requesting the agency affected by the audit to comment on the findings and recommendations. Part III contains the Department of Land and Natural Resources' response to this report and our comments on the department's response.

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

Clinton T. Tanimura
Legislative Auditor
State of Hawaii

February 1985

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PART I

INTRODUCTION AND BACKGROUND

Chapter 1

INTRODUCTION

This is a report of our financial audit of the Department of Land and Natural Resources (DLNR). The audit was conducted by the Office of the Legislative Auditor and the certified public accounting firm, Coopers & Lybrand.

The audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes, which requires the State Auditor to conduct postaudits of all transactions, accounts, programs, and performance of 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 the department.
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 federal and state laws, rules and regulations, and policies and procedures.
3. To ascertain the extent to which previous audit recommendations pertaining to financial accounting and internal control have been implemented.
4. To assess the adequacy, effectiveness, and efficiency of the systems and procedures for financial accounting,

reporting, and internal controls, and recommend improvements to such systems, reports, and procedures.

Scope of the Audit

This audit examined the financial statements of DLNR for the period July 1, 1983 to June 30, 1984. The audit opinion as to the reasonable accuracy of the financial statements is that of the independent certified public accounting firm of Coopers & Lybrand.

In addition to the financial statements, the audit examined the financial accounting practices and internal control system of the department.

Organization of the Report

This report is organized as follows:

Part I (Chapters 1 and 2) presents this introduction and some background information on the department.

Part II (Chapters 3 and 4) presents our audit findings and recommendations on the financial and accounting practices and procedures of the department. It also includes the department's financial statements and the accountants' opinion on such statements.

Part III contains the response of DLNR to our recommendations, together with our comments on the department's response.

Chapter 2

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." Originally, DLNR was intended to be a temporary department.

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 a transitional DLNR. The same act provided that on July 1, 1962, DLNR was to be abolished as an executive department and that its functions were to be transferred to a newly designated Department of Agriculture and Natural Resources. However, in 1961, the Legislature enacted Act 132 which retained DLNR as a separate permanent department.

Under Section 26-15, Hawaii Revised Statutes, DLNR is responsible for managing, administering, and exercising control over public lands, water resources, and minerals. DLNR is also responsible for managing and administering state parks, historic sites, forest reserves, and fish and game reserves.

Organization of the Department¹

DLNR is comprised of three organizational components—Board of Land

and Natural Resources, operating divisions, and Office of the Chairman.

Board. The department 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 chairman of the board is also the director of the department.

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 Aquatic Resources.* This division administers the State's programs in commercial fisheries and aquaculture, aquatic resources and environment protection, and aquatic recreation. It is concerned with the research, development, and management of the State's fisheries resources.

2. *Division of Conservation and Resources Enforcement.* This division is responsible for enforcement activities of the department. The division, with full police powers, enforces all state laws and rules involving state lands and natural resources as well as county ordinances involving county parks.

1. State of Hawaii, Department of Land and Natural Resources, *Report to the Governor 1982-83*.

3. *Bureau of Conveyances.* The conveyances and recording program of the department is conducted primarily to protect the rights of individuals and organizations in land ownership. The bureau is responsible for receiving, recording, and preserving documents relating to land transactions in the State.

4. *Division of Forestry and Wildlife.* This division has statewide responsibilities for managing forests, forest resources, and wildlife outside of the forest proper.

5. *Division of State Parks, Outdoor Recreation, and Historic Sites.* This division is responsible for developing and maintaining archeological, historical, and recreational sites in the State through the state park system, the historic preservation program, and the statewide recreation planning program.

6. *Division of Water and Land Development.* This division administers the State's programs in water resources management, mineral resources, flood prevention and control, water development, and irrigation services.

7. *Division of Land Management.* This division is charged with management of state owned land and makes land available for public and private use in accordance with established policies and plans; manages real property of the State for which the department has custody; negotiates the acquisition and disposition of public lands through sales, lease, rent, or

exchange; supervises performance and payment under terms of lease and rental agreements; maintains an inventory of all public lands; reviews state land acquisition documents before registration or recordation; and maintains a central depository of state land acquisition and disposition documents.

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

1. *Administrative Services Office.* This office provides general support, internal management assistance, and fiscal services to the chairman, members of the board, and the operating divisions.

2. *Planning Office.* This office is responsible for the review and approval of land uses in the conservation district. The conservation district covers approximately 45 percent of the State's land area and all submerged lands within the State's territorial waters. This office is also responsible for evaluating the environmental impact stemming from the use of conservation lands and state lands.

3. *Personnel Office.* This office maintains the personnel program for the department. Major services include guidance and technical assistance in position classification, employee relations, and employee training and development.

PART II

FINDINGS AND RECOMMENDATIONS

Chapter 3

FINANCIAL ACCOUNTING AND INTERNAL CONTROL

This chapter assesses the financial accounting practices and internal control system of the Department of Land and Natural Resources (DLNR). Although the focus is on the present practices of the department, this chapter also discusses specific deficiencies reported in our 1979 financial audit report of the department which have not yet been corrected.¹

Summary of Findings

Our findings are as follows:

1. Reconciliation of the department's accounting records with the Department of Accounting and General Services (DAGS) records is not in compliance with the State of Hawaii Accounting Manual.
2. Income from Sand Island lands is recognized not in the year actually received but one year later.
3. A large percentage of the department's receivables is delinquent.
4. There are costly delays in submitting federal grant reimbursement requests.
5. Cash collections are not deposited in a timely manner.
6. There are no follow-up procedures to ensure that lessees maintain surety bonds.

Untimely Reconciliation Between the Department's and the Department of Accounting and General Services' Accounting Records

DAGS maintains the central accounting records of the State while the department maintains detailed accounting records which support the DAGS' records. Section 485 of the State of Hawaii Accounting Manual stipulates that the department reconcile their records to the DAGS' records quarterly. Quarterly reconciliations of the department's and DAGS' records are necessary because any miscodings in the records can then be corrected for that quarter. In addition, and as we reported in the 1979 audit, if the department relies solely on its own expenditure records and not on any DAGS' records, there is little assurance that its expenditures in any quarter are within its quarterly allotment.

Despite the role that these quarterly reconciliations play in promoting and ensuring the accuracy of the department's and DAGS' records, we found that the department's revenue records for all of its funds and expenditure records for certain of its trust and agency funds were only reconciled with the DAGS' records as of the end of the fiscal year.

1. State of Hawaii, Legislative Auditor, *Financial Audit of the Department of Land and Natural Resources*, Audit Report No. 79-1, January 1979.

As a result of the department's failure to perform quarterly reconciliations, we noted a \$750,000 difference at June 30, 1984 between the department's and the DAGS' records. This difference originated in March 1984 when the department made a \$750,000 classification change between two revenue accounts that was not conveyed to DAGS. Such an oversight would have been detected and adjusted during the third quarter reconciliation had one been conducted. However, because the department did not perform a reconciliation soon enough after the end of the fiscal year, the difference was detected too late for an adjustment to be made to the DAGS' records.

Recommendation. We recommend that the department comply with the requirement of Section 485 of the State of Hawaii Accounting Manual and perform quarterly reconciliations of its accounting records with the Department of Accounting and General Services' records.

Income From Sand Island Lands Is Recognized One Year Late

During our examination, we noted that rental income received from Sand Island lands is recognized as general fund revenues one year late. At June 30, 1984, rental income of approximately \$1.8 million received during fiscal year 1984 from Sand Island lands is being accounted for as a trust fund liability and will be recognized as general fund revenues during fiscal year 1985.

The department was unable to explain this unusual and incorrect practice since it appears to have been in existence for a long time. We understand that the department does intend to correct this one year lag in recognizing rental income from Sand Island lands.

Recommendation. We recommend that the department follow through with its plans to recognize rental income from Sand Island lands in the year it is received.

Past Due Receivables

At June 30, 1984, \$1,955,000 was due from lessees and permittees of the department, of which \$1,229,000 or 62.9 percent was at least 30 days past due and considered delinquent. Table 3.1 summarizes the amounts due on leases and permits of the department (including canceled, pending, and collection agency accounts).

Table 3.1
Lease and Permit Accounts Outstanding
at June 30, 1984

Status of Account	Amount	Percentage
Current	\$ 726,000	37.1
Delinquent:		
30-59 days	226,000	11.6
60-89 days	35,000	1.8
90 days and over	968,000	49.5
Total Delinquencies	1,229,000	62.9
TOTAL OUTSTANDING	\$1,955,000	100.0

This large amount of delinquent receivables is due in part to two factors which are discussed in the following section.

Failure to take action on payments in default as specified by statute. Section 171-20, Hawaii Revised Statutes, requires the Board of Land and Natural Resources to deliver a written notice to any party in default of any terms contained in the party's lease or permit. If the party does not remedy the default within 60 days from the date of receipt of the notice or within such additional time as the board may allow

for good cause, the board can proceed to cancel the lease or permit.

In our 1979 audit of the department, we reported that the department was extremely lax in pursuing lessees and permittees who were seriously delinquent in the payment of rents. Our examination for the year ended June 30, 1984 showed no improvement in this area. In a sample of ten delinquent leases, we noted six instances where the department failed to deliver a written notice of default as required by Section 171-20. Of the remaining four leases where a written notice of default was delivered, the board failed to take the necessary follow-up action as specified by statute.

Absence of penalties on past due accounts. Section 478-1, HRS, provides that "... interest shall be allowed at the rate of ten percent per year . . . for money upon an open account, after sixty days from the date of the last item or transaction."

In our 1979 audit of the department, we reported that the department did not charge interest on delinquent accounts as provided for under Section 478-1. During our current examination, we were informed that the department does not believe they are permitted to charge interest on delinquent accounts, because there is no clause to that effect in the department's leases. The department's concern stems from Act 117, SLH 1984, which amended Section 171-6, HRS, to specifically allow the board to "set, charge, and collect interest on delinquent leases, sales, or other accounts. The rate of interest . . . not [to] exceed one percent a month; provided that the contract shall state the interest rate and be signed by the party to be charged; and set, charge and collect reasonable fines for violation of this chapter or any rule adopted thereunder."

While the department's newer leases do contain a clause addressing the assessment

of interest on late payments, the department's older leases do not. Thus, the department has hesitated in assessing interest on the older leases since Section 171-6 does not address this issue and the department is uncertain whether the provisions of Section 478-1 still apply to the older leases.

Recommendations. To improve collections of past due receivables, we recommend that the department:

1. *Comply with the requirements of Section 171-20, HRS, and deliver written notices of default to delinquent lessees and take appropriate follow-up action if the delinquency is not remedied; and*

2. *Inquire of the Attorney General which provisions of the statute should govern the assessment of interest on delinquent accounts related to the department's older leases.*

Federal Grant Reimbursement Requests Are Not Submitted in a Timely Manner

Under various federal reimbursement grants, the department is required to expend its own funds on projects prior to requesting reimbursement from the federal government. The requirement that the department expend its own funds first, coupled with the usual two or three months that it takes for the federal government to remit payment, makes timely submission of reimbursement requests imperative to minimize the length of time and amount of state funds advanced for federally assisted projects.

In our 1979 audit of the department, we reported that requests under federal grants were not prepared and submitted in a timely manner. Our current examination shows no

improvement in this area. For example, reimbursement requests aggregating approximately \$400,000 for expenditures made during the period March through June 1984 were not submitted to the federal government until September 1984. Such delays in requesting reimbursement should be avoided, because they result in lost interest earnings to the State.

Recommendation. We recommend that the department devise a procedure to shorten the time it takes to prepare and submit federal reimbursement requests.

Checks Are Not Deposited in a Timely Manner

Moneys collected by the department's fiscal office, which include lease, permit, and license payments as well as reimbursements under federal grants, may exceed \$100,000 a day.

One of the basic principles of internal control concerning collections is that all moneys should be deposited in a bank on a daily basis. This safeguards such collections against losses from theft, robbery, or embezzlement.

Our examination revealed that checks ranging from \$5 to \$100,000 may not be deposited when received because the fiscal office is unable to determine the appropriate revenue source code. These checks are either routed to the appropriate division for determination of its revenue source code or held in the fiscal office safe until its source code is determined. This procedure may delay the deposit of these checks for up to four days. The consequence is that the State has been losing interest on these delays in deposits of state funds.

Recommendation. We recommend that all moneys collected, including checks whose revenue source code is not known, be deposited in the bank on a daily basis. If the appropriate revenue source code is not readily determinable, the check should be recorded for accounting purposes in a "suspense" account and later transferred to the proper account when the appropriate revenue source code is determined.

Lack of Follow-Up Procedures to Ensure That Surety Bond Requirements Are Being Met

Generally, the department's lease agreements require that the lessee obtain a surety bond in an amount equal to two times the annual rental to protect the department against breach or default of any of the terms, covenants, and conditions in the lease.

Despite the department's requirement that lessees obtain surety bonds, our examination indicated that the department has no follow-up procedures to ensure that surety bonds, once obtained by lessees, remain in effect. In our sample of five leases that required surety bonds, we noted that two of these leases had expired surety bonds. We were informed that the department may have received copies of the renewed surety bonds, but there was no documentation of this.

This situation resulted because the department has not established procedures to identify expiring surety bonds so that timely action can be taken to ensure that surety bonds remain in effect.

Recommendation. We recommend that the department establish follow-up procedures to ensure that all lessees' surety bonds are maintained on a current basis.

Chapter 4

FINANCIAL STATEMENTS AND ACCOUNTANTS' OPINION

This chapter presents the results of the examination for the financial statements of the Department of Land and Natural Resources (DLNR) for the fiscal year ended June 30, 1984. It contains the opinion of Coopers & Lybrand regarding the fairness and accuracy of the department's financial statements. It also displays various financial statements of the general fund accounts, and special revenue, trust, and agency funds administered by the department, together with explanatory notes, and supplemental information presented for analysis purposes only.

Summary of Findings

In the opinion of Coopers & Lybrand, the department's financial statements present fairly the financial position of the department's special revenue, trust, and agency funds as of June 30, 1984, and the results of operations of the department's general fund accounts, and special revenue, trust, and agency funds for the fiscal year then ended.

Accountants' Opinion

Coopers & Lybrand's statement filed with the Legislative Auditor is as follows:

"To the Legislative Auditor
State of Hawaii
Honolulu, Hawaii

We have examined the following financial statements of the Department of

Land and Natural Resources (DLNR), as of June 30, 1984 and for the year then ended:

Combined balance sheet—special revenue, trust and agency funds (Exhibit A)

Combined statement of revenues, expenditures and changes in fund balances—all fund types and account groups (Exhibit B)

Combined statement of revenues and expenditures—budget and actual—general fund accounts and special revenue funds (Exhibit C)

As discussed in the notes to the financial statements, the general fund accounts of the Department of Land and Natural Resources are a part of the State of Hawaii's general fund and our opinion expressed herein, insofar as it relates to the amounts included for the general fund, is limited to the transactions of the Department of Land and Natural Resources only. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the combined financial statements referred to above present fairly the financial position of the special revenue, trust and agency funds of the Department of

Land and Natural Resources as of June 30, 1984, and the results of operations of the department's general fund accounts, and special revenue, trust and agency funds for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination was made for the purpose of forming an opinion on the combined financial statements referred to in the first paragraph, taken as a whole. The combining financial statements and Schedules I and II are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in the examination of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

/s/Coopers & Lybrand

COOPERS & LYBRAND
Certified Public Accountants

Honolulu, Hawaii
November 2, 1984, except as to
Subsequent Event Note for which
the date is December 3, 1984"

Descriptions and Definitions

Descriptions of financial statements and schedules. The following is a brief description of the financial statements and schedules examined by Coopers & Lybrand. The financial statements and schedules are attached at the end of this chapter as Exhibits A to G and Schedules I and II.

1. **Combined balance sheet—special revenue, trust and agency funds (Exhibit A).** This statement presents the

assets and fund balances of the special revenue, trust and agency funds used by the department on an aggregate basis.

2. **Combined statement of revenues, expenditures and changes in fund balances—all fund types and account groups (Exhibit B).** This statement presents revenues and expenditures for each type of fund and account group used by the department on an aggregate basis. It also presents changes in fund balance for the department's combined special revenue and trust funds.

3. **Combined statement of revenues and expenditures—budget and actual—general fund accounts and special revenue funds (Exhibit C).** This statement presents a comparison of budgeted and actual revenues and expenditures for the general fund accounts and special revenue funds used by the department.

4. **Special revenue funds—combining balance sheet (Exhibit D).** This statement presents the balance sheets for all of the individual special revenue funds maintained by the department.

5. **Special revenue funds—combining statement of revenues, expenditures and changes in fund balances (Exhibit E).** This statement presents the revenues, expenditures and changes in fund balances for all of the individual special revenue funds maintained by the department.

6. **Trust and agency funds—combining balance sheet (Exhibit F).** This statement presents the balance sheets for all of the individual trust and agency funds maintained by the department.

7. **Agency funds—combining statement of changes in assets and liabilities (Exhibit G).** This statement

presents the activity of the individual agency funds maintained by the department.

8. **General fund accounts—schedule of expenditures—budget and actual (Schedule I).** This schedule presents a comparison of the budgeted and actual expenditures for the general fund accounts, classified by function, within the department.

9. **Special revenue funds—schedule of expenditures—budget and actual (Schedule II).** This schedule presents a comparison of the budgeted and actual expenditures for the special revenue funds, classified by function, within the department.

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 Legislature.

2. **Appropriation.** An authorization granted by the 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. **Appropriated receipts.** Funds received by the State for designated purposes and specifically authorized by the Legislature to be expended by the state agency. Depending upon the designated purposes of the receipts, the funds may lapse

at the end of the fiscal year or be carried over until completely expended.

4. **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.

5. **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.

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

7. **Reserve.** An account used to earmark a portion of the fund balance to indicate that it is not available for expenditure.

8. **Transfers.** The transactions between funds, departments and/or programs which are approved by the appropriate authority.

9. **Unallotted appropriations.** An appropriation balance that is available for allotment.

10. **Unliquidated encumbrances.** Encumbrances that are outstanding and 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 the department are discussed below.

Basis of accounting. The accounts of the funds maintained by the department and the accompanying financial statements have been prepared on a modified accrual basis of accounting. Under this method, revenues are generally recognized in the period in which they become available and measurable and expenditures are recorded when liabilities are incurred.

The accounting procedures generally provide for the recording of commitments at the time contracts are awarded and orders for equipment, construction, services, and supplies are placed. These commitments are represented as encumbrances in the accompanying financial statements and are necessary to reflect obligations against appropriations. General fund appropriations that are not expended or encumbered by the end of the fiscal year generally lapse. Appropriations for special revenue funds generally do not lapse until completely expended.

Capital assets constructed for or purchased by the department are recorded as expenditures in the year in which the cost is incurred. These assets are not reflected as assets in the accompanying financial statements, but are reflected in the general fixed assets account group of the State of Hawaii. Depreciation of these assets is not recorded by the State. Costs for pension, health, and social security benefits of state employees are reported as expenditures in the general fund. Required contributions to the Employees Retirement System are based upon actuarial valuation and include amortization of accrued unfunded liability over a period of 50 years from July 1, 1964. The State's policy is to fund its required contribution annually.

Survey maps and land documents. To determine the classification of revenue from the sale, lease, or other dispositions of public lands, the department relies upon survey maps and land documents previously prepared for varied purposes by the survey division of the Department of Accounting and General Services. For the most part, these survey maps and land documents were prepared on the basis of previously executed documents and other information rather than field surveys and title searches.

Rental income. The department is a party to numerous noncancellable leases with terms extending through 2054. Revenues derived from these leases for minimum and contingent rentals aggregated approximately \$5,000,000 during fiscal 1984 and is expected to approximate this amount through 1989.

Subsequent event. In December 1984, the department entered into a tentative agreement with the Department of Transportation (DOT) and the Department of Hawaiian Home Lands (DHHL) to settle litigation involving the use of DHHL lands by the DOT for airport facilities. As part of this agreement, the department conveyed certain of its industrial properties on Oahu to the DHHL and received various DOT lands on Hawaii and Maui. The legal documents for this agreement are presently in the process of being executed. Since the agreement also involves the transfer of certain DHHL lands to the DOT, the agreement is subject to the approval of the U.S. Department of the Interior.

Fund categories and description. Moneys to finance the department'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 three 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 otherwise accounted for in other funds. 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 accounts of the department are a part of the State of Hawaii's general fund and the accompanying general fund financial statement is limited to and reflects only the appropriations, expenditures, and obligations of the general fund accounts used by the department, and the general fund revenues collected by the department.

2. *Special revenue funds.* Special revenue funds are operated to account for revenue and expenditures designated for specified purposes. A description of the department's various special revenue funds is presented below:

a. *Plan and Construction Waimanalo Bay Recreation.* This fund was established to account for federal grant moneys from the U.S. Department of Interior, Land and Water Conservation Fund Grant Program, to provide matching funds to the Division of State Parks for the construction of water-oriented recreation facilities at Waimanalo Bay State Park.

b. *Plan and Construction Anuenue Park.* This fund was established to account for federal grant moneys from the U.S. Department of Interior, Land and Water Conservation Fund Grant Program, to

provide matching funds to the Division of State Parks for the development of Sand Island State Park.

c. *Heeia State Park Acquisition.* This fund was established to account for federal grant moneys from the U.S. Department of Interior, Land and Water Conservation Fund Grant Program, to provide matching funds to the Division of State Parks for the acquisition of ocean frontage land totaling 13.866 acres in Kaneohe, Oahu.

d. *Malaekahana State Park Acquisition.* This fund was established to account for federal grant moneys from the U.S. Department of Interior, Land and Water Conservation Fund Grant Program, to provide matching funds to the Division of State Parks for the acquisition of two parcels of ocean frontage land totaling 32.8 acres in Laie, Oahu.

e. *Waimanalo Development—Oahu.* This fund was established to account for federal grant moneys from the U.S. Environmental Protection Agency, to develop the Waimanalo Sewage Treatment Plant.

f. *Historic Preservation Grant-In-Aid.* This fund was established to account for federal grant moneys received from the U.S. Department of Interior, National Park Service, to provide grants to state, county, and private agencies for historic preservation projects.

g. *Rainbow Bay State Park Acquisition.* This fund was established to account for federal grant moneys from the U.S. Department of Interior, Land and Water Conservation Fund Grant Program, to provide matching funds to the Division of State Parks for the acquisition of approximately 2.597 acres of ocean frontage land at Pearl Harbor, Oahu.

h. *Kona Airport State Park Development.* This fund was established to account for federal grant moneys from the U.S. Department of Interior, Land and Water Conservation Fund Grant Program, to provide matching funds to the Division of State Parks for the construction of pavilions and other recreational facilities. This project was withdrawn in December 1982.

i. *Makena—La Perouse State Park Acquisition.* This fund was established to account for federal grant moneys from the U.S. Department of Interior, Land and Water Conservation Fund Grant Program, to provide matching funds to the Division of State Parks for the acquisition of 3.73 acres of ocean frontage land in Makena, Maui.

j. *Forestry Products Development.* This fund was established to account for federal grant moneys received from the U.S. Department of Agriculture, U.S. Forest Service, for the implementation of various programs under the Cooperative Forestry Assistance Act.

k. *Commercial Fishery and Aquaculture.* This fund was established to account for federal grant moneys received from the U.S. Department of Interior, Fish and Wildlife Service, for the purpose of administering the Statewide Federal Aid in Sport Fish Restoration (Dingell-Johnson) Program which includes projects in marine development.

l. *Aquatic Resources.* This fund was established to account for federal grant moneys received from the U.S. Department of Interior, Fish and Wildlife Service, for the purpose of administering the Statewide Federal Aid in Sport Fish Restoration (Dingell-Johnson) Program which includes fresh water and marine technical guidance projects.

m. *Forests and Wildlife Resources.* This fund was established to account for federal grant moneys received from the U.S. Department of Agriculture, U.S. Forest Service, for the implementation of various programs under the Cooperative Forestry Assistance Act. This fund also receives moneys from the U.S. Department of Interior, Fish and Wildlife Service, for the purpose of administering the Statewide Federal Aid in Wildlife Restoration (Pittman-Robertson) Program.

n. *Conservation and Resources Enforcement.* This fund was established to account for federal grant moneys received from the U.S. Department of Interior, Fish and Wildlife Service, for the implementation of a statewide hunter safety training program.

o. *Forest Recreation.* This fund was established to account for federal grant moneys received from the U.S. Department of Interior, Fish and Wildlife Service, to administer the Statewide Federal Aid in Wildlife Restoration (Pittman-Robertson) Program which includes projects for development and operations, game research and surveys, nongame and endangered species, and technical guidance.

p. *Aquatic Recreation.* This fund was established to account for federal grant moneys received from the U.S. Department of Interior, Fish and Wildlife Service, for the purpose of administering the Statewide Federal Aid in Sport Fish Restoration (Dingell-Johnson) Program which includes projects in fresh water and marine development and fresh water and marine research and survey.

q. *Natural Physical Environment.* This fund was established to account for federal grant moneys received from the U.S. Department of Interior, National Park

Service, for funding of activities conducted by the Hawaii Historic Places Review Board created by Section 6E-5.5, Hawaii Revised Statutes.

r. *General Administration for Culture and Recreation.* This fund was established to account for federal grant moneys received from the U.S. Department of Interior, National Park Service, to administer the Federal Historic Preservation Grant-In-Aid projects. This fund also receives moneys to administer the Statewide Federal Land and Water Conservation Fund Grant Program which provides matching grants to state and county agencies for acquiring and developing outdoor recreation areas.

s. *Endangered Plant Species.* This fund was established to account for federal grant moneys received from the U.S. Department of Agriculture, U.S. Forest Service, for a forest pest management project.

t. *Rural Community Fire Protection.* This fund was established to account for federal grant moneys received from the U.S. Department of Agriculture, U.S. Forest Service, for the purpose of developing and improving the capabilities of a statewide radio communication system for use in wildlife direction and control, and other fire-related applications.

u. *Federal Emergency Management Agency National Flood Insurance Program.* This fund was established to account for federal grant moneys received from the Federal Emergency Management Agency, to carry out flood plan management activities and to develop a flood hazard mitigation plan to strengthen the State's role in the National Flood Insurance Program.

v. *Emergency Watershed Fire Protection Program.* This fund was

established to account for federal grant moneys received from the U.S. Department of Agriculture, U.S. Soil Conservation Service, for the purposes of reducing potential fire damages to western Kauai's mountain watersheds. This fire hazard is the result of the severe destruction of trees caused by Hurricane Iwa.

w. *Rehabilitation and Development of Public Parks and Recreational Areas.* This fund was established to account for federal grant moneys received from the U.S. Small Business Administration for the rehabilitation, and development of public parks and recreational areas on the islands of Oahu, Kauai, Maui, and Hawaii.

x. *Special Land and Development Fund.* This fund was established by Act 32, SLH 1962, to account for nonceded public land proceeds from the sale of public lands, including interest on deferred payments, and rents from leases, licenses, and permits. Nonceded public lands are defined as 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.

y. *Maintenance of Public Lands.* This fund was established in accordance with Section 171-19, Hawaii Revised Statutes, for the maintenance of all lands under the control and management of the board, including the repair of improvements thereon, not to exceed \$100,000 in any fiscal year. This account is funded by the Special Land and Development Fund.

z. *Appraisal Fees Revolving Fund.* This revolving fund was established in accordance with Section 171-19, HRS, to account for the payment of all appraisal fees not charged to the applicant. This account is funded by the Special Land and Development Fund.

aa. *Publication of Notices—Revolving Fund.* This revolving fund was established in accordance with Section 171-19, HRS, to account for the payment of publication notices, and the reimbursement from the applicants for the portion of the expenditures chargeable to them. This account is funded by the Special Land and Development Fund.

bb. *Accrued Vacation and Sick Leave Fund.* This revolving fund accounts for the accrued vacation and sick leave for project funded employees of the Division of State Parks and the Division of Water and Land Development which is charged to the respective capital improvement projects of the various funds. The amount accrued for vacation and sick leave is based upon a percentage of the actual payroll costs for each project funded employee.

cc. *Water Development and Irrigation Services.* This fund was established by Act 166, SLH 1961, to account for all revenues, including interest from water development projects. The revenues collected are expended for administrative costs, engineering surveys, economic studies, plans, maps, and for other water development projects.

dd. *Other.* These funds were established in prior years for the implementation of various programs which have since been terminated. These funds will be submitted to the State Treasury during fiscal 1985.

3. *Trust and agency funds.* Trust and agency funds are used to account for assets held by the department in a trustee capacity, or as an agency for individuals, private organizations, other governments, and/or other funds. These include expendable trust and agency funds. Expendable trust funds are accounted for in essentially the same manner as

other governmental funds. Agency funds are custodial in nature, and do not involve measurement of results of operations. A description of the department's various trust and agency funds is presented below:

a. *Expendable Trust Fund.*

- Donations, Gifts, and Grants — The hydrography donation fund was created to account for donations received from various subsidiaries of sugar plantations. The donations are used for the operation and maintenance of sugar cane irrigation stations.

b. *Agency Funds.*

- Temporary Deposits—Water Development — This fund was created to account for security deposits collected on specifications and plans. This account is also used for various liaison and temporary types of projects.
- 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 sugar cane leases and water licenses) are required to be deposited into this fund. Under the provisions of the Admissions Act and Chapter 10, HRS, as amended by Act 273, SLH 1980,

20 percent of the income from the public land trust is to be paid to the Office of Hawaiian Affairs (OHA) to be used for the betterment of native Hawaiians. The remainder of the revenues are transferred into the State of Hawaii's general fund at the end of the fiscal year.

Temporary Deposits — This fund was created to account for the following temporary deposits: security deposits for leases, permits, and licenses; the airport, harbors, and highway permit collection funds that account for all revenues collected from public lands set aside by executive order to the Department of Transportation (the department retains 5 percent of all revenues collected as its management fee, and these moneys are in turn transferred to the State of Hawaii's general fund); and the appraisal fee revolving fund established to account for the payment of appraisal fees chargeable to the applicant.

Payroll Clearance — This fund serves primarily as a clearing fund to facilitate the disbursement of payroll. Payroll costs for project funded employees of the Division of State Parks and the Division of Water and Land Development are accumulated and disbursed from this fund. These payroll costs are charged to the respective capital

improvement project appropriations, and this fund is reimbursed based on employee timesheets submitted on a monthly basis.

**Notes to the Financial Statements
of the General Fund Accounts
(Exhibits B and C) and the
Special Revenue Funds
(Exhibits A, B, C, D, and E)**

Budgeting and budgetary control. Amounts reflected as budgeted revenues in the combined statement of revenues and expenditures—budget and actual, are those estimates as compiled by the Director of Finance. Budgeted expenditures are derived primarily from the General Appropriations Act of 1983 (Act 301, Session Laws of Hawaii 1983), and from other authorizations contained in the Hawaii Constitution, the Hawaii Revised Statutes, other specific appropriations acts in various Session Laws of Hawaii, and transfers instituted by the Department of Budget and Finance. To provide for comparability, actual expenditures in this statement have been adjusted to include encumbrances and continuing appropriations at year end and exclude current year expenditures for liquidation of prior year encumbrances and continuing appropriations.

**Notes to the Financial Statements
of the General Fund Accounts
(Exhibits B and C)**

Commitments and contingencies.

1. *Loan payable.* As of June 30, 1984, the department had a loan payable of \$3,272,452 reflected in the general long-term debt account group to the U.S. Department of the Interior, Bureau of

Reclamation, due in 30 annual installments of \$112,844 plus nominal interest through 2013.

2. *Accumulated vacation and sick leave.* In accordance with the general practice followed by other state agencies, the department does not reflect accrued and potential liability for earned vacation and sick leave credits.

The State of Hawaii has provided for the recognition of a liability in the General Long-Term Debt Group of accounts for liabilities associated with Governmental Fund compensated absence programs which are not expected to be liquidated with expendable available resources. Accordingly, the State provided for the department's accumulated vacation accrual of approximately \$2,586,000 at June 30, 1984.

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the retirement system. Accumulated sick leave as of June 30, 1984 was approximately \$7,784,000, and has not been accrued in the financial statements.

3. *Collateral.* As of June 30, 1984, approximately \$783,000 was held as collateral to secure the interests of the department. It is the State of Hawaii's policy not to record the asset and related liability in the financial statements.

4. *Employees retirement system.* All eligible employees of the department are required by Chapter 88, HRS, to become members of the Employees Retirement System of the State of Hawaii, a contributory retirement system. The system consists of a Pension Accumulation Fund which provides basic pension benefits, and a Post Retirement Fund which provides annual increases to individuals receiving pensions.

Actuarial valuations are made for the entire system, and are not separately computed for the State and each county. The department's and other state agencies' share of the retirement expense for the fiscal year ended June 30, 1984, was included in the general appropriation bill as an item to be expended by the Department of Budget and Finance and is not reflected in the department's financial statements.

5. *Insurance coverage.* The State of Hawaii is self-insured for substantially all perils including workers' compensation. Expenditures for workers' compensation are appropriated annually and are not considered material.

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES

Combined balance sheet -
special revenue, trust and agency funds
June 30, 1984

	<u>Governmental</u> <u>Fund Types</u> <u>Special</u> <u>Revenue</u> <u>(Exhibit D)</u>	<u>Fiduciary</u> <u>Fund Types</u> <u>Trust and</u> <u>Agency</u> <u>(Exhibit F)</u>
<u>ASSETS</u>		
Cash with treasury	\$6,751,080	\$2,612,379
Federal grant claims receivable	<u>652,217</u>	<u>-</u>
Total assets	<u>\$7,403,297</u>	<u>\$2,612,379</u>
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Vouchers and contracts payable	\$ 322,077	\$ 203,170
Due to individuals, businesses and counties	<u>-</u>	<u>2,337,906</u>
	<u>322,077</u>	<u>2,541,076</u>
Fund balances:		
Reserved for continuing appropriations - Unallotted appropriations	6,068,656	-
Unliquidated encumbrances	<u>360,347</u>	<u>-</u>
	6,429,003	-
Reserved for receivables	652,217	-
Reserved for amounts held in trust	<u>-</u>	<u>71,303</u>
	<u>7,081,220</u>	<u>71,303</u>
Total liabilities and fund balances	<u>\$7,403,297</u>	<u>\$2,612,379</u>

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

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES

Combined statement of revenues, expenditures and
changes in fund balances - all fund types and account groups
for the year ended June 30, 1984

	<u>Governmental</u>	<u>Fund Types</u>	<u>Fiduciary</u>
	<u>General</u>	<u>Special</u>	<u>Fund Types</u>
		<u>Revenue</u>	<u>Expendable</u>
		(Exhibit E)	<u>Trust</u>
REVENUES:			
Rents	\$ 6,412,204	\$ 763,912	\$ -
Property taxes on other than assessed value	1,807,607	-	-
General government	1,409,808	-	-
Recreation	746,011	-	-
Development and conservation of natural resources	405,599	413,733	-
Federal grants-in-aid	153,071	3,399,296	-
Licenses and permits	148,842	-	-
Interest	29,601	130,219	-
Miscellaneous	<u>3,905,414</u>	<u>104,257</u>	<u>21,000</u>
Total revenues	<u>15,018,157</u>	<u>4,811,417</u>	<u>21,000</u>
EXPENDITURES:			
Conservation of natural resources	5,341,586	2,036,087	-
Culture - recreation	5,167,276	2,286,405	-
Economic development and assistance	2,169,307	190,045	-
General government	907,755	-	-
Public safety	279,803	78,752	-
Urban redevelopment and housing	-	19,190	-
Total expenditures	<u>13,865,727</u>	<u>4,610,479</u>	<u>-</u>
Excess of revenue over expenditures	<u>1,152,430</u>	<u>200,938</u>	<u>21,000</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	352,693	134,957	-
Operating transfers out	<u>(24,321)</u>	<u>(134,957)</u>	<u>-</u>
Total other financing sources	<u>328,372</u>	<u>-</u>	<u>-</u>
Excess of revenue and other sources over expenditures and other uses	<u>\$ 1,480,802</u>	200,938	21,000
FUND BALANCES:			
Beginning of year		<u>6,880,282</u>	<u>50,303</u>
End of year		<u>\$7,081,220</u>	<u>\$ 71,303</u>

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

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES

Combined statement of revenues and expenditures - budget and actual -
general fund accounts and special revenue funds
for the year ended June 30, 1984

	<u>General Fund Accounts</u>			<u>Special Revenue Funds</u>		
	<u>Budget</u>	<u>Actual On A Budgetary Basis</u>	<u>Variance - Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual On A Budgetary Basis</u>	<u>Variance - Favorable (Unfavorable)</u>
REVENUES:						
Rents	\$ 5,934,000	\$ 6,412,204	\$ 478,204	\$ -	\$ 763,912	\$ 763,912
Property taxes on other than assessed value	1,700,000	1,807,607	107,607	-	-	-
General government	1,210,000	1,409,808	199,808	-	-	-
Recreation	650,000	746,011	96,011	-	-	-
Development and conservation of natural resources	37,000	405,599	368,599	240,000	413,733	173,733
Federal grants-in-aid	26,000	153,071	127,071	4,128,815	3,399,296	(729,519)
Licenses and permits	-	148,842	148,842	137,000	-	(137,000)
Interest	-	29,601	29,601	35,000	130,219	95,219
Miscellaneous	61,000	3,905,414	3,844,414	-	104,257	104,257
Total revenues	9,618,000	15,018,157	5,400,157	4,540,815	4,811,417	270,602
EXPENDITURES:						
Conservation of natural resources	5,540,432	5,239,776	300,656	959,931	806,042	153,889
Culture - recreation	5,345,551	5,138,245	207,306	2,467,695	1,571,583	896,112
Economic development and assistance	2,404,859	2,079,776	325,083	236,704	272,318	(35,614)
General government	874,994	1,102,138	(227,144)	-	-	-
Public safety	321,591	307,364	14,227	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-
Total expenditures	14,487,427	13,867,299	620,128	3,664,330	2,649,943	1,014,387
Excess of revenues over (under) expenditures	(4,869,427)	1,150,858	6,020,285	876,485	2,161,474	1,284,989
OTHER FINANCING SOURCES (USES):						
Operating transfers in	-	352,693	352,693	-	134,957	-
Operating transfers out	-	(24,321)	(24,321)	-	(134,957)	-
Total other financing sources	-	328,372	328,372	-	-	-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ (4,869,427)	\$ 1,479,230	\$ 6,348,657	\$ 876,485	\$ 2,161,474	\$ 1,284,989

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

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

Combining balance sheet
June 30, 1984

	<u>Plan And Construction Waimanalo Bay Recreation</u>	<u>Plan And Construction Anuenue Park</u>	<u>Heeia State Park Acquisition</u>	<u>Malaekahana State Park Acquisition</u>	<u>Waimanalo Development- Oahu</u>	<u>Historic Preservation Grant-In-Aid</u>	<u>Rainbow Bay State Park Acquisition</u>	<u>Kona Airport State Park Development</u>	<u>Makena-La Perouse State Park Acquisition</u>	<u>Forestry Products Development</u>
ASSETS										
Cash with treasury	\$137	\$483,842	\$928,039	\$1,096,453	\$199,066	\$23,199	\$621,619	\$930	\$200,721	\$25,890
Federal grant claims receivable	-	-	-	10,147	-	-	-	-	-	3,642
Total assets	<u>\$137</u>	<u>\$483,842</u>	<u>\$928,039</u>	<u>\$1,106,600</u>	<u>\$199,066</u>	<u>\$23,199</u>	<u>\$621,619</u>	<u>\$930</u>	<u>\$200,721</u>	<u>\$29,532</u>
LIABILITIES AND FUND BALANCES										
Liabilities:										
Vouchers and contracts payable	\$ -	\$ 604	\$ -	\$ 1,809	\$ -	\$13,759	\$ -	\$ -	\$ -	\$25,890
	-	604	-	1,809	-	13,759	-	-	-	25,890
Fund balances:										
Reserved for continuing appropriations - Unallotted	137	480,463	928,039	1,085,562	124,066	9,440	621,619	930	200,721	-
Unliquidated encumbrances	-	2,775	-	9,082	75,000	-	-	-	-	-
	137	483,238	928,039	1,094,644	199,066	9,440	621,619	930	200,721	-
Reserved for receivables	-	-	-	10,147	-	-	-	-	-	3,642
	137	483,238	928,039	1,104,791	199,066	9,440	621,619	930	200,721	3,642
Total liabilities and fund balances	<u>\$137</u>	<u>\$483,842</u>	<u>\$928,039</u>	<u>\$1,106,600</u>	<u>\$199,066</u>	<u>\$23,199</u>	<u>\$621,619</u>	<u>\$930</u>	<u>\$200,721</u>	<u>\$29,532</u>

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

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

Combining balance sheet
June 30, 1984

	Commercial Fishery And Aquaculture	Aquatic Resources	Forests And Wildlife Resources	Conservation And Resources Enforcement	Forest Recreation	Aquatic Recreation	Natural Physical Environment	General Administration For Culture And Recreation	Endangered Plant Species	Rural Community Fire Protection
ASSETS										
Cash with treasury	\$101,731	\$18,815	\$ 81,169	\$ 9,524	\$ 50,010	\$ 61,327	\$105	\$ 69,521	\$4,469	\$43,768
Federal grant claims receivable	<u>87,695</u>	<u>19,511</u>	<u>165,949</u>	<u>24,164</u>	<u>92,489</u>	<u>97,965</u>	-	<u>34,088</u>	-	-
Total assets	<u>\$189,426</u>	<u>\$38,326</u>	<u>\$247,118</u>	<u>\$33,688</u>	<u>\$142,499</u>	<u>\$159,292</u>	<u>\$105</u>	<u>\$103,609</u>	<u>\$4,469</u>	<u>\$43,768</u>
LIABILITIES AND FUND BALANCES										
Liabilities: Vouchers and contracts payable	\$ 13,196	\$15,153	\$ 57,878	\$ 9,524	\$ 50,010	\$ 30,020	\$105	\$ 19,050	\$ -	\$ -
	<u>13,196</u>	<u>15,153</u>	<u>57,878</u>	<u>9,524</u>	<u>50,010</u>	<u>30,020</u>	<u>105</u>	<u>19,050</u>	-	-
Fund balances: Reserved for continuing appropriations - Unallotted appropriations Unliquidated encumbrances	6,262	3,662	23,291	-	-	9,307	-	42,760	4,469	20,241
	<u>82,273</u>	-	-	-	-	<u>22,000</u>	-	<u>7,711</u>	-	<u>23,527</u>
	<u>88,535</u>	<u>3,662</u>	<u>23,291</u>	-	-	<u>31,307</u>	-	<u>50,471</u>	<u>4,469</u>	<u>43,768</u>
Reserved for receivables	<u>87,695</u>	<u>19,511</u>	<u>165,949</u>	<u>24,164</u>	<u>92,489</u>	<u>97,965</u>	-	<u>34,088</u>	-	-
	<u>176,230</u>	<u>23,173</u>	<u>189,240</u>	<u>24,164</u>	<u>92,489</u>	<u>129,272</u>	-	<u>84,559</u>	<u>4,469</u>	<u>43,768</u>
Total liabilities and fund balances	<u>\$189,426</u>	<u>\$38,326</u>	<u>\$247,118</u>	<u>\$33,688</u>	<u>\$142,499</u>	<u>\$159,292</u>	<u>\$105</u>	<u>\$103,609</u>	<u>\$4,469</u>	<u>\$43,768</u>

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

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

Combining balance sheet
June 30, 1984

<u>ASSETS</u>	<u>FEMA National Flood Insurance Program</u>	<u>Emergency Watershed Fire Protection Program</u>	<u>Rehabilitation And Development Of Public Parks And Recreational Areas</u>	<u>Special Land And Development Fund</u>	<u>Maintenance Of Public Lands</u>	<u>Appraisal Fees Revolving Fund</u>	<u>Publication Of Notices- Revolving Fund</u>	<u>Accrued Vacation And Sick Leave Fund</u>	<u>Water Development And Irrigation Services</u>	<u>Other</u>	<u>Total</u>
Cash with treasury	\$41,423	\$ 83,176	\$8,564	\$1,107,341	\$50,823	\$21,026	\$5,580	\$518,188	\$761,743	\$132,881	\$6,751,080
Federal grant claims receivable	<u>9,427</u>	<u>107,140</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>652,217</u>
Total assets	<u>\$50,850</u>	<u>\$190,316</u>	<u>\$8,564</u>	<u>\$1,107,341</u>	<u>\$50,823</u>	<u>\$21,026</u>	<u>\$5,580</u>	<u>\$518,188</u>	<u>\$761,743</u>	<u>\$132,881</u>	<u>\$7,403,297</u>
<u>LIABILITIES AND FUND BALANCES</u>											
Liabilities: Vouchers and contracts payable	\$ -	\$ 16,459	\$ -	\$ 35,713	\$14,919	\$ 761	\$ 137	\$ -	\$ 17,090	\$ -	\$ 322,077
	<u>-</u>	<u>16,459</u>	<u>-</u>	<u>35,713</u>	<u>14,919</u>	<u>761</u>	<u>137</u>	<u>-</u>	<u>17,090</u>	<u>-</u>	<u>322,077</u>
Fund balances:											
Reserved for continuing appropriations - Unallotted appropriations	41,423	50,018	8,564	1,071,628	2,635	11,460	5,293	518,188	665,597	132,881	6,068,656
Unliquidated encumbrances	<u>-</u>	<u>16,699</u>	<u>-</u>	<u>-</u>	<u>33,269</u>	<u>8,805</u>	<u>150</u>	<u>-</u>	<u>79,056</u>	<u>-</u>	<u>360,347</u>
Reserved for receivables	<u>9,427</u>	<u>107,140</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>652,217</u>
	<u>50,850</u>	<u>173,857</u>	<u>8,564</u>	<u>1,071,628</u>	<u>35,904</u>	<u>20,265</u>	<u>5,443</u>	<u>518,188</u>	<u>744,653</u>	<u>132,881</u>	<u>7,081,220</u>
Total liabilities and fund balances	<u>\$50,850</u>	<u>\$190,316</u>	<u>\$8,564</u>	<u>\$1,107,341</u>	<u>\$50,823</u>	<u>\$21,026</u>	<u>\$5,580</u>	<u>\$518,188</u>	<u>\$761,743</u>	<u>\$132,881</u>	<u>\$7,403,297</u>

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

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

Combining statement of revenues, expenditures and changes in fund balances
for the year ended June 30, 1984

	Plan And Construction Waimanalo Bay Recreation	Plan And Construction Anuenue Park	Heeia State Park Acquisition	Malaekahana State Park Acquisition	Waimanalo Development- Oahu	Historic Preservation Grant-In-Aid	Rainbow Bay State Park Acquisition	Kona Airport State Park Development	Makena-La Perouse State Park Acquisition	Forestry Products Development
REVENUES:										
Rents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Development and conservation of natural resources	-	-	-	-	-	-	-	-	-	-
Federal grants- in-aid	-	256,096	-	32,870	-	206,394	3,125	-	-	101,799
Interest	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-
Total revenues	<u>-</u>	<u>256,096</u>	<u>-</u>	<u>32,870</u>	<u>-</u>	<u>206,394</u>	<u>3,125</u>	<u>-</u>	<u>-</u>	<u>101,799</u>
EXPENDITURES:										
Conservation of natural resources	-	-	-	-	-	-	-	-	-	-
Culture - recreation	-	73,849	6,694	74,666	-	201,097	4,411	-	242,931	-
Economic development and assistance	-	-	-	-	-	-	-	-	-	101,799
Public safety	-	-	-	-	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	19,190	-	-	-	-	-
Total expenditures	<u>-</u>	<u>73,849</u>	<u>6,694</u>	<u>74,666</u>	<u>19,190</u>	<u>201,097</u>	<u>4,411</u>	<u>-</u>	<u>242,931</u>	<u>101,799</u>
Excess of revenues over (under) expenditures	<u>-</u>	<u>182,247</u>	<u>(6,694)</u>	<u>(41,796)</u>	<u>(19,190)</u>	<u>5,297</u>	<u>(1,286)</u>	<u>-</u>	<u>(242,931)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):										
Operating transfers in	-	-	-	-	-	-	-	-	-	-
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>-</u>	<u>182,247</u>	<u>(6,694)</u>	<u>(41,796)</u>	<u>(19,190)</u>	<u>5,297</u>	<u>(1,286)</u>	<u>-</u>	<u>(242,931)</u>	<u>-</u>
FUND BALANCES:										
Beginning of year	<u>137</u>	<u>300,991</u>	<u>934,733</u>	<u>1,146,587</u>	<u>218,256</u>	<u>4,143</u>	<u>622,905</u>	<u>930</u>	<u>443,652</u>	<u>3,642</u>
End of year	<u>\$137</u>	<u>\$483,238</u>	<u>\$928,039</u>	<u>\$1,104,791</u>	<u>\$199,066</u>	<u>\$ 9,440</u>	<u>\$621,619</u>	<u>\$930</u>	<u>\$ 200,721</u>	<u>\$ 3,642</u>

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

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

Combining statement of revenues, expenditures and changes in fund balances
for the year ended June 30, 1984

	Commercial Fishery And Aquaculture	Aquatic Resources	Forests And Wildlife Resources	Conservation And Resources Enforcement	Forest Recreation	Aquatic Recreation	Natural Physical Environment	General Administration For Culture And Recreation	Endangered Plant Species	Rural Community Fire Protection
REVENUES:										
Rents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Development and conservation of natural resources	-	-	-	-	-	-	-	-	-	-
Federal grants- in-aid	163,001	59,117	311,458	28,233	260,010	207,912	4,330	1,124,008	-	-
Interest	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-	-	-	-	-
Total revenues	<u>163,001</u>	<u>59,117</u>	<u>311,458</u>	<u>28,233</u>	<u>260,010</u>	<u>207,912</u>	<u>4,330</u>	<u>1,124,008</u>	<u>-</u>	<u>-</u>
EXPENDITURES:										
Conservation of natural resources	-	64,736	311,478	29,069	-	-	4,330	-	531	2,175
Culture - recreation	-	-	-	-	260,010	187,136	-	1,104,275	-	-
Economic development and assistance	88,246	-	-	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-	-	-	-
Urban redevelopment and housing	-	-	-	-	-	-	-	-	-	-
Total expenditures	<u>88,246</u>	<u>64,736</u>	<u>311,478</u>	<u>29,069</u>	<u>260,010</u>	<u>187,136</u>	<u>4,330</u>	<u>1,104,275</u>	<u>531</u>	<u>2,175</u>
Excess of revenue over (under) expenditures	<u>74,755</u>	<u>(5,619)</u>	<u>(20)</u>	<u>(836)</u>	<u>-</u>	<u>20,776</u>	<u>-</u>	<u>19,733</u>	<u>(531)</u>	<u>(2,175)</u>
OTHER FINANCING SOURCES (USES):										
Operating transfers in	-	-	-	-	-	-	-	-	-	-
Operating transfers out	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>74,755</u>	<u>(5,619)</u>	<u>(20)</u>	<u>(836)</u>	<u>-</u>	<u>20,776</u>	<u>-</u>	<u>19,733</u>	<u>(531)</u>	<u>(2,175)</u>
FUND BALANCES:										
Beginning of year	<u>101,475</u>	<u>28,792</u>	<u>189,260</u>	<u>25,000</u>	<u>92,489</u>	<u>108,496</u>	<u>-</u>	<u>64,826</u>	<u>5,000</u>	<u>45,943</u>
End of year	<u>\$176,230</u>	<u>\$23,173</u>	<u>\$189,240</u>	<u>\$24,164</u>	<u>\$ 92,489</u>	<u>\$129,272</u>	<u>\$ -</u>	<u>\$ 84,559</u>	<u>\$4,469</u>	<u>\$43,768</u>

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

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

Combining statement of revenues, expenditures and changes in fund balances
for the year ended June 30, 1984

	FEMA National Flood Insurance Program	Emergency Watershed Fire Protection Program	Rehabilitation And Development Of Public Parks And Recreational Areas	Special Land And Development Fund	Maintenance Of Public Lands	Appraisal Fees Revolving Fund	Publication Of Notices- Revolving Fund	Accrued Vacation And Sick Leave Fund	Water Development And Irrigation Services	Other	Total
REVENUES:											
Rents	\$ -	\$ -	\$ -	\$ 763,912	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 763,912
Development and conservation of natural resources	-	-	-	171,121	-	-	-	-	242,612	-	413,733
Federal grants- in-aid	120,125	380,918	139,900	-	-	-	-	-	-	-	3,399,296
Interest	-	-	-	49,199	-	-	-	16,966	64,054	-	130,219
Miscellaneous	-	-	-	-	2,107	-	1,785	100,297	68	-	104,257
Total revenues	<u>120,125</u>	<u>380,918</u>	<u>139,900</u>	<u>984,232</u>	<u>2,107</u>	<u>-</u>	<u>1,785</u>	<u>117,263</u>	<u>306,734</u>	<u>-</u>	<u>4,811,417</u>
EXPENDITURES:											
Conservation of natural resources	-	348,483	-	664,704	121,325	32,819	3,530	101,391	351,516	-	2,036,087
Culture - recreation	-	-	131,336	-	-	-	-	-	-	-	2,286,405
Economic development and assistance	-	-	-	-	-	-	-	-	-	-	190,045
Public safety	78,752	-	-	-	-	-	-	-	-	-	78,752
Urban redevelopment and housing	-	-	-	-	-	-	-	-	-	-	19,190
Total expenditures	<u>78,752</u>	<u>348,483</u>	<u>131,336</u>	<u>664,704</u>	<u>121,325</u>	<u>32,819</u>	<u>3,530</u>	<u>101,391</u>	<u>351,516</u>	<u>-</u>	<u>4,610,479</u>
Excess of revenues over (under) expenditures	<u>41,373</u>	<u>32,435</u>	<u>8,564</u>	<u>319,528</u>	<u>(119,218)</u>	<u>(32,819)</u>	<u>(1,745)</u>	<u>15,872</u>	<u>(44,782)</u>	<u>-</u>	<u>200,938</u>
OTHER FINANCING SOURCES (USES):											
Operating transfers in	-	-	-	-	99,957	35,000	-	-	-	-	134,957
Operating transfers out	-	-	-	(134,957)	-	-	-	-	-	-	(134,957)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(134,957)</u>	<u>99,957</u>	<u>35,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>41,373</u>	<u>32,435</u>	<u>8,564</u>	<u>184,571</u>	<u>(19,261)</u>	<u>2,181</u>	<u>(1,745)</u>	<u>15,872</u>	<u>(44,782)</u>	<u>-</u>	<u>200,938</u>
FUND BALANCES:											
Beginning of year	9,477	141,422	-	887,057	55,165	18,084	7,188	502,316	789,435	132,881	6,880,282
End of year	<u>\$ 50,850</u>	<u>\$173,857</u>	<u>\$ 8,564</u>	<u>\$1,071,628</u>	<u>\$ 35,904</u>	<u>\$ 20,265</u>	<u>\$ 5,443</u>	<u>\$518,188</u>	<u>\$744,653</u>	<u>\$132,881</u>	<u>\$7,081,220</u>

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

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

Combining balance sheet
June 30, 1984

	<u>Expendable Trust Fund</u>	<u>Temporary Deposits - Water Development</u>	<u>Agency Funds</u>			<u>Total</u>
<u>ASSETS</u>	<u>Donations, Gifts And Grant</u>	<u>Public Land Trust Fund</u>	<u>Temporary Deposits</u>	<u>Payroll Clearance</u>		
Cash with treasury	\$71,303	\$158,684	\$175,344	\$2,207,048	\$ -	\$2,612,379
Total	<u>\$71,303</u>	<u>\$158,684</u>	<u>\$175,344</u>	<u>\$2,207,048</u>	<u>\$ -</u>	<u>\$2,612,379</u>
<u>LIABILITIES AND FUND BALANCES</u>						
Liabilities:						
Vouchers and contracts payable	\$ -	\$ 4,591	\$172,224	\$ 26,355	\$ -	\$ 203,170
Due to individuals, businesses and counties	-	<u>154,093</u>	<u>3,120</u>	<u>2,180,693</u>	-	<u>2,337,906</u>
	-	<u>158,684</u>	<u>175,344</u>	<u>2,207,048</u>	-	<u>2,541,076</u>
Fund Balances:						
Reserved for Amounts Held In Trust	<u>71,303</u>	-	-	-	-	<u>71,303</u>
	<u>71,303</u>	-	-	-	-	<u>71,303</u>
Total liabilities and fund balances	<u>\$71,303</u>	<u>\$158,684</u>	<u>\$175,344</u>	<u>\$2,207,048</u>	<u>\$ -</u>	<u>\$2,612,379</u>

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

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
AGENCY FUNDS

Combining statement of changes in assets and liabilities
for the year ended June 30, 1984

	<u>Balance</u> <u>July 1, 1983</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 1984</u>
<u>TEMPORARY DEPOSITS - WATER</u>				
<u>DEVELOPMENT</u>				
<u>ASSETS</u>				
Cash with treasury	\$ 114,964	\$ 88,707	\$ 44,987	\$ 158,684
<u>LIABILITIES</u>				
Vouchers and contracts payable Due to individuals, businesses and counties	\$ 37 114,927	\$ 4,591 88,707	\$ 37 49,541	\$ 4,591 154,093
	<u>\$ 114,964</u>	<u>\$ 93,298</u>	<u>\$ 49,578</u>	<u>\$ 158,684</u>
<u>PUBLIC LAND TRUST FUND</u>				
<u>ASSETS</u>				
Cash with treasury	\$ 66,083	\$ 7,453,532	\$ 7,344,271	\$ 175,344
<u>LIABILITIES</u>				
Vouchers and contracts payable Due to individuals, businesses and counties	\$ 66,083 -	\$ 172,224 7,453,532	\$ 66,083 7,450,412	\$ 172,224 3,120
	<u>\$ 66,083</u>	<u>\$ 7,625,756</u>	<u>\$ 7,516,495</u>	<u>\$ 175,344</u>
<u>TEMPORARY DEPOSIT</u>				
<u>ASSETS</u>				
Cash with treasury	\$2,193,970	\$ 2,222,212	\$ 2,209,134	\$2,207,048
<u>LIABILITIES</u>				
Vouchers and contracts payable Due to individuals, businesses and counties	\$ 34,946 2,159,024	\$ 26,355 2,222,212	\$ 34,946 2,200,543	\$ 26,355 2,180,693
	<u>\$2,193,970</u>	<u>\$ 2,248,567</u>	<u>\$ 2,235,489</u>	<u>\$2,207,048</u>

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

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
AGENCY FUNDS

Combining statement of changes in assets and liabilities
for the year ended June 30, 1984

	<u>Balance</u> <u>July 1, 1983</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 1984</u>
<u>PAYROLL CLEARANCE</u>				
<u>ASSETS</u>				
Cash with treasury	\$ -	\$ 662,000	\$ 662,000	\$ -
<u>LIABILITIES</u>				
Due to individuals, businesses and counties	\$ -	\$ 662,000	\$ 662,000	\$ -
	<u>\$ -</u>	<u>\$ 662,000</u>	<u>\$ 662,000</u>	<u>\$ -</u>
 <u>TOTAL AGENCY FUNDS</u>				
<u>ASSETS</u>				
Cash	<u>\$2,375,017</u>	<u>\$10,426,451</u>	<u>\$10,260,392</u>	<u>\$2,541,076</u>
<u>LIABILITIES</u>				
Vouchers and contracts payable	\$ 101,066	\$ 203,170	\$ 101,066	\$ 203,170
Due to individuals, businesses and counties	<u>2,273,951</u>	<u>10,426,451</u>	<u>10,362,496</u>	<u>2,337,906</u>
	<u>\$2,375,017</u>	<u>\$10,629,621</u>	<u>\$10,463,562</u>	<u>\$2,541,076</u>

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

STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES
GENERAL FUND ACCOUNTS

Schedule of expenditures - budget and actual -
for the year ended June 30, 1984

<u>Functions</u>	<u>Actual Expenditures</u>	<u>Carryover Appropriations June 30, 1983</u>	<u>Appropriations June 30, 1984</u>	<u>Lapses Of Prior Appropriations</u>	<u>Expenditures Adjusted For Carryover Appropriations</u>	<u>Budgeted Appropriations</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Transfers And Other Credits</u>	<u>Lapses Of Current Appropriations</u>
Conservation of natural resources	\$ 5,341,586	\$6,704,665	\$ 828,446	\$5,774,409	\$ 5,239,776	\$ 5,540,432	\$ 300,656	\$ 66,258	\$366,914
Culture - recreation	5,167,276	605,457	526,360	50,066	5,138,245	5,345,551	207,306	26,710	234,016
Economic development and assistance	2,169,307	930,687	786,219	54,937	2,079,776	2,404,859	325,083	(21,472)	303,611
General government	907,755	10,888	205,254	17	1,102,138	874,994	(227,144)	256,138	28,994
Public safety	279,803	3,364	30,306	619	307,364	321,591	14,227	738	14,965
	<u>\$13,865,727</u>	<u>\$8,255,061</u>	<u>\$2,376,585</u>	<u>\$5,880,048</u>	<u>\$13,867,299</u>	<u>\$14,487,427</u>	<u>\$ 620,128</u>	<u>\$328,372</u>	<u>\$948,500</u>

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

Schedule of expenditures - budget and actual -
for the year ended June 30, 1984

<u>Function</u>	<u>Actual</u> <u>Expenditures</u>	<u>Nonbudgeted</u> <u>Expenditures</u> <u>(Actual)</u>	<u>Budgeted</u> <u>Expenditures</u> <u>(Actual)</u>	<u>Encumbrances</u>	<u>Expenditures</u> <u>Adjusted For</u> <u>Encumbrances</u>	<u>Budgeted</u> <u>Expenditures</u>	<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>
Conservation of natural resources	\$2,036,087	\$1,309,101	\$ 726,986	\$ 79,056	\$ 806,042	\$ 959,931	\$ 153,889
Culture - recreation	2,286,405	744,533	1,541,872	29,711	1,571,583	2,467,695	896,112
Economic development and assistance	190,045	-	190,045	82,273	272,318	236,704	(35,614)
Public safety	78,752	78,752	-	-	-	-	-
Urban redevelopment and housing	19,190	19,190	-	-	-	-	-
	<u>\$4,610,479</u>	<u>\$2,151,576</u>	<u>\$2,458,903</u>	<u>\$191,040</u>	<u>\$2,649,943</u>	<u>\$3,664,330</u>	<u>\$1,014,387</u>



PART III

RESPONSE OF THE AFFECTED AGENCY



COMMENTS ON AGENCY RESPONSES

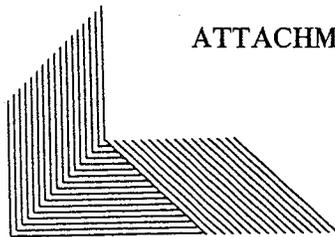
On January 10, 1985, copies of a preliminary draft report of this financial audit were transmitted to the Governor, the presiding officers of the Legislature, and the Department of Land and Natural Resources. A copy of the letter of transmittal to the department is included here as Attachment 1.

As is our practice, we invited the department to comment on the recommendations made in the report. The department responded by letter dated January 24, 1985, which is included here as Attachment 2. In the letter, the department makes reference to various exhibits, consisting of departmental procedures and communications. The exhibits have not been reproduced here, but they are available for public inspection in our office.

While the department disagrees with certain findings and recommendations, it concludes that the audit will benefit the department.

ATTACHMENT 1

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



CLINTON T. TANIMURA
AUDITOR

January 10, 1985

COPY

Mr. Susumu Ono, Chairman
Board of Land and Natural Resources
State of Hawaii
1151 Punchbowl Street
Honolulu, Hawaii 96813

Dear Mr. Ono:

Enclosed are two preliminary copies, Nos. 4 and 5, of our report on the *Financial Audit of the Department of Land and Natural Resources*. We call your attention to the recommendations affecting your department which are made in Chapter 3 of this report. If you have any comments on the recommendations, we ask that you submit them in writing to our office by January 24, 1985, for inclusion in the final report.

The Governor and the presiding officers of the Legislature have been provided with copies of this preliminary report.

Since the report is not in final form and there may be changes to it, access to this report should be restricted to those officials whom you might wish to call upon to assist you in the review of this report. Public release of the report will be made solely by our office and only after the report is published in its final form and submitted to the Legislature.

We appreciate the assistance and cooperation which the staff of your department extended to the auditors.

Sincerely,

Clinton T. Tanimura
Legislative Auditor

Enclosures

ATTACHMENT 2

GEORGE R. ARIYOSHI
GOVERNOR OF HAWAII



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

SUSUMU ONO, CHAIRMAN
BOARD OF LAND & NATURAL RESOURCES
EDGAR A. HAMASU
DEPUTY TO THE CHAIRMAN

DIVISIONS:
AQUACULTURE DEVELOPMENT PROGRAM
AQUATIC RESOURCES CONSERVATION AND RESOURCES ENFORCEMENT
CONVEYANCES
FORESTRY AND WILDLIFE LAND MANAGEMENT
STATE PARKS
WATER AND LAND DEVELOPMENT

January 24, 1985

Mr. Clinton T. Tanimura
Legislative Auditor
State of Hawaii
465 S. King Street, Room 500
Honolulu, Hawaii 96813

RECEIVED
JAN 24 9 54 AM '85
OFF. OF THE AUDITOR
STATE OF HAWAII

Dear Mr. Tanimura:

Thank you for your courtesy in forwarding to us the preliminary copies of the Financial Audit of the Department of Land and Natural Resources.

We have reviewed the preliminary report and offer our comments on your findings and recommendations. Where improvements are needed, we will make them and where we have reservations with the findings and recommendations, we will clearly state them.

We were pleased that a follow-up audit was conducted to assess the degree to which your 1979 findings and recommendations were implemented. Because the 1979 audit was such an extensive one, a "report card" indicating progress, or lack of it, is useful to us to guide us in administering the activities of the department.

While some of your 1985 audit findings tend to dispute our position, we have paid close attention to your previous 29 recommendations and have made improvements in all those areas of concern. Your citing of only seven deficiencies in the most recent audit seems to substantiate our contention. We intend to continue to take constructive actions until all necessary procedures are adopted and administered properly.

The following comments relate to the findings and recommendations contained in the 1985 audit report.

Reconciliation with Department of Accounting and General Services Records

Ever since the 1979 audit, we have been reconciling 1) the expenditure reports on a quarterly basis and 2) the revenue reports on a semi-annual basis. The scheduled reconciliation for December 1983, one period of reconciliation, was delayed because of personnel and program changes.

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The unreconciled amount of \$750,000, as reported in your findings, was discovered by our staff in our reconciliation action. This source code error did not affect our financial statements. No interest earnings were lost to the State due to delay in reconciliation. Regardless, we admit that reconciliation of revenue reports were being performed on a semi-annual rather than the required quarterly basis.

Our Administrative Services Office has amended its previous practice and is currently reconciling expenditure and revenue records on a quarterly basis.

We concur with your recommendation.

Income From Sand Island Lands Placed In Trust Fund For One Year

The 1979, and other audits, made no recommendations on our practice to keep for one year, earnings from certain lands on Sand Island in an established trust fund. This practice has been carried out for many years in order that obligations chargeable to the Sand Island earnings could be appropriately charged against revenues earned in the same year.

The use of this holding account does not result in any loss of interest earnings to the State since the cash is deposited immediately with the Department of Budget and Finance. Another consideration is that should the Sand Island earnings be credited directly to the State's general fund, our department may not be able to meet all obligations without resorting to using future collections or obtaining an appropriation from the Legislature for the specific payment. Should a legal determination be made that the Office of Hawaiian Affairs is entitled to 20% of the Sand Island earnings, we see a practical benefit in retaining the holding account process.

We will, however, consult with the State Comptroller to determine if this practice should be discontinued. We will adhere to whatever decision is rendered by the Comptroller.

Large Percentage of Delinquent Receivables

This general heading contains several subsections. We will comment on each of the subsections.

a) Past due receivables. We do not dispute the number shown in Table 3.1 which indicates the total delinquencies as of June 30, 1984. We disagree, however, in the manner which the numbers are explained, interpreted, and conclusions drawn.

The audit report states that a large percentage of the Department's receivables is delinquent, listing delinquencies, as of June 30, 1984 at \$1,229,000 out of a total of \$1,955,000 outstanding. This report gives a percentage figure of 62.9% as total delinquencies with 49.5% falling in the "90 days and over" category.

We wish to qualify that information, displayed in Table 3.1.

- 1) The report's delinquency total includes \$407,000 for eight (8) leases and permits which have been frozen in bankruptcy proceedings and on which we can take no action until cleared by the courts. A private enterprise most likely would have written them off, but we have not in the hope that at least some part of the amount can still be collected. This has happened in some cases. An example in point being a lease covering land in Hilo on which over \$100,000 was owing in 1983, \$69,245 owing on June 30, 1984, and \$27,114 owing on December 31, 1984. The reduction from over \$100,000 to the current amount was due to the efforts of the State to keep this delinquent account open and pursuing payment. We feel that these bankrupt accounts should not have been included in the delinquency totals or at least should have been footnoted and explained in the report.
- 2) Another \$312,000 consists of other older cancelled accounts that are in the hands of the Attorney General or private collection agencies, or in the process of being turned over to them. Many of these are probably uncollectible and would have been written off in a private enterprise.
- 3) If Table 3.1 is adjusted by removing the above bankrupt and cancelled accounts, the results would be as follows:

Lease and Permit Accounts Outstanding
 As of June 30, 1984

Status of Account	Amount	Percentage
Current	<u>\$ 726,000</u>	<u>58.5</u>
Delinquent:		
30-59 days	117,000	9.4
60-89 days	30,000	2.4
90 days and over	<u>368,000</u>	<u>29.7</u>
Total Delinquencies	515,000	41.5
TOTAL OUTSTANDING	\$1,241,000	100.0

Another way of displaying delinquencies as shown in the following table is by comparing current year delinquencies to total revenues for the same year. Our leases and permits generated revenues of almost ten million dollars in fiscal year 1983-84. If comparison is made of these revenues to only active current year delinquencies, the delinquency rate is 4.0 percent.

Lease and Permit Accounts Outstanding
 For the Fiscal Year Ended June 30, 1984

	Amount	Percentage
Delinquencies Incurred in FY 1983-84:		
30-59 days	\$117,000	1.2
60-89 days	30,000	0.3
90 days and over	<u>252,000</u>	<u>2.5</u>
Total Delinquencies	\$399,000	4.0
<hr/>		
Gross Revenues Received in FY 1983-84	\$9,968,000	100.0
<hr/>		
Ratio of Current Delinquencies to Annual Gross Revenues	$\frac{\$ 399,000}{\$9,968,000} =$	4.0%

Since experience has shown that certain types of delinquent accounts may result in full or partial payments if kept on the books beyond 90 days, we have been reluctant to write them off. Moreover, Section 40-82, HRS, specifies that no delinquent account can be deleted from the accounts receivable until it shall have been delinquent for at least two consecutive years.

The Board of Land and Natural Resources has a practice not to award leases or permits to anyone with an outstanding delinquent account with the department. In relation to this, an administration sponsored bill was introduced in the Legislature resulting in Act 25, SLH 1983, being enacted. This Act makes ineligible for five years anyone who has had a lease, permit or other contractual arrangement cancelled because of violation of the terms or conditions of his contractual arrangement, including rental payment.

The other side to reducing the delinquency rate is to eliminate or minimize the delinquencies from arising. We recognize this and have taken steps towards this end as will be discussed later.

b) Failure to take action on payments in default as specified by statute

Based on examination of ten leases the audit report concludes that the department has not improved in taking action against delinquent accounts since the 1979 audit. We do not agree. Since the 1979 audit, procedures have been established for service of notices of default and follow up action and there has been definite improvement. The district land agents are charged with this process and make personal contact in most cases before taking default action.

Attached you will find copies (Exhibits A through D) of the application and review procedures which were implemented in 1981 covering leases, revocable permits and executive orders. Also attached (Exhibits E and F) is a sample copy of the pre-signed notice of default which is sent out by the district agents when a lessee becomes delinquent and a sample copy of a cancellation recommendation to be made to the Board in the event the lessee does not cure the breach within the 60-day cure period. In addition, attached (Exhibit G) is a copy of the procedure for tenant eviction.

In addition, our Administrative Services Office, the billing agency, and the Land Management Division have coordinated efforts in this area thereby contributing to the more timely follow-up work on delinquent accounts.

As indicated, these procedures were adopted subsequent to the 1979 audit. The procedures are in place and operational. Undoubtedly, execution of the procedures can be improved, and we will continue to take steps to ensure that it does improve.

c) Absence of penalties on past due accounts

Based on the 1979 audit, we have requested and received legal advice from the Attorney General's Office that we cannot change interest penalties on leases which do not contain the interest penalty clause. We were also advised that Section 478-1, Hawaii Revised Statutes, does not apply to leases awarded by the Board of Land and Natural Resources.

In view of the 1979 audit and legal opinion, an administration sponsored measure was introduced in the 1982 session of the Legislature which became Act 109, SLH 1982, authorizing our department to charge interest at the rate of 1% per month on delinquent accounts. Consequently, current leases contain interest penalty clauses.

We have, therefore, complied with the recommendation of the 1979 audit.

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Federal Grant Reimbursement Requests Are Not Submitted In a Timely Manner

Under our current reporting system, federal reimbursement claims are submitted as soon as expenditure reports are available. Claims are usually made 6-9 weeks after the end of the quarter. The example used in the audit report showed that project claims were filed in the quarter following the quarter in which expenditures were made. We differ with your conclusion that such filing was untimely.

We do see improvements in this area resulting from the new State accounting system (FAMIS) being implemented where detailed reports will be available much sooner.

Checks Not Deposited In Timely Manner

Our Administrative Services Office receives approximately 725 checks a month or 8,700 for an entire fiscal year. In reviewing our daily mail listing for the audit period, July 1, 1983 to June 30, 1984, we discovered 5 checks ranging in amounts from \$7.65 to \$3,469.83 which were not immediately deposited because we were unsure of their source. That equates to 5 out of 8,700 or 0.06%. These are the checks which were either routed to the appropriate division or held in the fiscal office safe until its source code was determined.

The larger dollar amount checks are usually for federal grant reimbursements or court deposits for land acquisitions. These are routed to specific people within the fiscal office for depositing.

We concur fully with the intent of your recommendation but since we have not and do not expect to receive many unexpected or unusual checks, we will use a suspense account only if the particular circumstances dictate that course of action following consideration of factors such as dollar amount and expected time required to get proper deposit instructions. In effect, judgment will be exercised by considering the cost and benefit of going the suspense account route.

The Administrative Services Office will draft procedures for its internal use as well as for the divisions within the department to assure adherence to the policy of depositing checks as soon as possible.

Lack of Follow-up Procedures On Surety Bonds

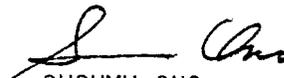
We do not agree with the finding that no follow-up procedures have been established to ensure that surety bonds remain in effect. As set forth previously we have established procedures on 1) Lease of Public Lands, 2) Revocable Permit, 3) Executive Orders, and 4) Eviction of Tenants. We have established check lists on Leases (Exhibit H) and Revocable Permits (Exhibit I).

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Our present procedure calls for inspection of affected files and land areas under leases and revocable permits at least once every 12-18 months. Since the adoption of this procedure, two rounds of inspections have been completed. The experience gained from these inspections will result in more meaningful post-inspection actions. At this time, we feel that the execution of these procedures should be done more efficiently and expeditiously and we shall take necessary steps for improvement.

As stated at the outset, we feel that in the overall the 1985 audit will benefit the department. Thank you for the opportunity to comment.

Sincerely,



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