

**FINANCIAL AUDIT OF THE
DEPARTMENT OF HAWAIIAN HOME LANDS**

**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. 86-13
February 1986**

FOREWORD

This financial audit report is the result of an examination of the financial statements and records of the Department of Hawaiian Home Lands 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 Coopers & Lybrand.

This report is divided into three parts. Part I contains an introduction and some background information on the Department of Hawaiian Home Lands. 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 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 response of the Department of Hawaiian Home Lands 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 Hawaiian Home Lands.

Clinton T. Tanimura
Legislative Auditor
State of Hawaii

February 1986

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PART I

INTRODUCTION AND BACKGROUND

Chapter 1

INTRODUCTION

This is a report of our financial audit of the Department of Hawaiian Home Lands. 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 the 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 expenditures and other disbursements have been made and all revenues and other receipts to which the State is entitled have been collected and accounted for in accordance with 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 the Department of Hawaiian Home Lands for the period July 1, 1984 to June 30, 1985. 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 background information on the department.

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 department. It also includes the department's financial statements and the accountants' opinion on such statements.

Part III contains the response of the Department of Hawaiian Home Lands to our recommendations, together with our comments on the department's response.

Chapter 2

BACKGROUND

This chapter describes the responsibilities and organization of the Department of Hawaiian Home Lands.

Responsibilities of the Department¹

The Department of Hawaiian Home Lands was established by Section 24 of Act 1 (the Hawaii State Government Reorganization Act of 1959), Second Special Session Laws of Hawaii 1959. The department is responsible for the administration of the Hawaiian Homes Commission Act, 1920, enacted by the United States Congress. The Hawaiian Homes Commission Act sets aside certain public lands as Hawaiian home lands to be utilized in the rehabilitation of native Hawaiians. It defines native Hawaiian as "any descendant of not less than one-half part of the blood of the race inhabiting the Hawaiian Islands previous to 1778."

The Hawaiian Homes Commission Act provides direct benefits to native Hawaiians in the form of 99-year homestead leases at an annual rental of \$1. Homestead lease awards are for residential, agricultural, or pastoral uses. The intent of the homesteading program is to increase the economic self-sufficiency of native Hawaiians through the provision of land. Other benefits provided by the Hawaiian Homes Commission Act include financial assistance through direct loans

1. An overview of the Department of Hawaiian Home Lands presented by Georgiana K. Padeken, Chairman, Hawaiian Homes Commission, Legislative Orientation Session, December 28, 1984.

or loan guarantees for construction of homes, for making improvements, additions, or repairs to existing homes, and for ranching and farming; technical assistance to farmers; and the operation of water systems.

The Native Hawaiian Rehabilitation Fund, authorized by the 1978 amendments to the Hawaii State Constitution, enables the department to help native Hawaiians by providing educational and business training grants, technical assistance and consultation, loans for economic development, and other projects directed at the rehabilitation of native Hawaiians. This fund receives 30 percent of the state receipts derived from lands previously cultivated as sugarcane land and from water licenses.

The department is also authorized to award non-homestead leases for commercial, industrial, and other purposes and to issue revocable permits, licenses, right-of-entry, and easements. Revenues from these services are used first to meet the cost of operating the department and then for direct benefits for native Hawaiians.

Organization of the Department

The organizational components of the Department of Hawaiian Home Lands are the Hawaiian Homes Commission, operating divisions, and Office of the Chairman.

Commission. The department is headed by an eight-member executive board known as the Hawaiian Homes Commission. The Chairman of the Commission, appointed by the Governor and confirmed by the Senate, serves in a full-time capacity as the director of the department. The other seven commissioners, also appointed by the Governor with Senate confirmation, serve on a voluntary basis. The law provides that three commissioners be from Oahu and one each from the

islands of Hawaii, Maui, Molokai, and Kauai. The Commission formulates policy and exercises control over the functions of the department mandated by the Hawaiian Homes Commission Act, 1920, as amended.

Operating divisions.² The operating divisions carry out the programs of the department. These operating divisions and their activities are as follows:

1. **Land Management Division.** This division manages approximately 187.6 thousand acres of land under the control of the department. It is responsible for the development of Hawaiian home lands for homestead awards and to generate income for the department's expenses.

2. **District Management Division.** This division is primarily involved with direct servicing of homestead lessees and applicants for homestead leases. Additionally, this division manages the loan portfolio.

3. **Native Hawaiian Development Office.** This office is responsible for the economic development, community development, and special project programs which are designed to improve the general welfare and condition of native Hawaiians.

Office of the Chairman.³ The Office of the Chairman provides overall support services to the Commission and the operating divisions of the department. Under this office are the following staff offices.

1. **Fiscal Office.** This office is responsible for providing all fiscal services for the department.

2. Hawaii, Department of Hawaiian Home Lands, *'Aina Ho'opulapula, 1983-84 Annual Report*, pp. 16-27.

3. Hawaii, Department of Hawaiian Home Lands, *Updated Functional Statements as of June 30, 1984*, pp. 2-13.

2. *Staff Services Office.* This office provides general support, program planning and budgeting, public information, internal management assistance, and personnel services for the department. This office also acts as the department's liaison between state and county agencies.

PART II

FINDINGS AND RECOMMENDATIONS

Chapter 3

FINANCIAL ACCOUNTING AND INTERNAL CONTROL

This chapter assesses the financial accounting and internal control system of the Department of Hawaiian Home Lands.

Summary of Findings

1. Through several years of exhaustive efforts, the department has reduced the amount of long-standing differences between the department's and the Department of Accounting and General Services' loan receivable records to the point where such differences are now immaterial. The department's continued efforts to reconcile the remaining differences would not be cost-effective.

2. The department is not making effective use of petty cash funds to pay for small purchases.

Discrepancies Between the Department's and the Department of Accounting and General Services' Records

The department has had a long history of discrepancies between the amounts shown in the department's loan receivable records and the amounts reflected in the records maintained by the Department of Accounting and General Services. The discrepancies between the records have been reported in previous audits conducted of the department in 1967 by our office, 1972 by the State Comptroller, and again in 1978 by our office. In the latter audit, Main Lafrentz & Co., Certified Public Accountants, was unable to issue an audit opinion on the department's loan fund

financial statements primarily because of the large differences between the records, which totaled over \$400,000.

During our current examination, we noted that the department has expended exhaustive efforts over the past several years to reduce the amount of discrepancies. While the records are still out of balance, the differences are no longer significant enough to affect the issuance of an audit opinion on the department's financial statement. The differences have been reduced to approximately \$76,000, of which \$64,000 have been identified and are in the process of being corrected by the department. Some \$12,000, however, remain unreconciled.

At the time of our audit, we noted that the department was still continuing its efforts to identify and investigate the remaining differences. While such efforts are commendable, we believe that it is no longer cost-effective to expend further efforts in this area. This is because the department has made sufficient progress in reducing the differences to an immaterial amount, and further reconciliation efforts would be marginal or futile.

Recommendation. We recommend that the department, in consultation with the Department of Accounting and General Services, make the necessary adjustments to eliminate the remaining unreconciled differences between the department's and the Department of Accounting and General Services' loan receivable records.

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 and 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 department has not made effective use of petty cash funds to pay its smaller bills. The department does not use a petty cash checking account but instead uses only a petty cash fund of \$900 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 47 percent of the department's disbursement for goods and services will be made through the petty cash fund system.

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

Chapter 4

FINANCIAL STATEMENTS AND ACCOUNTANTS' OPINION

This chapter presents the results of the examination for the financial statements of the Department of Hawaiian Home Lands for the fiscal year ended June 30, 1985. 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 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, 1985, and the results of operations of the department's 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 Hawaiian Home Lands (DHHL) as of June 30, 1985, 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 (Exhibit B)

Combined statement of revenues and expenditures – budget and actual – special revenue funds (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.

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 Hawaiian Home Lands as of June 30, 1985, and the results of operations of the department's 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 Schedule I are presented for purposes of additional analysis and are not a required part 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
September 27, 1985"

Descriptions and Definitions

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

1. *Combined balance sheet—special revenue, trust and agency funds (Exhibit A).* This statement presents the assets, liabilities, 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 (Exhibit B).* This statement presents revenues and expenditures for each type of fund used by the department on an aggregate basis. It also presents changes in fund balances for the department's combined special revenue and trust funds.

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

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

7. *Agency fund—statement of changes in assets and liabilities (Exhibit G).* This statement presents the activity of the individual agency fund maintained by the department.

8. *Special revenue funds—schedule of expenditures—budget and actual (Schedule I).* 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. 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. 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.

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 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 two major categories of fund types. The categories and the funds within each are described briefly below.

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

a. Section 213(a) of the Hawaiian Homes Commission Act, 1920, as amended, established the following seven revolving loan funds:

- . Hawaiian Home Loan Fund—The moneys in this fund are used to make loans to native Hawaiians to whom a lease or license was issued

under Section 207 of the act for the repair, maintenance, purchase, or construction of dwellings and other permanent improvements; for the purchase of livestock, farm, and aquaculture equipment and supplies; to assist in the development of tracts and of farm, ranch, and aquaculture operations; and other purposes enumerated in Section 214 of the act. The maximum amount which may be loaned to a lessee is \$50,000 for a maximum term of 30 years with interest at the rate of 2.5 percent a year.

This fund is financed by receipts for the leasing of cultivated sugarcane lands and from water licenses. Section 213 of the act requires that 30 percent of the state receipts derived from the leasing of cultivated sugarcane lands or from water licenses be deposited into this fund until the aggregate amount of this fund equaled \$5,000,000.

Receipts in excess of the ceiling are transferred as follows: 13 percent to the Hawaiian Home Development Fund, 15 percent to the Additional Receipts Loan Fund, and 72 percent to the Hawaiian Home Education Fund provided that the aggregate amount transferred does not exceed the maximum amount of \$5,000,000.

Any interest or other earnings arising out of investments from this fund are credited to and deposited into the Hawaiian Home Operating Fund.

Additional Receipts Loan Fund—The moneys in this fund are used to make loans to native Hawaiians to whom a lease or license was issued under Section 207 of the act for the repair, maintenance, purchase, or construction of dwellings and other permanent improvements; for

the purchase of livestock, farm, and aquaculture equipment and supplies; to assist in the development of tracts and of farm, ranch, and aquaculture operations; and other purposes enumerated in Section 214 of the act. The maximum amount which may be loaned to a lessee is \$50,000 for a maximum term of 30 years with interest at the rate of 2.5 percent a year.

This fund receives 15 percent of the receipts in excess of the present ceiling in the Hawaiian Home Loan Fund of \$5,000,000.

- . Hawaiian Home General Loan Fund—The moneys in this fund are used to make loans to native Hawaiians to whom a lease or license was issued under Section 207 of the act for the repair, maintenance, purchase, or construction of dwellings and other permanent improvements; for the purchase of livestock, farm, and aquaculture equipment and supplies; to assist in the development of tracts and of farm, ranch, and aquaculture operations; and other purposes enumerated in Section 214 of the act. The maximum amount which may be loaned to a lessee is \$50,000 for a maximum term of 30 years with interest at the rate of 2.5 percent a year.
- . Hawaiian Home Replacement Loan Fund—The moneys in this fund are used to make loans to lessees to construct replacement homes on their lots.
- . Hawaiian Home Repair Loan Fund—The moneys in this fund are used to make loans in the amount not in excess of \$15,000 to lessees for repairs to their existing homes and for additions to such homes.
- . Hawaiian Home Farm Loan Fund—The moneys in this fund are used to make loans for the development and operation of a farm, ranch, or

aquacultural operation to lessees of agriculture tracts, pastoral tracts, and tracts used for aquaculture leased under Section 207 of the act.

- . Hawaiian Home Operating Fund—The moneys in this fund are available for construction and reconstruction of revenue-producing improvements intended to principally serve occupants of Hawaiian home lands, including acquisition or lease of real property and interest such as water rights and other purposes as stated in Section 213(b) of the act.

b. Section 213(b) of the act established the following special revenue funds.

- . Hawaiian Home Development Fund—Moneys transferred to this fund are available with the prior written approval of the Governor for offsite improvements and development necessary to serve present and future occupants of Hawaiian home lands and other purposes as stated in Section 213(b) of the act.

The fund receives 13 percent of the receipts in excess of the present ceiling in the Hawaiian Home Loan Fund of \$5,000,000.

- . Hawaiian Home Administration Account—Receipts derived from any leasing of the available lands defined in Section 204 of the act are deposited in this fund. The moneys in this account are expended by the department for salaries and all other administrative expenses by the department in conformity with general law applicable to all departments of the State. No sums may be expended for structures and other permanent improvements.
- . The Hawaiian Loan Guarantee Fund—This fund was established to support the guarantee of repayment of loans made by government

agencies or private lending institutions to those holding leases or licenses issued under Section 207 of the act. The department's guarantee of repayment is adequate security for a loan under any state law prescribing the nature, amount, or form of security or requiring security upon which loans may be made.

- . Hawaiian Home Interest Fund—All interest moneys from loans or investments received by the department from any fund except as provided for in each respective fund, are deposited into this fund. At the end of each quarter, all moneys in this fund are transferred to the Hawaiian Home Development Fund, the Hawaiian Home Operating Fund, the Hawaiian Home Administration Account, and any loan fund in accordance with rules adopted by the department. Moneys transferred to the Hawaiian Home Administration Account are used to fund salaries and other administrative expenses related to loan services and delinquent accounts.
- . Borrowed Money Fund—Moneys borrowed by the department from government agencies or private lending institutions are required to be deposited into this fund for the purpose enumerated in Section 214 of the act. Installments of principal and that part of the interest equal to the interest charged to the department by the lender paid by the lessee upon loans made to them from this fund are deposited into this fund; any additional interest or other earnings arising out of investments from this fund are credited and deposited into the Hawaiian Home Interest Fund.
- . Hawaiian Home Education Fund—Moneys transferred to this fund may be drawn upon by the Department of Education, with prior

written approval of the Governor, for educational projects to be developed and directed by the Department of Education and Department of Hawaiian Home Lands; provided that such projects are directed primarily to the educational improvement of the children of lessees, the funds to be used primarily at the preschool and elementary grade levels.

This fund receives 72 percent of the receipts in excess of the present ceiling in the Hawaiian Home Loan Fund of \$5,000,000.

- . Native Hawaiian Rehabilitation Fund—Pursuant to Article XII, Section 1, of the State Constitution, 30 percent of the state receipts, derived from lands previously cultivated as sugarcane lands and from water licenses, are deposited into this fund. The department must use this money solely for the rehabilitation of native Hawaiians.

Any payments of principal, interest, or other earnings arising out of the loan or investment money from the fund are credited and deposited into this fund.

2. *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 funds 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 trust and agency funds is presented below:

- a. *Grantsmanship workshop.* This expendable trust fund is currently inactive.

b. *Hawaiian Home Trust Fund.* All moneys deposited into this agency fund are available for transfers into any other fund or account authorized by the act or for any public purpose deemed by the Commission to further the purpose of the act.

Notes to the Financial Statements

of the Special Revenue Funds

(Exhibits A, B, C, D, and E)

Budgeting and budgetary control. Amount 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 1984 (Act 285, SLH 1984), 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.

Loans receivable. Loans receivable consists of approximately 2,000 loans made to native Hawaiians for purposes which are specified in the Hawaiian Homes Commission Act. Loans are for a maximum amount of \$50,000 and for a maximum term of 30 years. Interest rates on the loans range from 2.5 percent to 8.75 percent.

In addition to the above loans, the department is contingently liable for approximately \$10,000,000 in loans for which it has guaranteed repayment.

Rental income. The department is a party to numerous noncancelable leases with terms extending through 2036. Revenue derived from these leases for

minimum and contingent rentals aggregated approximately \$1,500,000 during fiscal year 1985 and is expected to approximate this amount through 1990.

Operating transfers. Operating transfers are primarily transfers of prior year's unallotted appropriations to the current year's appropriations and transfers of interest moneys from loans or investments received by the Hawaiian Home Interest Fund to other special revenue funds of the department.

Commitments and contingencies.

1. *Notes payable.* As of June 30, 1985, the department had notes aggregating \$3,743,456 reflected in the State's general long-term debt account group payable to the Hawaii Housing Authority at 7.5 percent interest, maturing at various dates through 1994. Annual principal maturities in the next five years are as follows: \$455,000 in 1986, \$454,000 in 1987, \$490,000 in 1988, \$528,000 in 1989, and \$568,000 in 1990.

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 has provided for the recognition of a liability in the general long-term debt account group for liabilities associated with Governmental Fund compensated absences 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 \$432,000 at June 30, 1985.

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 was approximately \$872,000 at June 30, 1985, and has not been accrued in the financial statements.

3. *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, 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 system expense for the fiscal year ended June 30, 1985, 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.

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

5. *Litigation.* The department has been involved in litigation over the use of the department's lands for airport facilities. In 1981 and 1982, the department entered into a lease agreement with the Airports Division of the Department of Transportation and the State for certain airport lands owned by the department. Under the terms of the agreement, which expires March 31, 2005, the Airports Division has agreed to pay the department an annual rental of \$531,216, retroactive to April 1, 1975. The annual rental is subject to redetermination in 1985 and again in 1995 based on fair market rental at time of reopening but not less than

the rent for the immediate preceding period. This agreement settled rental issues raised by the litigation, however, other unresolved issues remained including the acquisition of the lands in question by the Airports Division.

In November 1984, an agreement was approved by the department, the Department of Land and Natural Resources, and the Department of Transportation to settle litigation involving the use of the department's lands for airport facilities. The agreement provided in part for the transfer of the lands in question to the Airports Division in return for which the department would receive lands under the control of the Department of Land and Natural Resources. The agreement also provides for the transfer of excess lands under the control of the Airports Division, together with an investment in a U.S. Treasury note to the Department of Land and Natural Resources. The Department of Land and Natural Resources would assume certain liability related to the outstanding retroactive rental payments payable to the department. Upon acquisition of the disputed lands by the Department of Transportation the existing lease agreements between the department and the Airports Division will be terminated.

As of June 30, 1985, the settlement agreement had not been fully executed and no determination could be made at that time as to when the settlement agreement would, if ever, be fully executed. Because of that uncertainty, the retroactive rental payments due the department were not recorded as a receivable of the department.

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS

Combined balance sheet -
special revenue, trust and agency funds
June 30, 1985

	<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>		
Petty cash	\$ 900	\$ -
Cash and short-term cash investments	16,069,372	128,696
Accounts receivable	85,905	-
Loans receivable	39,381,405	-
Investments	24,000	-
	<hr/>	<hr/>
Total assets	<u>\$55,561,582</u>	<u>\$128,696</u>
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities:		
Vouchers and contracts payable	\$ 497,330	\$ -
Due to individuals, businesses and counties	-	128,664
Due to State general fund	900	-
	<hr/>	<hr/>
	498,230	128,664
Fund Balances:		
Reserved for continuing appropriations -		
Unallotted appropriations	14,664,296	-
Unliquidated encumbrances	931,746	-
	<hr/>	<hr/>
	15,596,042	-
Reserved for receivables	39,467,310	-
Reserved for amounts held in trust	-	32
	<hr/>	<hr/>
	55,063,352	32
	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$55,561,582</u>	<u>\$128,696</u>

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

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS

Combined statement of revenues, expenditures and
changes in fund balances - all fund types
for the year ended June 30, 1985

	<u>Governmental</u> <u>Fund Types</u> Special Revenue (Exhibit E)	<u>Fiduciary</u> <u>Fund Types</u> Expendable Trust
REVENUES:		
Interest and investment income	\$ 4,134,086	\$-
Rentals	2,602,123	-
Loans and advances	1,643,477	-
Charges for current services	214,262	-
Fines, forfeitures and penalties	83,750	-
Other revenues	61,455	-
Total revenues	<u>8,739,153</u>	<u>-</u>
EXPENDITURES:		
Urban redevelopment and housing	6,353,968	-
Economic development and assistance	2,009,644	-
Conservation of natural resources	112,326	-
Total expenditures	<u>8,475,938</u>	<u>-</u>
Excess of revenues over expenditures	<u>263,215</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):		
Operating transfers in	21,073,204	-
Operating transfers out	(21,073,204)	-
Total other financing sources	<u>-</u>	<u>-</u>
Excess of revenues and other sources over expenditures and other uses	263,215	-
FUND BALANCES:		
Beginning of year	<u>54,800,137</u>	<u>32</u>
End of year	<u>\$55,063,352</u>	<u>\$32</u>

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

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS

Combined statement of revenues and expenditures -
budget and actual - special revenue funds
for the year ended June 30, 1985

	<u>Special Revenue Funds</u>		
	<u>Budget</u>	<u>Actual On A Budgetary Basis</u>	<u>Variance - Favorable (Unfavorable)</u>
REVENUES:			
Interest and investment income	\$3,002,831	\$ 4,134,086	\$ 1,131,255
Rentals	2,462,998	2,602,123	139,125
Loans and advances	1,115,000	1,643,477	528,477
Charges for current services	240,000	214,262	(25,738)
Fines, forfeitures and penalties	-	83,750	83,750
Other revenues	-	61,455	61,455
Total revenues	<u>6,820,829</u>	<u>8,739,153</u>	<u>1,918,324</u>
EXPENDITURES:			
Urban redevelopment and housing	-	-	-
Economic development and assistance	2,389,565	2,046,209	343,356
Conservation of natural resources	-	-	-
Total expenditures	<u>2,389,565</u>	<u>2,046,209</u>	<u>343,356</u>
Excess of revenues over expenditures	<u>4,431,264</u>	<u>6,692,944</u>	<u>2,261,680</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in	-	21,073,204	21,073,204
Operating transfers out	-	(21,073,204)	(21,073,204)
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$4,431,264</u>	<u>\$ 6,692,944</u>	<u>\$ 2,261,680</u>

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

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS
SPECIAL REVENUE FUNDS
Combining balance sheet - June 30, 1985

	Hawaiian Home Loan	Additional Receipts Loan	Hawaiian Home General Loan	Hawaiian Home Replacement Loan	Hawaiian Home Repair Loan	Hawaiian Home Farm Loan	Hawaiian Home Operating	Hawaiian Home Development
ASSETS								
Petty cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash and short-term cash investments	256,046	143,515	3,102,912	1,749,018	373,263	746,796	126,277	1,568,937
Accounts receivable	58,804	-	-	-	-	-	-	-
Loans receivable	3,494,238	654,045	22,214,108	7,234,447	598,384	1,480,213	-	-
Investments	-	-	24,000	-	-	-	-	-
Total assets	\$3,809,088	\$797,560	\$25,341,020	\$8,983,465	\$971,647	\$2,227,009	\$126,277	\$1,568,937
LIABILITIES AND FUND BALANCES								
Liabilities:								
Vouchers and contracts payable	\$ -	\$ -	\$ 105,750	\$ 22,500	\$ -	\$ 196	\$ 21,609	\$ 280,792
Due to State general fund	-	-	-	-	-	-	-	-
Fund balances:								
Reserved for continuing appropriations -								
Unallotted appropriations	256,046	133,758	3,021,162	1,726,518	373,263	746,600	67,002	799,871
Unliquidated encumbrances	-	9,757	-	-	-	-	37,666	488,274
Reserved for receivables	3,553,042	654,045	22,214,108	7,234,447	598,384	1,480,213	-	-
Total liabilities and fund balances	\$3,809,088	\$797,560	\$25,341,020	\$8,983,465	\$971,647	\$2,227,009	\$126,277	\$1,568,937

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

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS
SPECIAL REVENUE FUNDS
Combining balance sheet - June 30, 1985

	Hawaiian Home Administration	Hawaiian Loan Guarantee	Hawaiian Home Interest	Borrowed Money	Hawaiian Home Education	Native Hawaiian Rehabilitation	Total
<u>ASSETS</u>							
Petty cash	\$ 900	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 900
Cash and short-term cash investments	457,203	1,982,632	893,503	98,239	27,703	4,543,328	16,069,372
Accounts receivable	-	-	-	27,101	-	-	85,905
Loans receivable	-	192,368	-	3,471,604	-	41,998	39,381,405
Investments	-	-	-	-	-	-	24,000
Total assets	<u>\$458,103</u>	<u>\$2,175,000</u>	<u>\$893,503</u>	<u>\$3,596,944</u>	<u>\$27,703</u>	<u>\$4,585,326</u>	<u>\$55,561,582</u>
<u>LIABILITIES AND FUND BALANCES</u>							
Liabilities:							
Vouchers and contracts payable	\$ 12,536	\$ -	\$ -	\$ -	\$ -	\$ 53,947	\$ 497,330
Due to State general fund	900	-	-	-	-	-	900
Fund balances:							
Reserved for continuing appropriations -							
Unallotted appropriations	292,968	1,982,632	893,503	98,239	27,703	4,245,031	14,664,296
Unliquidated encumbrances	151,699	-	-	-	-	244,350	931,746
Reserved for receivables	-	192,368	-	3,498,705	-	41,998	39,467,310
Total liabilities and fund balances	<u>\$458,103</u>	<u>\$2,175,000</u>	<u>\$893,503</u>	<u>\$3,596,944</u>	<u>\$27,703</u>	<u>\$4,585,326</u>	<u>\$55,561,582</u>

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

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS
SPECIAL REVENUE FUNDS

Combining statement of revenues, expenditures and changes in fund balances
for the year ended June 30, 1985

	Hawaiian Home Loan	Additional Receipts Loan	Hawaiian Home General Loan	Hawaiian Home Replacement Loan	Hawaiian Home Repair Loan	Hawaiian Home Farm Loan	Hawaiian Home Operating	Hawaiian Home Development
REVENUES:								
Interest and investment income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 121,945	\$ -
Rentals	-	-	-	-	-	-	-	-
Loans and advances	251,799	12,661	491,204	182,070	111,726	117,664	-	-
Charges for current services	-	-	-	-	-	-	87,244	-
Fines, forfeitures and penalties	-	-	-	-	-	-	83,750	-
Other revenues	-	-	-	-	-	-	1,805	13,980
Total revenues	<u>251,799</u>	<u>12,661</u>	<u>491,204</u>	<u>182,070</u>	<u>111,726</u>	<u>117,664</u>	<u>294,744</u>	<u>13,980</u>
EXPENDITURES:								
Urban redevelopment and housing	449,504	26,800	1,683,017	788,071	60,046	-	906,884	1,049,486
Economic development and assistance	-	-	-	-	-	-	-	-
Conservation of natural resources	-	-	-	-	-	112,326	-	-
Total expenditures	<u>449,504</u>	<u>26,800</u>	<u>1,683,017</u>	<u>788,071</u>	<u>60,046</u>	<u>112,326</u>	<u>906,884</u>	<u>1,049,486</u>
Excess of revenues over (under) expenditures	<u>(197,705)</u>	<u>(14,139)</u>	<u>(1,191,813)</u>	<u>(606,001)</u>	<u>51,680</u>	<u>5,338</u>	<u>(612,140)</u>	<u>(1,035,506)</u>
OTHER FINANCING SOURCES (USES):								
Operating transfers in	592,404	147,897	4,398,217	2,932,674	321,583	741,041	796,750	2,346,779
Operating transfers out	(731,988)	(147,897)	(3,928,543)	(1,601,108)	(156,436)	(741,041)	(454,625)	(1,388,568)
Total other financing sources (uses)	<u>(139,584)</u>	<u>-</u>	<u>469,674</u>	<u>1,331,566</u>	<u>165,147</u>	<u>-</u>	<u>342,125</u>	<u>958,211</u>
Excess of revenues and other sources over (under) expend- itures and other uses	<u>(337,289)</u>	<u>(14,139)</u>	<u>(722,139)</u>	<u>725,565</u>	<u>216,827</u>	<u>5,338</u>	<u>(270,015)</u>	<u>(77,295)</u>
FUND BALANCES:								
Beginning of year	<u>4,146,377</u>	<u>811,699</u>	<u>25,957,409</u>	<u>8,235,400</u>	<u>754,820</u>	<u>2,221,475</u>	<u>374,683</u>	<u>1,365,440</u>
End of year	<u>\$3,809,088</u>	<u>\$797,560</u>	<u>\$25,235,270</u>	<u>\$8,960,965</u>	<u>\$971,647</u>	<u>\$2,226,813</u>	<u>\$ 104,668</u>	<u>\$ 1,288,145</u>

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

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS
SPECIAL REVENUE FUNDS

Combining statement of revenues, expenditures and changes in fund balances
for the year ended June 30, 1985

	Hawaiian Home Administration	Hawaiian Loan Guarantee	Hawaiian Home Interest	Borrowed Money	Hawaiian Home Education	Native Hawaiian Rehabilitation	Total
REVENUES:							
Interest and investment income	\$ 31,496	\$ -	\$3,351,824	\$ 308,302	\$ -	\$ 320,519	\$ 4,134,086
Rentals	1,694,272	-	-	-	-	907,851	2,602,123
Loans and advances	-	91,544	-	384,809	-	-	1,643,477
Charges for current services	127,018	-	-	-	-	-	214,262
Fines, forfeitures and penalties	-	-	-	-	-	-	83,750
Other revenues	15,400	-	-	-	-	30,270	61,455
Total revenues	<u>1,868,186</u>	<u>91,544</u>	<u>3,351,824</u>	<u>693,111</u>	<u>-</u>	<u>1,258,640</u>	<u>8,739,153</u>
EXPENDITURES:							
Urban redevelopment and housing	-	138,826	-	685,500	-	565,834	6,353,968
Economic development and assistance	2,009,644	-	-	-	-	-	2,009,644
Conservation of natural resources	-	-	-	-	-	-	112,326
Total expenditures	<u>2,009,644</u>	<u>138,826</u>	<u>-</u>	<u>685,500</u>	<u>-</u>	<u>565,834</u>	<u>8,475,938</u>
Excess of revenues over (under) expenditures	(141,458)	(47,282)	3,351,824	7,611	-	692,806	263,215
OTHER FINANCING SOURCES (USES):							
Operating transfers in	2,824,994	2,029,914	6,658	90,746	27,703	3,815,844	21,073,204
Operating transfers out	(2,682,209)	(2,029,914)	(3,276,684)	(90,864)	(27,703)	(3,815,624)	(21,073,204)
Total other financing sources (uses)	<u>142,785</u>	<u>-</u>	<u>(3,270,026)</u>	<u>(118)</u>	<u>-</u>	<u>220</u>	<u>-</u>
Excess of revenues and other sources over (under) expend- itures and other uses	<u>1,327</u>	<u>(47,282)</u>	<u>81,798</u>	<u>7,493</u>	<u>-</u>	<u>693,026</u>	<u>263,215</u>
FUND BALANCES:							
Beginning of year	<u>443,340</u>	<u>2,222,282</u>	<u>811,705</u>	<u>3,589,451</u>	<u>27,703</u>	<u>3,838,353</u>	<u>54,800,137</u>
End of year	<u>\$ 444,667</u>	<u>\$2,175,000</u>	<u>\$ 893,503</u>	<u>\$3,596,944</u>	<u>\$27,703</u>	<u>\$4,531,379</u>	<u>\$55,063,352</u>

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

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS

TRUST AND AGENCY FUNDS

Combining balance sheet - June 30, 1985

	<u>Expendable Trust Fund</u>	<u>Agency Fund Hawaiian Home Trust Fund</u>	<u>Total</u>
	<u>Grantsmanship Workshop</u>		
<u>ASSETS</u>			
Cash and short-term cash investments	<u>\$32</u>	<u>\$128,664</u>	<u>\$128,696</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Due to individuals, businesses and counties	-	128,664	128,664
Fund Balances:			
Reserved for amounts held in trust	<u>32</u>	<u>-</u>	<u>32</u>
Total liabilities and fund balances	<u>\$32</u>	<u>\$128,664</u>	<u>\$128,696</u>

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

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS
AGENCY FUND

Statement of changes in assets and liabilities
for the year ended June 30, 1985

	<u>Balance,</u> <u>July 1, 1984</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance,</u> <u>June 30, 1985</u>
<u>ASSETS</u>				
Cash and short-term cash investments	<u>\$63,558</u>	<u>\$65,106</u>	<u>\$ -</u>	<u>\$128,664</u>
<u>LIABILITIES</u>				
Due to individuals, businesses and counties	<u>\$63,558</u>	<u>\$65,106</u>	<u>\$ -</u>	<u>\$128,664</u>

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

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS

SPECIAL REVENUE FUNDS

Schedule of expenditures - budget and actual -
for the year ended June 30, 1985

39

<u>Function</u>	<u>Actual Expenditures</u>	<u>Nonbudgeted Expenditures (Actual)</u>	<u>Budgeted Expenditures (Actual)</u>	<u>Encumbrances</u>	<u>Expenditures Adjusted For Encumbrances</u>	<u>Budgeted Expenditures</u>	<u>Variance - Favorable (Unfavorable)</u>
Urban redevelopment and housing	\$6,353,968	\$6,353,968	\$ -	\$ -	\$ -	\$ -	\$ -
Economic development and assistance	2,009,644	111,639	1,898,005	148,204	2,046,209	2,389,565	343,356
Conservation of natural resources	112,326	112,326	-	-	-	-	-
	<u>\$8,475,938</u>	<u>\$6,577,933</u>	<u>\$1,898,005</u>	<u>\$148,204</u>	<u>\$2,046,209</u>	<u>\$2,389,565</u>	<u>\$343,356</u>

PART III

RESPONSE OF THE AFFECTED AGENCY

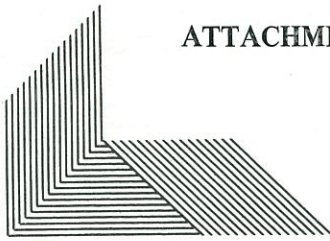
COMMENTS ON AGENCY RESPONSE

On January 24, 1986, copies of a preliminary report of this financial audit were transmitted to the Governor, the presiding officers of the Legislature, and the Department of Hawaiian Home Lands. 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 February 5, 1986, which is included here as Attachment 2.

The department agrees with the recommendations made in the report. The department states that it will consult with the Department of Accounting and General Services in preparing adjustments to eliminate the remaining differences between the loan receivable records and that the petty cash requirements of Act 281 have already been implemented.

ATTACHMENT 1

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



CLINTON T. TANIMURA
AUDITOR

January 24, 1986

COPY

Miss Georgiana K. Padeken, Chairman
Hawaiian Homes Commission
Department of Hawaiian Home Lands
State of Hawaii
P.O. Box 1879
Honolulu, Hawaii 96805

Dear Miss Padeken:

Enclosed are two preliminary copies, Nos. 4 and 5, of our report on the *Financial Audit of the Department of Hawaiian Home Lands*. 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 February 5, 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 OF HAWAII

PROJECT OFFICES

WAIMEA OFFICE
P. O. BOX 125
KAMUELA, HAWAII 96743

KEAUKAHA OFFICE
P. O. BOX 833
HILO, HAWAII 96720

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS

P. O. BOX 1879
HONOLULU, HAWAII 96805

FEB 5 1986

PROJECT OFFICES

MAUI OFFICE
P. O. BOX 22
KAHULUI, MAUI 96732

MOLOKAI OFFICE
P. O. BOX 198
HOOLEHUA, MOLOKAI 96729

KAUAI OFFICE
P. O. BOX 332
LIHUE, KAUAI 96766

Mr. Clinton T. Tanimura
Legislative Auditor
The Office of the Auditor
State of Hawaii
465 S. King Street, Rm. 500
Honolulu, Hawaii 96813

RECEIVED

FEB 5 10 46 AM '86

OFF. OF THE AUDITOR
STATE OF HAWAII

Subject: Financial Audit of the Department of Hawaiian Home Lands

Dear Mr. Tanimura:

We have reviewed the "Financial Audit of the Department of Hawaiian Home Lands" for the period July 1, 1984 to June 30, 1985 and would like to comment on the recommendations made in Chapter 3 of the report.

All major work in reconciling our loans receivables accounts with the Department of Accounting and General Services' records have been completed and efforts to locate the remaining differences were ceased prior to June 30, 1985. We concur with your recommendation and will consult with the Department of Accounting and General Services in preparing adjustments to eliminate the remaining differences.

We also agree with your second recommendation on utilization of petty cash. The requirements of Act 281 have already been implemented.

Thank you for providing us this opportunity to review and comment on the recommendations.

Sincerely yours,

A handwritten signature in cursive script, reading "Georgiana K. Padeken".

Georgiana K. Padeken, Chairman
Hawaiian Homes Commission

GKP:WS:lt