

**FINANCIAL AUDIT OF THE
BOATING PROGRAM**

**Conducted by the
Office of the Legislative Auditor
State of Hawaii
and
Arthur Young & Company
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. 86-7
January 1986**

FOREWORD

This financial audit report is the result of an examination of the financial statements and records of the boating program of the Harbors Division, Department of Transportation for the fiscal year ended June 30, 1985. The audit was conducted by the Office of the Legislative Auditor and the certified public accounting firm of Arthur Young & Company.

This report is divided into three parts. Part I contains an introduction and some background information on the boating program. Part II presents our findings and recommendations on the boating program's financial and accounting practices. It also includes the program's financial statements and the audit opinion of 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 Transportation's 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 Transportation.

Clinton T. Tanimura
Legislative Auditor
State of Hawaii

January 1986

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PART I

INTRODUCTION AND BACKGROUND

Chapter 1
INTRODUCTION

This is a report of our financial audit of the boating program of the Harbors Division, Department of Transportation.

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. This audit was conducted by the Office of the Legislative Auditor and the certified public accounting firm of Arthur Young & Company.

Objectives of the Audit

The objectives of the audit were:

1. To assess the adequacy, effectiveness, and efficiency of the systems and procedures for the financial accounting, internal control, and financial reporting of the boating program of the Harbors Division, Department of Transportation; to recommend improvements to such systems, procedures, and reports; and to render an opinion on the reasonable accuracy of the financial statements of the boating program.

2. To ascertain whether expenditures and other disbursements have been made and all revenues and other receipts have been collected and accounted for in accordance with state laws, rules and regulations, and policies and procedures.

3. To ascertain the extent to which revenues for the boating special fund are sufficient to pay the costs of the boating program as provided under Section 266-20, HRS; and whether all costs attributable to the boating program are properly allocated.

Scope of the Audit

The audit encompassed the examination of the financial statements of the boating program for the period July 1, 1984 to June 30, 1985. The audit opinion regarding the fair presentation of the financial statements is that of the independent certified public accounting firm of Arthur Young & Company. The procedures performed also included reviews of the boating program's self-sufficiency and internal controls.

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 boating program.

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

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

Chapter 2

BACKGROUND

To effect more efficient and responsive administration of the boating program, the Legislature under Act 221, SLH 1976, reorganized the Harbors Division to include a separate branch whose sole purpose is to administer the state small boat harbors and the state comprehensive recreational boating program.

Under Section 266-21, Hawaii Revised Statutes, small boat harbors are used for recreational boating activities, the landing of fish, and commercial vessel activities. This statute further defines recreational boating activities to mean the use of watercraft for sports, hobbies, or pleasure, and commercial vessel activities to mean the use of vessels for activities or services provided on a fee basis. The latter, however, is not permitted in certain boat harbors. With regard to "liveaboards," those who reside on their boats, a limited number is permitted in designated boat harbors.

Activities of the Boating Program¹

The boating program's major activities consist of the following:

- . Improving and expanding the capacity of existing mooring and launching facilities.
- . Operating, administrating, maintaining, and policing boat harbors and launching ramps.

1. Hawaii, Department of Budget and Finance, *The Multi-Year Program and Financial Plan and Executive Budget For the Period 1985-1991 (Budget Period: 1985-87)*, Volume III.

- . Constructing new facilities.
- . Registering boats and maintaining a centralized vessel registration file.
- . Enforcing the boating law and departmental rules.
- . Regulating the commercial use of boating facilities.
- . Administering a marine casualty and investigation program.
- . Conducting public education in boating safety.

Size of the Boating Program

The size of the boating program is reflected in Table 2.1 which was compiled from the records of the boating program.

Table 2.1
Statistical Data for 1985

<i>Boating Program</i>	<i>Oahu</i>	<i>Maui/ Lanai</i>	<i>Molokai</i>	<i>Hawaii</i>	<i>Kauai</i>	<i>Statewide Total</i>
Number of facilities maintained:						
Small boat harbors	5	3	1	4	5	18
Launching ramps	21	7	1	10	11	50
Catwalks and piers	1,198	80	3	26	20	1,327
Other moorings	168	144	29	319	36	696
Number of registered vessels	9,158	1,159	189	1,633	983	13,122

To administer, operate, and maintain the various facilities listed in Table 2.1 and to provide related services, the boating program has approximately 50 employees.

Funding of the Boating Program

Pursuant to Section 266-20, the boating program is funded by the boating special fund. By law, revenues of the special fund must be at least sufficient to pay for the operations and maintenance of the boating program. Capital improvement

projects, however, are funded by both the boating special fund and the state general fund as authorized by the Legislature. For the fiscal year ended June 30, 1985, the boating special fund was able to maintain its self-sufficiency with an ending unreserved fund balance of \$142,526.

PART II

FINDINGS AND RECOMMENDATIONS

Chapter 3

FINANCIAL ACCOUNTING AND INTERNAL CONTROL

This chapter contains our findings and recommendations on the boating program's financial accounting practices and procedures, and system of internal control.

Summary of Findings

Our findings are as follows:

1. There are several vessel owners who are frequently delinquent in paying fees and charges owed to the boating program.
2. There are no sanctions for the failure to report on "liveaboard" status.
3. The cost of accounting services provided by the Harbors Division is not allocated to the boating program.
4. Controls over cash receipts are lacking.
5. Noncash security deposits are not properly recorded in the accounting records.
6. The boating program is not making effective use of petty cash funds to pay for small purchases.
7. There were weaknesses in the boating program's accounting system and procedures which included the failure to properly close general ledger accounts at the end of each fiscal year and the misclassification of accounting transactions.

Frequent Delinquent Accounts

The administrative rules of the boating program require that fees and charges be paid in advance without notice or demand on the first day of each month during the life of the use permit. After a grace period of 30 days, unpaid fees and charges are deemed to be delinquent. Service and collection charges are assessed on all delinquencies. The service charge accumulates at a rate of 1 percent per month, or 12 percent per annum, and the collection charge is \$2.50 per month.

Collection procedures call for a certified request for payment to be mailed to vessel owners who become delinquent in their payments. If a payment is overdue for more than 60 days, a letter of termination of the mooring permit is sent. During this period, the account is assigned to a collection agency. Subsequently, in the event that the fees and charges remain unpaid, Section 19-65-2 of the Hawaii Administrative Rules—Small Boat Harbors—provides for the impounding of the vessel. Table 3.1 summarizes the number and amount of delinquent accounts at June 30, 1985.

Table 3.1
Delinquent Accounts at June 30, 1985

<i>Delinquent Period</i>	<i>Number</i>	<i>Amount</i>
30 to 59 days	388	\$22,000
60 days and over	192	60,000
TOTAL	580	\$82,000

While the delinquencies over 60 days represent accounts whose mooring permits were terminated or pending termination and sent to the collection agency, our inquiry revealed that a number of delinquent accounts in the 30 to 59 days category are vessel owners who are frequently delinquent. These vessel owners usually manage to make their payments, including service and collection charges,

just in time to avoid any final action of termination or impoundment. Meanwhile, several months of effort are expended to pursue the delinquencies.

Vessel owners who are frequently delinquent should not be tolerated. Besides being an unnecessary burden on the boating program in terms of time and cost to maintain records and pursue collections, they deprive the boating program of timely collections of revenues which are essential to the boating program's objective of self-sufficiency. Regardless of whether payments are ultimately received, the mooring privileges of frequently delinquent vessel owners should be terminated, and other individuals on the mooring waiting list should be given the opportunity to enjoy the benefits of the boating program. Current rules do not permit such terminations if payments are eventually received.

Recommendation. We recommend that the department promulgate by rule the procedures and conditions under which frequent and repeated delinquencies in payment would constitute grounds for termination of tenancy.

Lack of Sanctions for the Failure to Report on Liveboard Status

Persons who utilize their boats moored in small boat harbors as a place of habitation for long or short periods of time are referred to as liveboards. Liveboards who use their vessels as their place of principal habitation are limited by statute to two of the State's small boat harbors. Currently, Ala Wai and Keehi small boat harbors have approximately 104 and 12 liveboards, respectively.

In addition to a regular mooring fee, the owner of a vessel, upon securing a principal habitation permit, must pay a principal habitation fee. This fee is twice the mooring fee for owners who are Hawaii residents and three times the mooring fee for nonresidents. The liveboard fee for short-term habitation is nominal. Fees

charged for all liveboards during the fiscal year ended June 30, 1985, were approximately \$250,000.

Liveboard status is determined primarily by the vessel owner's representation that the vessel will be used as a place of habitation. Existing rules, however, do not provide for any sanctions for the failure by vessel owners to report on their liveboard status. Without some form of penalty, there is no incentive for vessel owners to comply with the self-reporting requirement for liveboards.

We were informed by boating program personnel that, currently, based on their observation, there are about four or five vessel owners who may be using their boats as their principal place of habitation and are not paying the appropriate fee. This amounts to approximately \$1,000 of lost revenue per month. Also, these cases were estimated to have existed for over a year. Besides the absence of sanctions, the reasons given by the boating program for their failure to fully pursue any action against vessel owners who fail to report their liveboard status are the lack of available personnel and the lack of priority given to the problem.

Recommendation. We recommend that the rules be amended to provide for appropriate sanctions for the failure to report on liveboard status. We also recommend that some priority be given to strict enforcement of rules governing liveboard status.

Failure to Allocate Cost of Accounting Services

The Harbors Division is divided into two sections—the boating program and commercial harbors. Most personnel in the division perform work related to both the boating program and the commercial harbors sections. Additionally, some other expenditures paid by the division benefit both sections. Accordingly, these costs are allocated among both sections, which include operating and maintenance as well as

personal services. Such allocations are necessary to reflect the true cost of the boating program which has a legislative mandate for self-sufficiency.

We noted, however, that the cost of two accountants who maintain records for both the boating program and commercial harbors sections was not proportionately allocated to the boating program but instead was charged entirely to the commercial harbors section. The reason given for this nonallocation was that an allocation based on actual tasks performed would be very time-consuming. In this instance, where the work of the accountants are fairly regular and not subject to much variation, a standard allocation could be developed to allocate cost rather than use the time-consuming procedure of keeping the actual time involved. A standard allocation could be based on a representative sample of the work involved and, once established, this standard should remain constant until conditions change significantly.

Recommendation. We recommend that a standard allocation be developed to properly charge the boating program for its share of the cost of the two accountants who perform services for both the boating program and commercial harbors sections. This standard allocation should be reviewed periodically and adjusted as necessary.

Lack of Controls Over Cash Receipts

Under current procedures, mail is received and opened in the office services section. Mailed in cash receipts are then forwarded to the cashier in the fiscal office for processing and deposit. In addition to physically handling the receipts, the cashier also performs the recordkeeping function for receipts. This situation is contrary to a sound system of internal control which dictates that the recordkeeping function be performed by someone who does not have access to the cash receipts.

We understand, however, that due to the limited number of personnel, such segregation of duties is not practical. Under such circumstances, some alternate controls should be instituted. An alternative was proposed in a prior audit which recommended that the person who opens the mail prepare an adding machine tape listing of cash receipts. This listing was to be later checked on a periodic basis by someone other than the cashier against the deposits recorded in the accounting records and received by the bank. We were informed that these procedures had been implemented but were later suspended. The explanation given was that no errors were uncovered by these procedures and that it was too time-consuming to perform.

We believe, however, that the control procedure to compensate for the lack of segregation of duties should be maintained especially since it could be done on a limited test basis. The purpose of maintaining these control procedures is not only to detect errors, but more importantly, to serve as a deterrent to the potential misappropriation of cash receipts.

Recommendation. We recommend the resumption of control procedures over mail receipts which were implemented as a result of a prior audit and subsequently suspended.

Noncash Security Deposits Are Not Properly Recorded

Upon issuance of a use permit, a vessel owner is required to provide the boating program with a security deposit equal to two months' fees and charges. The deposit may be paid in currency or other acceptable form. Security deposits which are received in currency are deposited in the State Treasury and properly recorded in the accounting records. We noted, however, that noncash security deposits with a value of approximately \$5,000 are not recorded in the accounting records. These

noncash security deposits are stored in a locked vault and are in the form of savings passbooks and time certificates of deposits (TCDs) which may be redeemed by the State upon default by the vessel owner.

Control over security deposits is severely reduced when they are unrecorded. It is conceivable that a misappropriation would go undetected since there is no crosscheck as to what amounts should be on hand. Also, by not recording the amount of security deposits held, the financial records do not properly reflect the amount of funds under the control of the boating program.

We also noted that an inventory of noncash security deposits is not taken on a regular basis. During our examination, we found that one of the TCDs had matured in a prior year, and a current renewal was not obtained. Such a situation voids the value of the security deposit and the State's ability to be compensated in case of default.

Recommendation. We recommend that all forms of security deposits received be recorded in the accounting records. We also recommend that an inventory of noncash security deposits be taken each month to ensure that all such deposits are properly on hand and instruments with a maturity date are renewed on a timely basis.

Utilization of Petty Cash

Over the years, it has been the state administration's policy to encourage state agencies to pay their smaller bills from petty cash funds which are kept on hand and in checking accounts. Such use of petty cash funds would result in faster payments to vendors and likely cost savings by the State. Also over the years, we have noted the lack of improvement on the part of individual state agencies in making effective use of petty cash funds. As a result of this inaction, the Legislature enacted Act 281, SLH 1985, which made it mandatory that all payments

for goods or services of less than \$100 be made from petty cash funds. Act 281 also gives the State Comptroller the authority to establish a higher threshold for petty cash payments and to grant exceptions to the mandatory requirement.

The boating program has not made effective use of petty cash funds to pay its smaller bills. The program does not use a petty cash checking account but instead uses only a petty cash fund of \$1400 to make cash payments for a limited number of expenses under \$25. We understand that efforts are being made to comply with the requirements of Act 281. Once this is accomplished, it is estimated that approximately 40 percent of the boating program's disbursement for goods and services will be made through the petty cash fund system.

Recommendation. We recommend the continuation of efforts towards the effective implementation of Act 281, which requires payments for goods and services of less than \$100 to be made from petty cash funds.

Accounting Systems and Procedures

Our examination of the boating program's accounting systems and procedures revealed two weaknesses which are discussed in the following section.

General ledger accounts have not been properly closed. Upon the commencement of our audit of the boating program, we noted that the revenue and expenditure accounts in the general ledger had not been closed at the end of each fiscal year since the last audit was performed in 1979. The explanation given was that each year, in anticipation of an audit and the resultant adjusting journal entries, the accounts were left open. A fundamental procedure in any accounting system is to close the revenue and expense accounts at the end of each fiscal year so that each year will reflect only those transactions which occurred in that specific year. This closing should be done irrespective of an audit and the possibility of

adjusting journal entries. As a result of not performing this closing procedure, the revenue and expenditure account balances become an accumulation of several years of transactions. This causes the preparation of monthly financial reports during the year to be somewhat cumbersome.

Recommendation. We recommend that the general ledger of the boating program be closed at the end of each fiscal year. Any subsequent audit adjustments may be recorded as post-closing journal entries.

Misclassification of accounting transactions. During our examination of the accounting records, we noted several instances where accounting transactions were misclassified. This causes a distortion of the boating program's financial statements. Consequently, some nine adjusting journal entries were made as a result of this audit and recorded in the boating program's accounting records to correct misclassifications. We understand that the underlying problem was that the accounting system was established improperly in the past and has been perpetuated over the years. Additionally, no written documentation of proper accounting procedures exists.

Recommendation. We recommend that appropriate accounting personnel at the departmental or divisional level review the accounting practices and procedures of the boating program to ensure the proper classification of accounting transactions in the future.

Chapter 4

FINANCIAL STATEMENTS AND ACCOUNTANTS' OPINION

This chapter presents the results of the examination of the financial statements of the boating program of the Harbors Division, Department of Transportation, for the fiscal year ended June 30, 1985. It contains the opinion of Arthur Young & Company regarding the fair presentation of the boating program's financial statements. It also displays various financial statements of the boating special fund and the capital projects funds administered by the boating program, together with explanatory notes.

Summary of Finding

In the opinion of Arthur Young & Company, the financial statements present fairly the financial position of the boating program at June 30, 1985, and the results of its operations for the 1984-85 fiscal year.

Accountants' Opinion

Arthur Young & Company filed the following report on the financial statements with the Legislative Auditor:

"To the Legislative Auditor
State of Hawaii
Honolulu, Hawaii

We have examined the financial statements of the Harbors Division Boating Program, Department of Transportation, State of Hawaii, at June 30, 1985 and for the year then ended as listed below:

Balance sheet - Boating Special Fund, Capital Projects Funds
and General Fixed Assets account group (Exhibit A)

Statement of revenues, expenditures and changes in fund balances – Boating Special Fund and Capital Projects Funds (Exhibit B)

Statement of revenues and expenditures – Budget and actual – Boating Special Fund (non-GAAP budgetary basis) (Exhibit C)

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

The General Fixed Assets account group in the financial statements consists of cumulative balances for property and equipment. We were unable to satisfy ourselves as to the recorded amounts of general fixed assets.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine the balances recorded in the General Fixed Assets account group, the statements mentioned above present fairly the financial position of the Harbors Division Boating Program, Department of Transportation, State of Hawaii, at June 30, 1985, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the restatement, with which we concur, of fund balances as described in the notes to the financial statements.

/s/ Arthur Young & Company

September 13, 1985"

Descriptions and Definitions

Descriptions of financial statements. The following is a brief description of the financial statements examined by Arthur Young & Company. The financial statements are attached at the end of this chapter.

1. *Balance Sheet—Governmental Fund Types and Account Group (Exhibit A)*. This statement presents the assets, liabilities, and fund balances of all the funds used by the boating program.

2. *Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Fund Types (Exhibit B).* This statement presents the revenues, expenditures, and changes in fund balances for all the funds used by the boating program.

3. *Statement of Revenues and Expenditures—Budget and Actual—Boating Special Fund (Exhibit C).* This statement presents a comparison of budgeted and actual revenues and expenditures for the boating special fund used by the boating program.

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. *Allotted appropriations.* Authorization 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. *Encumbrance.* An obligation in the form of a purchase order or contract which is chargeable to an appropriation, the incurring of which sets aside the appropriation for the amount of the obligation.

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

5. *Personal services.* Salaries and wages paid to employees.

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

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

Notes to Financial Statements

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

Summary of significant accounting policies. The accounting policies of the Harbors Division boating program utilized in the accompanying financial statements for the year ended June 30, 1985, conform to generally accepted accounting principles. The following is a summary of the more significant policies:

1. *Fund accounting.* The accounts of the boating program are organized on the basis of funds and an account group, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements into two generic fund types within the governmental fund category and an account group as follows:

a. *Boating special fund.* The boating special fund generally accounts for revenues and expenditures for operations, maintenance, and administration of the boating program.

The boating special fund is a special revenue fund of the State established by Section 266–20, Hawaii Revised Statutes. All revenues collected under Section 266–21.1, HRS, are deposited into the boating special fund. The revenues consist primarily of mooring fees, residence service charges, rent for land and parking, commercial user fees, and fuel tax.

b. *Capital projects funds.* The capital projects funds account for the boating program's construction projects and the related sources of financing.

c. *General fixed assets account group (unaudited).* This group of accounts is established to account for all fixed assets of the boating program.

2. *Basis of accounting.* Except for the statement of revenues and expenditures—budget and actual—boating special fund (non-GAAP budgetary basis) Exhibit C, the accompanying financial statements are prepared on the modified accrual basis of accounting which is in accordance with generally accepted accounting principles (GAAP). Under the modified accrual basis, revenues are recorded on the accrual basis except for revenues not susceptible to accrual. Expenditures are recorded on the accrual basis except for (a) disbursements for inventory, (c) prepaid expenses, and (c) vacation and sick pay. These items are recorded as expenditures on the cash basis. Unpaid vacation and sick pay are not accrued in the boating program's funds unless amounts in excess of a normal year's expenditure are anticipated. Accumulated vacation and sick pay of the boating program's employees were approximately \$264,000 at June 30, 1985. The capital projects funds recognize funding as authorized expenditures are incurred.

3. *Budgets and budgetary accounting.* In the accompanying financial statements, amounts reflected as budgeted revenues are the official estimates as compiled by the Department of Budget and Finance at the time of budget consideration and adoption by the Legislature.

In the case of expenditures, the budgeted amounts reflected on Exhibit C are derived from: the Supplemental Appropriations Act of 1984 (Act 285, SLH 1984)—authorizations for expenditures for operating purposes for the boating program (\$3,552,971) and the allocated portions of authorizations for expenditures for departmental administration (\$74,000).

Appropriations are made and expenditures are controlled at the program level reflected on Exhibit C.

The reconciliation of the actual excess of revenues over expenditures as shown on Exhibit C (non-GAAP budgetary basis) to Exhibit B (GAAP basis) is as follows:

Excess of expenditures over revenues, non-GAAP budgetary basis	\$(366,176)
Operating transfers out to the state general fund for debt service	<u>386,365</u>
Excess of revenues over expenditures, GAAP basis	<u>\$ 20,189</u>

4. *Encumbrances.* The boating program's accounting procedures provide for the recording of commitments as encumbrances at the time contracts are awarded and executed. Purchase orders issued for materials, supplies, and services chargeable to annual appropriations for operating costs which are outstanding at the end of the year are also encumbered. Encumbrances are recorded as a reservation of fund balance.

5. *Employee benefits.* The boating program is included in the Employees' Retirement System which covers substantially all employees of the State. The boating program's contribution to the retirement system is included in expenditures in the financial statements of the boating special fund in the amount of approximately \$160,000. Information as to the actuarial present value of vested and nonvested accumulated plan benefits and the plan's net assets available for benefits is not separately determinable for the boating program's employees.

6. *Departmental administration.* The departmental administration expenditures represent the boating program's share of the operating costs incurred by the administrative functions of the Department of Transportation as determined by the department.

7. *Total column of financial statements.* The total column on the financial statements is captioned "memorandum only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or changes in fund balances in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Property and equipment (unaudited). General fixed assets are recorded as expenditures at the time of purchase. Such assets are also capitalized at cost in the general fixed assets group of accounts. Retirements, other than for certain equipment, are generally not recorded. Depreciation is not provided on general fixed assets. Property and equipment at June 30, 1985, are as follows:

Land	\$ 4,338,553
Buildings	985,359
Improvements other than buildings	20,092,750
Equipment	210,100
Construction work in progress	<u>2,277,190</u>
	<u>\$27,903,952</u>

Unreserved fund balance deficits. The capital projects funds had a deficit in the unreserved fund balance of \$248,790. The deficit represents amounts encumbered but not expended. This deficit will be funded from allotted appropriations as amounts encumbered are expended.

Restatement of fund balance. Fund balances of the boating special fund and the capital projects funds have been restated at July 1, 1984, as follows:

	<u>Boating Special Fund</u>	<u>Capital Projects Funds</u>
Fund balance before restatement	\$ 1,708,580	\$ 4,819,411
Adjustment for recognition of funding and related expenditures incurred	--	(4,810,269)
Reserve for delinquent fees and charges due	(282,720)	--
Classify as expenditures previously capitalized equipment purchases	(88,572)	--
Accrual of expenditures incurred	<u>(49,898)</u>	<u>(9,142)</u>
Fund balance as restated	<u>\$ 1,287,390</u>	<u>\$ --</u>

The fund balance of the capital projects funds at July 1, 1984, has been restated to reflect recognition of funding received from the State as authorized project expenditures are incurred. In prior years, recognition of funding was based on receipt of the State's notice of authority to incur expenditures (allotted appropriations).

Funding of capital projects. Funding of capital projects is recognized as authorized expenditures are incurred. The cash of \$100,038 in the capital projects funds represents the amount available to pay for contract liabilities incurred. Appropriations allotted during the year were \$958,000, of which \$475,000 is to be reimbursed to the general fund of the State as debt service payments. No reimbursement is required for the balance of \$483,000.

Allotted appropriations for capital projects which are unexpended and which have not lapsed totalled approximately \$1,721,000 at June 30, 1985. Such appropriations have not been recognized in the accompanying financial statements.

Other financing sources and uses. Operating transfers, accounted for in the statement of revenues, expenditures, and changes in fund balance as other financing sources and uses, are summarized as follows:

	<u>Boating Special Fund</u>	<u>Capital Projects Funds</u>
Funding of capital projects-- general obligation bonds	\$ --	\$ 2,742,817
Funding of Coastal Zone Management Program-- general fund	13,210	--
Reimbursement to the general fund for debt service	(386,365)	--
Other	<u>--</u>	<u>(18,489)</u>
	<u><u>\$(373,155)</u></u>	<u><u>\$ 2,724,328</u></u>

The Director of Finance has designated portions of the \$2,742,817 of the state general obligation bonds to be reimbursed from the boating special fund. These bonds are the general obligations of the State and are not included in these financial statements.

The total debt service payments, which includes interest of \$2,443,000, to be reimbursed to the general fund of the State by the boating special fund as of June 30, 1985, are as follows:

<u>Year ending June 30,</u>	
1986	\$ 424,000
1987	418,000
1988	425,000
1989	416,000
1990	399,000
Thereafter	<u>3,487,000</u>
	<u><u>\$5,569,000</u></u>

Debt service reimbursements are accounted for as "debt service" on Exhibit C (non-GAAP budgetary basis) and are accounted for as "operating transfers out" of the boating special fund on Exhibit B (GAAP basis). Reimbursement payments consisted of \$131,173 for principal and \$255,192 for interest for the year ended June 30, 1985.

EXHIBIT A

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
HARBORS DIVISION BOATING PROGRAM
BALANCE SHEET-GOVERNMENTAL FUND TYPES AND ACCOUNT GROUP
June 30, 1985

	<u>Boating Special Fund</u>	<u>Capital Projects Funds</u>	<u>General Fixed Assets Account Group (Unaudited)</u>	<u>Total (Memorandum only)</u>
<u>ASSETS</u>				
Cash:				
With Director of Finance, State of Hawaii	\$1,467,280	\$ 100,038	\$ -	\$ 1,567,318
Time certificate of deposit	110,000	-	-	110,000
Property and equipment	-	-	27,903,952	27,903,952
	<u>-\$</u>	<u>-</u>	<u>27,903,952</u>	<u>27,903,952</u>
Total assets	<u>\$1,577,280</u>	<u>\$ 100,038</u>	<u>\$27,903,952</u>	<u>\$29,581,270</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities:				
Accounts payable	\$ 39,498	\$ -	\$ -	\$ 39,498
Deferred revenue	149,150	-	-	149,150
Contracts payable	179,854	100,038	-	279,892
Deposits	274,354	-	-	274,354
	<u>642,856</u>	<u>100,038</u>	<u>-</u>	<u>742,894</u>
Total liabilities	<u>642,856</u>	<u>100,038</u>	<u>-</u>	<u>742,894</u>
Commitments				
Fund equity:				
Investment in general fixed assets	-	-	27,903,952	27,903,952
Fund balance:				
Reserved for encumbrances	791,898	248,790	-	1,040,688
Unreserved	142,526	(248,790)	-	(106,264)
	<u>934,424</u>	<u>-</u>	<u>-</u>	<u>934,424</u>
Total fund balance	<u>934,424</u>	<u>-</u>	<u>-</u>	<u>934,424</u>
Total fund equity	<u>934,424</u>	<u>-</u>	<u>27,903,952</u>	<u>28,838,376</u>
Total liabilities and fund equity	<u>\$1,577,280</u>	<u>\$ 100,038</u>	<u>\$27,903,952</u>	<u>\$ 29,581,270</u>

See accompanying notes.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
HARBORS DIVISION BOATING PROGRAM
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUND TYPES
Year ended June 30, 1985

	<u>Boating Special Fund</u>	<u>Capital Projects Funds</u>	<u>Total (Memorandum only)</u>
Revenues:			
Mooring fees	\$ 1,254,528	\$ -	\$ 1,254,528
Licenses, permits and fees	662,684	-	662,684
Rentals	695,905	-	695,905
Fuel tax	532,498	-	532,498
Interest income	21,712	-	21,712
Other	<u>141,552</u>	<u>-</u>	<u>141,552</u>
Total revenues	<u>3,308,879</u>	<u>-</u>	<u>3,308,879</u>
Expenditures:			
Personal service	1,030,808	-	1,030,808
Operating and maintenance	2,187,218	-	2,187,218
Departmental administration	70,664	-	70,664
Capital projects	<u>-</u>	<u>2,724,328</u>	<u>2,724,328</u>
Total expenditures	<u>3,288,690</u>	<u>2,724,328</u>	<u>6,013,018</u>
Excess (deficiency) of revenues over expenditures	<u>20,189</u>	<u>(2,724,328)</u>	<u>(2,704,139)</u>
Other financing sources (uses)			
Operating transfers in	13,210	2,742,817	2,756,027
Operating transfers out	(386,365)	-	(386,365)
Other	<u>-</u>	<u>(18,489)</u>	<u>(18,489)</u>
Total other financing sources (uses)	<u>(373,155)</u>	<u>2,724,328</u>	<u>2,351,173</u>
Excess of expenditures and and other financing uses over revenues and other sources	<u>(352,966)</u>	<u>-</u>	<u>(352,966)</u>
Fund balance at beginning of year, as restated	<u>1,287,390</u>	<u>-</u>	<u>1,287,390</u>
Fund balance at end of year	<u>\$ 934,424</u>	<u>\$ -</u>	<u>\$ 934,424</u>

See accompanying notes.

EXHIBIT C

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
HARBORS DIVISION BOATING PROGRAM
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL - BOATING SPECIAL FUND
(NON-GAAP BUDGETARY BASIS)
Year ended June 30, 1985

	<u>Budget</u>	<u>Actual</u>	Variance favorable (unfavorable)
Revenues:			
Mooring fees	\$2,016,000	\$ 1,254,528	\$(761,472)
Licenses, permits and fees	619,000	662,684	43,684
Rentals	597,000	695,905	98,905
Fuel tax	516,000	532,498	16,498
Interest income	15,000	21,712	6,712
Other	184,000	141,552	(42,448)
Total revenues	<u>3,947,000</u>	<u>3,308,879</u>	<u>(638,121)</u>
Expenditures:			
Personal service	1,018,851	1,030,808	(11,957)
Operations and maintenance	1,991,266	2,187,218	(195,952)
Departmental admini- stration	74,000	70,664	3,336
Debt service	542,854	386,365	156,489
Total expenditures	<u>3,626,971</u>	<u>3,675,055</u>	<u>(48,084)</u>
Excess of revenues over expenditures (expen- ditures over revenues)	<u>\$ 320,029</u>	<u>\$(366,176)</u>	<u>\$(686,205)</u>

See accompanying notes.

PART III

RESPONSE OF THE AFFECTED AGENCY

COMMENTS ON AGENCY RESPONSE

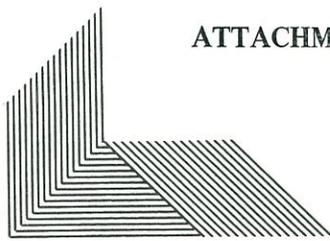
On December 20, 1985, copies of a preliminary draft report of this financial audit were transmitted to the Governor, the presiding officers of the Legislature, and the Department of Transportation. A copy of the letter of transmittal to the department is included here as Attachment 1. As is our practice, we invited the department to comment on the recommendations made in the report. The department responded by letter dated January 8, 1986, which is included here as Attachment 2.

The department agrees with most of the findings and recommendations in the report. The areas of agreement are our findings relating to the failure to allocate cost of accounting services, lack of controls over cash receipts, improper recording of noncash security deposits, ineffective use of petty cash, and weaknesses in accounting systems and procedures.

The department has expressed partial disagreement with our findings and recommendations relating to frequent delinquent accounts and the lack of sanctions for the failure to report on liveaboard status. In both cases, our report has recommended rule changes as a basis for more effective enforcement. However, the department believes that improvements in enforcement can be achieved within the framework of existing rules. Whatever approach is taken, we believe that it is encouraging that the department recognizes the need for effective enforcement in these two problem areas.

ATTACHMENT 1

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



CLINTON T. TANIMURA
AUDITOR

December 20, 1985

COPY

Mr. Wayne J. Yamasaki, Director
Department of Transportation
State of Hawaii
869 Punchbowl Street
Honolulu, Hawaii 96813

Dear Mr. Yamasaki:

Enclosed are two preliminary copies, Nos. 4 and 5, of our report on the *Financial Audit of the Boating Program*. We call your attention to the recommendations affecting your department which are made in Chapter 3 of the report. If you have any comments on the recommendations, we ask that you submit them in writing to our office by January 8, 1986, 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 the 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 extended to us.

Sincerely,

Clinton T. Tanimura
Legislative Auditor

Enclosures

ATTACHMENT 2

GEORGE R. ARIYOSHI
GOVERNOR

WAYNE J. YAMASAKI
DIRECTOR



DEPUTY DIRECTORS
JONATHAN K. SHIMADA, Ph.D.
WALTER T.M. HO
CHERYL D. SOON
ADAM D. VINCENT

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION

869 PUNCHBOWL STREET
HONOLULU, HAWAII 96813

IN REPLY REFER TO:

January 8, 1986

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RECEIVED
JAN 8 3 30 PM '86
OFC. OF THE AUDITOR
STATE OF HAWAII

MEMORANDUM

TO: Mr. Clinton T. Tanimura
Legislative Auditor

FROM: Director of Transportation

SUBJECT: PRELIMINARY REPORT ON THE FINANCIAL AUDIT OF THE
BOATING PROGRAM

Thank you for the opportunity to review the preliminary report on the Financial Audit of the Boating Program.

Our comments on the recommendations made in Chapter 3 of the report are as follows:

- a. Frequently delinquent accounts. Recommendation:
"We recommend that the department promulgate by rule the procedures and conditions under which frequent and repeated delinquencies in payment would constitute grounds for termination of tenancy."

Title 19, Hawaii Administrative Rules, Small Boat Harbors, Sections 19-62-1, and 19-62-5 contain the provisions employed by the Department to address the problem of chronic delinquencies. The last sentence of Section 19-62-1 states "The department reserves the right to restrict the use of state property or facilities to those who observe these rules and make full and timely payment of their fees and charges." Section 19-62-5 provides that no permits are valid for more than one year. Although these sections do not provide for the termination of a permit, it has been our experience that the Department is more likely

to prevail in legal complaints brought against the State when the provisions of these rules are used to deny the reissuance of a permit, as compared to those cases where action was taken by the Department to terminate an existing permit. The Department generally concurs with the findings concerning chronic delinquencies, however, it is believed that existing provisions of our rules provide adequate means for addressing the problem. We would suggest that the present recommendation be revised to have the Department develop administrative procedures for closer review of delinquent accounts in order to make more effective use of established rules to reduce the number of accounts which are repeatedly delinquent.

- b. Sanctions for failure to report liveaboard status. It appears that the auditors may not have been aware of the legal constraints under which the Department must act in order to successfully prevail in terminations of mooring permits for failure to comply with the existing rules governing staying aboard or living aboard (Sections 19-62-26 and 19-62-28, Small Boat Harbors Rules). It has been our experience that the vast majority of termination actions for failure to comply with these rules results in legal action against the Department to prevent such termination, and therefore, our procedures in addressing this problem are tempered by court rulings in previous cases. For example, an existing judgment against the Department restricts boarding of a vessel for the purpose of enforcing liveaboard rules to daylight hours only. Through another case, a citation for violation of the liveaboard provisions of the rules was found to be inadequate cause for issuing notice that further violations will result in termination proceedings under Section 19-62-6 of Small Boat Harbors rules. As a result, a vessel owner now must be found guilty of the first violation before formal notice to cease and desist from further violations can be given, and also must be found guilty of the second violation in order to meet the requirements for successful termination. Additionally, the courts have also allowed previous court rulings in landlord-tenant law cases to be argued in defense of the vessel

owners. The Department now works closely with the Attorney General's Office in all cases involving termination of mooring permits for liveaboard violations to ensure that such terminations can withstand all legal challenges. The patience and persistence demonstrated in pursuing these cases have resulted in a very high percentage of judgments in favor of the Department, which has in turn proved much more effective in gaining voluntary compliance by the boating public than the past practice of several years ago of bringing more cases to court but with a less than 50% success rate. Our present success rate has also resulted in a much higher sophistication on the part of those vessel owners who are intent on avoiding detection of overt violation of liveaboard requirements.

We concur with the findings that there ^{are} about four or five people who are suspected of living aboard, and the lack of available personnel has hampered our ability to gather sufficient evidence to sustain a citation for violation of existing laws in court. The lack of available personnel has also resulted in the necessity for a higher priority being given to enforcement of those rules which promote safety, health and welfare of those using our facilities. The lower priority assigned to enforcement of liveaboard violations is only relative in nature. There was no intention of implying that we consider enforcement of liveaboard violations to be unimportant.

We do not concur with the finding that there are no sanctions for failure to report liveaboard status. This would be a violation of the provisions of Section 19-62-6(b), which would be cause for termination of the mooring and principal habitation permits upon conviction. A citation for violation of this section is usually issued as an accompanying charge to violation of Section 19-62-28 (staying aboard without a permit), as the amount and type of evidence necessary to prove that a person was actually living aboard is much more difficult to gather than the evidence necessary to prove a charge of violation of the provisions of Section 19-62-28. It has also been our experience that the courts are prone to give defendants the benefit of doubt in citations issued for violations of Section 19-62-6(b), and quite often accept "administrative oversight" as a suitable defense against this charge.

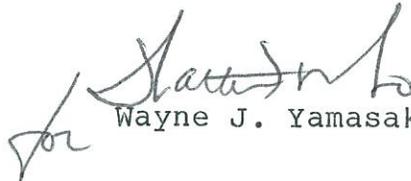
Mr. Clinton T. Tanimura
January 8, 1986
Page 4

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2302

We do not foresee a need to amend the existing rules to establish a failure to report on liveaboard status as a separate offense. We do concur, however, in the need for the Department to maintain vigorous efforts to enforce the rules pertaining to living aboard and the collection of liveaboard fees.

Copies of Sections 19-62-1, 19-62-5, 19-62-6, 19-62-26 and 19-62-28, Hawaii Administrative Rules, Small Boat Harbors, are enclosed for your ready reference.

The Department has no comments or recommendations concerning the remainder of the findings and recommendations of this report. We concur that the findings accurately reflect the practices and procedures in effect at the time of the audit, and we are proceeding to implement the accompanying recommendations to the maximum extent possible within existing resources.


Wayne J. Yamasaki

Enclosures

SUBCHAPTER 1

USE OF SMALL BOAT HARBORS

§19-62-1 General statement and restrictions on mooring dormant vessels. It is the policy of the department that the moorings in the state small boat harbors be used for the purposes of accommodating vessels used for recreational boating activities involving transportation on water or for the landing of fish. Therefore, occupancy of berths at any small boat harbor shall be limited to vessels actively utilized as a means of transportation on water. The use permit relating to any dormant vessel shall be revoked as provided in section 19-62-6 unless the owner presents valid evidence to the department that the vessel is temporarily dormant due to circumstances beyond the owner's control. The owner shall remove the dormant vessel from the harbor upon revocation of the use permit. The department reserves the right to restrict the use of state property or facilities to those who observe these rules and make full and timely payment of their fees and charges. [Eff. NOV 05 1991] (Auth: HRS §266-21.1) (Imp: HRS §266-21.1)

§19-62-2 Agreement for use of harbor property and facilities. Before any property or facility at a small boat harbor is utilized by any vessel, its owner shall execute an agreement appropriately conforming to the description provided in Exhibit "A", June 1, 1981, located at the end of this chapter, obtain the approval of the department which shall be evidenced by an endorsement on the agreement to that effect and follow such other procedures and requirements as may be established by the department to facilitate effective management of such agreements and permits, provided that nothing contained herein shall be construed to restrict the department's power to waive the requirements of this section in the case of trivial and infrequent uses of state property or facilities, or as the circumstances may warrant. For the purpose of this section, a lessee under a lease not intended as security is not an "owner". [Eff. NOV 05 1991] (Auth: HRS §266-21.1) (Imp: HRS §§266-21, 266-21.1)

§19-62-3 Use permits; issuance. The term "use permit" as used in these rules means the term "agreement" described in section 19-62-2. Use permits may be issued for the following respective uses:

- (1) Mooring permit. A use permit authorizing the docking, mooring, or anchoring of a vessel at a small boat harbor:

Use permits shall be issued only after a determination by the department that all applicable laws have been complied with and that the fees and charges payable at the time of the issuance or reissuance of a permit have been paid. [Eff. NOV 05 1981] (Auth: HRS §266-21.1) (Imp: HRS §266-21.1)

§19-62-4 Use permits; part-time or intermittent occupancy. No use permit for docking, mooring, or anchoring a vessel at a small boat harbor shall be issued to any person who has the privilege of mooring the same vessel at any other small boat harbor, or a private marina or yacht club situated in the State, provided that a use permit may be issued to permit the vessel to temporarily occupy a berth in any small boat harbor but such temporary use shall not confer any rights to retain the berth upon expiration of the temporary use permit. [Eff. NOV 05 1981] (Auth: HRS §§226-21, 266-21.1) (Imp: HRS §266-21.1)

§19-62-5 Period of validity and renewal of use permit. The department may issue or renew a use permit for any period up to, but not exceeding one year. Upon expiration of the period stated therein, the permit and all rights of the permittee thereunder shall automatically terminate. No use permit shall be renewed unless all the conditions or covenants of the original issuance, including the requirement of prompt monthly payment of charges in advance have been met and the rules governing small boat harbors of the department of transportation have been fully complied with. [Eff. NOV 05 1981] (Auth: HRS §266-21.1) (Imp: HRS §266-21.1)

§19-62-6 Revocation of use permit. (a) If after notice and lapse of a reasonable period of time, the permittee fails to remedy any breach of the duties, covenants or conditions of the permit or to desist from violating or permitting violation of these rules, the department may revoke the permittee's use permit.

(b) In addition to the foregoing, the department may revoke a use permit for a deliberate misstatement or willful failure to disclose any material fact in an application for a vessel number, documentation, registration of a vessel, or any of the use permits specified in section 19-62-3. [[Eff. NOV 05 1981] (Auth: HRS §266-21.1) (Imp: HRS §266-21.1)

§19-62-26 Use of a vessel as a place of principal habitation.

(a) A vessel owner who holds a valid regular mooring permit issued by the department authorizing the owner to moor the owner's vessel in Ala Wai or Keehi boat harbor may use that vessel as a place of principal habitation if the owner has applied for and secured:

- (1) A principal habitation permit; and
- (2) A harbor resident permit issued by the department in accordance with these rules, provided that the owner and the vessel meet the requirements set forth in these rules.

(b) A permit authorizing the use of a vessel as a place of principal habitation shall not be issued if the vessel is owned by a corporation.

(c) No person shall be issued a permit authorizing the use of any vessel as a place of principal habitation while the vessel is moored at the following locations in Ala Wai boat harbor:

- (1) Berths 23 through 79;
- (2) The area leased to the Waikiki Yacht Club;
- (3) The area leased to Texaco, Inc.;
- (4) The area leased to Ala Wai Marine, Ltd.; and
- (5) The moorings adjacent to the breakwater.

(d) A vessel owner may utilize the owner's vessel as a place of principal habitation while moored in the area leased to the Hawaii Yacht Club if the owner has applied for and holds a valid principal habitation permit and harbor resident permit issued by the department in accordance with these rules.

(e) Only the vessel owner, co-owner, the spouse of each, and their legal dependents may be issued a harbor resident permit.

(f) The owners of no more than 129 vessels moored at Ala Wai boat harbor shall be issued permits to use their vessels as a place of principal habitation. The owners of no more than thirty-five vessels moored at Keehi boat harbor shall be issued such permits. Any vessel used as a place of principal habitation that is temporarily absent from its moorings shall continue to be considered as one of the vessels being used as a place of principal habitation if the owner retains a principal habitation permit as provided in section 19-62-11. [Eff. NOV 05 1981] (Auth: HRS §§266-2, 266-21.1) (Imp: HRS §§266-2, 266-21, 266-21.1)

§19-62-27 Allocation of principal habitation permits. (a) Application for a principal habitation permit; period of validity; renewal of application.

- (1) The first owner to file an application may be offered a principal habitation permit as described under subsection (e) if the maximum

- (5) Since time is of the essence, the offer delivered or mailed to an applicant pursuant to subsection (f) shall contain a statement that the offer will lapse unless accepted in accordance with the procedures of this section. [Eff. NOV 05 1981] (Auth: HRS §§266-2, 266-21.1) (Imp: HRS §§266-2, 266-21, 266-21.1)

§19-62-28 Staying aboard vessels moored at Ala Wai or Keehi boat harbor. Staying aboard a vessel moored at Ala Wai or Keehi boat harbor is prohibited except as provided below:

- (1) Owners holding a valid regular mooring permit, the spouse of each, their legal dependents and their nonpaying guests may stay aboard the vessel without a use permit upon written notification to the department on or before the date of stay and the period does not exceed three nights in any week and a total of ninety nights in any calendar year, including vessel use as a vacation site.
- (2) Staying aboard a vessel in excess of three nights in any week when done in accordance with a valid:
- (A) Stay aboard permit issued pursuant to section 19-62-22 (staying aboard transient or visiting vessels); or
 - (B) Stay aboard permit issued pursuant to section 19-62-29 (vessel used as a vacation site); or
 - (C) Stay aboard permit issued to a vessel owner holding a valid principal habitation and harbor resident permit authorizing a nonpaying bona fide guest to stay aboard the owner's vessel for a period not to exceed thirty days in a calendar year; or
 - (D) Harbor resident permit issued pursuant to the provisions of section 19-62-26 (use of vessel as a place of principal habitation).
- [Eff. NOV 05 1981] (Auth: HRS §§266-2, 266-21.1) (Imp: HRS §§266-2, 266-21)

§19-62-29 Vessel used as a vacation site. (a) Staying aboard a vessel moored in Ala Wai or Keehi boat harbor during a vacation is authorized but limited to owners holding valid regular mooring permits authorizing them to moor their vessels in the harbor, the spouse of each, their legal dependents and nonpaying guests provided that: