

## Legislative Auditor

# OVERVIEW

## FINANCIAL AUDIT OF THE HAWAIIAN SUGAR PLANTERS' ASSOCIATION

Honolulu, Hawaii

December 1989

### Summary

The Hawaiian Sugar Planters' Association was established in 1882 to protect and support Hawaii's sugar industry. It is a voluntary, nonprofit organization whose members, both companies and individuals, either grow sugarcane as a business or manage the operations of the industry.

Since 1982, the Legislature has appropriated \$16,500,000 to the HSPA to help with sugar research and development costs. The state has paid most of this money under a contract between the association and the Governor's Agriculture Coordinating Committee. The contract requires HSPA to match state funds and submit quarterly expenditure reports that detail matching

expenditures. For FY 1988-89, HSPA expended \$3,544,522 as against the state's \$2,970,000.

At the request of Senate Concurrent Resolution No. 179, the Office of the Auditor performed a financial audit of the organization, with the services of Peat Marwick Main & Company. HSPA has complied with the contract provisions with the state, and except for a few weaknesses, the accounting records are well maintained. However, the process of appropriating funds to the HSPA, a private organization, should be subject to the provisions of the statutes that govern the public funding of private agencies.

### FINDINGS

*HSPA has complied in all respects with its contract provisions with the State.*

*Accounting records are well maintained, and except for a few weaknesses, internal controls are adequate. HSPA needs a mechanism that will detect errors in recording transactions and prevent concealment of irregularities. It could improve accountability over equipment, better document the travel expenses of the Washington D.C. office, and more adequately monitor entry to the electronic data processing office.*

*The process of appropriating funds to the HSPA, a private organization, has not been subject to the*

*provisions of Chapter 42 of the Hawaii Revised Statutes, which sets forth the statutory requirements under which grants, subsidies, and purchases of service are granted to private organizations. It appears that the appropriation to HSPA falls under the definition of a grant.*

### RECOMMENDATIONS

*Accounting records and internal controls can be improved by (1) segregating duties so that no one person handles all phases of a transaction, (2) tagging equipment and recording the descriptions and identification numbers, (3) requiring Washington D.C. office personnel to justify travel expenses, and (4) securing entry to the data processing office.*

*The Governor's Agriculture Coordinating Committee should ask the Department of the Attorney General to clarify whether the appropriation to HSPA is a grant subject to the provisions of Chapter 42.*

### RESPONSE

*The HSPA stated that it has taken corrective action to comply with all recommendations that affect their financial accounting and internal control systems. The Governor's Agriculture Coordinating Committee said it will seek clarification as to whether the appropriation provided to HSPA is in fact a grant subject to the provisions of Chapter 42, HRS.*